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

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**FORM 10-Q**

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(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2019

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-15341

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**Donegal Group Inc.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

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

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

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

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 22,996,271 shares of Class A Common Stock, par value \$0.01 per share, and 5,576,775 shares of Class B Common Stock, par value \$0.01 per share, outstanding on July 31, 2019.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

Donegal Group Inc. and Subsidiaries  
Consolidated Balance Sheets

	June 30, 2019 (Unaudited)	December 31, 2018
<b>Assets</b>		
Investments		
Fixed maturities		
Held to maturity, at amortized cost	\$ 434,458,088	\$ 402,798,518
Available for sale, at fair value	569,749,979	526,558,304
Equity securities, at fair value	46,767,296	43,667,009
Investment in affiliate	—	41,025,975
Short-term investments, at cost, which approximates fair value	24,452,789	16,748,760
Total investments	1,075,428,152	1,030,798,566
Cash	35,945,567	52,594,461
Accrued investment income	7,298,206	6,561,199
Premiums receivable	176,257,781	156,702,250
Reinsurance receivable	357,629,286	343,369,065
Deferred policy acquisition costs	64,274,476	60,615,127
Deferred tax asset, net	9,503,034	13,069,755
Prepaid reinsurance premiums	143,969,376	135,379,777
Property and equipment, net	4,673,096	4,690,704
Accounts receivable—securities	170,470	261,829
Federal income taxes receivable	16,959,666	19,032,604
Goodwill	5,625,354	5,625,354
Other intangible assets	958,010	958,010
Other	2,590,138	2,419,566
Total assets	<u>\$1,901,282,612</u>	<u>\$1,832,078,267</u>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Unpaid losses and loss expenses	\$ 845,282,435	\$ 814,665,224
Unearned premiums	535,999,385	506,528,606
Accrued expenses	25,180,277	25,442,146
Reinsurance balances payable	2,545,976	3,882,193
Borrowings under lines of credit	35,000,000	60,000,000
Cash dividends declared to stockholders	—	3,948,484
Subordinated debentures	5,000,000	5,000,000
Accounts payable—securities	5,222,537	1,003,810
Due to affiliate	6,010,121	10,874,540
Other	3,188,157	1,863,363
Total liabilities	<u>1,463,428,888</u>	<u>1,433,208,366</u>
<b>Stockholders' Equity</b>		
Preferred stock, \$.01 par value, authorized 2,000,000 shares; none issued	—	—
Class A common stock, \$.01 par value, authorized 50,000,000 shares, issued 25,969,577 and 25,819,341 shares and outstanding 22,966,989 and 22,816,753 shares	259,696	258,194
Class B common stock, \$.01 par value, authorized 10,000,000 shares, issued 5,649,240 shares and outstanding 5,576,775 shares	56,492	56,492
Additional paid-in capital	264,320,325	261,258,423
Accumulated other comprehensive loss	(1,837,379)	(14,228,059)
Retained earnings	216,280,947	192,751,208
Treasury stock, at cost	(41,226,357)	(41,226,357)
Total stockholders' equity	<u>437,853,724</u>	<u>398,869,901</u>
Total liabilities and stockholders' equity	<u>\$1,901,282,612</u>	<u>\$1,832,078,267</u>

See accompanying notes to consolidated financial statements.

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

	<b>Three Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Revenues:</b>		
Net premiums earned	\$188,763,313	\$185,714,110
Investment income, net of investment expenses	7,289,652	6,342,152
Net investment gains (includes \$13,150 and \$12,247 accumulated other comprehensive income reclassifications)	1,566,157	1,517,310
Lease income	112,155	122,403
Installment payment fees	1,057,677	1,306,197
Equity in earnings of Donegal Financial Services Corporation	—	787,856
Total revenues	<u>198,788,954</u>	<u>195,790,028</u>
<b>Expenses:</b>		
Net losses and loss expenses	131,507,280	135,753,645
Amortization of deferred policy acquisition costs	30,925,000	30,579,000
Other underwriting expenses	28,208,336	28,492,434
Policyholder dividends	1,969,490	1,213,588
Interest	303,423	566,284
Other expenses, net	337,894	518,123
Total expenses	<u>193,251,423</u>	<u>197,123,074</u>
Income (loss) before income tax expense (benefit)	5,537,531	(1,333,046)
Income tax expense (benefit) (includes \$2,762 and \$2,572 income tax expense from reclassification items)	749,077	(543,191)
Net income (loss)	<u>\$ 4,788,454</u>	<u>\$ (789,855)</u>
Earnings (loss) per common share:		
Class A common stock—basic and diluted	<u>\$ 0.17</u>	<u>\$ (0.03)</u>
Class B common stock—basic and diluted	<u>\$ 0.15</u>	<u>\$ (0.03)</u>

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

	<b>Three Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
Net income (loss)	\$ 4,788,454	\$ (789,855)
Other comprehensive income (loss), net of tax		
Unrealized gain (loss) on securities:		
Unrealized holding gain (loss) during the period, net of income tax expense (benefit) of \$1,593,511 and (\$651,633)	5,932,595	(2,451,371)
Reclassification adjustment for gains included in net income (loss), net of income tax expense of \$2,762 and \$2,572	(10,388)	(9,675)
Other comprehensive income (loss)	<u>5,922,207</u>	<u>(2,461,046)</u>
Comprehensive income (loss)	<u>\$10,710,661</u>	<u>\$ (3,250,901)</u>

See accompanying notes to consolidated financial statements.

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

	<b>Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Revenues:</b>		
Net premiums earned	\$376,836,555	\$367,478,690
Investment income, net of investment expenses	14,338,155	12,720,521
Net investment gains (includes \$52,414 and (\$32,316) accumulated other comprehensive income reclassifications)	19,663,270	598,971
Lease income	223,254	245,996
Installment payment fees	2,146,594	2,654,158
Equity in earnings of Donegal Financial Services Corporation	295,000	1,419,970
Total revenues	<u>413,502,828</u>	<u>385,118,306</u>
<b>Expenses:</b>		
Net losses and loss expenses	254,617,936	292,336,913
Amortization of deferred policy acquisition costs	61,517,000	60,244,000
Other underwriting expenses	58,893,219	57,815,072
Policyholder dividends	4,319,138	2,515,771
Interest	868,715	1,030,432
Other expenses, net	904,265	1,044,335
Total expenses	<u>381,120,273</u>	<u>414,986,523</u>
Income (loss) before income tax expense (benefit)	32,382,555	(29,868,217)
Income tax expense (benefit) (includes \$11,007 and (\$6,786) income tax expense (benefit) from reclassification items)	4,570,937	(10,900,284)
Net income (loss)	<u>\$ 27,811,618</u>	<u>\$ (18,967,933)</u>
Earnings (loss) per common share:		
Class A common stock—basic	<u>\$ 1.00</u>	<u>\$ (0.68)</u>
Class A common stock—diluted	<u>\$ 0.99</u>	<u>\$ (0.68)</u>
Class B common stock—basic and diluted	<u>\$ 0.90</u>	<u>\$ (0.63)</u>

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

	<b>Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
Net income (loss)	\$27,811,618	\$(18,967,933)
Other comprehensive income (loss), net of tax		
Unrealized gain (loss) on securities:		
Unrealized holding gain (loss) during the period, net of income tax expense (benefit) of \$3,304,733 and (\$2,416,212)	12,432,087	(9,089,561)
Reclassification adjustment for (gains) losses included in net income (loss), net of income tax expense (benefit) of \$11,007 and (\$6,786)	(41,407)	25,530
Other comprehensive income (loss)	<u>12,390,680</u>	<u>(9,064,031)</u>
Comprehensive income (loss)	<u>\$40,202,298</u>	<u>\$(28,031,964)</u>

See accompanying notes to consolidated financial statements.

**Donegal Group Inc. and Subsidiaries**  
**Consolidated Statement of Stockholders' Equity**  
(Unaudited)  
**Six Months Ended June 30, 2019**

	Class A Shares	Class B Shares	Class A Amount	Class B Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2018	25,819,341	5,649,240	\$258,194	\$56,492	\$261,258,423	\$(14,228,059)	\$192,751,208	\$(41,226,357)	\$398,869,901
Issuance of common stock (stock compensation plans)	33,334	—	333	—	403,722	—	—	—	404,055
Share-based compensation	—	—	—	—	442,920	—	—	—	442,920
Net income	—	—	—	—	—	—	23,023,164	—	23,023,164
Cash dividends declared	—	—	—	—	—	—	(4,752)	—	(4,752)
Grant of stock options	—	—	—	—	144,226	—	(144,226)	—	—
Other comprehensive income	—	—	—	—	—	6,468,473	—	—	6,468,473
Balance, March 31, 2019	25,852,675	5,649,240	258,527	56,492	262,249,291	(7,759,586)	215,625,394	(41,226,357)	429,203,761
Issuance of common stock (stock compensation plans)	55,933	—	560	—	752,354	—	—	—	752,914
Share-based compensation	60,969	—	609	—	1,218,195	—	—	—	1,218,804
Net income	—	—	—	—	—	—	4,788,454	—	4,788,454
Cash dividends declared	—	—	—	—	—	—	(4,032,416)	—	(4,032,416)
Grant of stock options	—	—	—	—	100,485	—	(100,485)	—	—
Other comprehensive income	—	—	—	—	—	5,922,207	—	—	5,922,207
Balance, June 30, 2019	<u>25,969,577</u>	<u>5,649,240</u>	<u>\$259,696</u>	<u>\$56,492</u>	<u>\$264,320,325</u>	<u>\$ (1,837,379)</u>	<u>\$216,280,947</u>	<u>\$(41,226,357)</u>	<u>\$437,853,724</u>

See accompanying notes to consolidated financial statements.

**Donegal Group Inc. and Subsidiaries**  
**Consolidated Statement of Stockholders' Equity**  
(Unaudited)  
**Six Months Ended June 30, 2018**

	Class A Shares	Class B Shares	Class A Amount	Class B Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2017	25,564,481	5,649,240	\$255,645	\$56,492	\$255,401,558	\$ (2,684,275)	\$236,893,041	\$(41,226,357)	\$448,696,104
Issuance of common stock (stock compensation plans)	29,162	—	292	—	422,318	—	—	—	422,610
Share-based compensation	32,176	—	322	—	1,024,328	—	—	—	1,024,650
Net loss	—	—	—	—	—	—	(18,178,078)	—	(18,178,078)
Cash dividends declared	—	—	—	—	—	—	(8,587)	—	(8,587)
Grant of stock options	—	—	—	—	187,444	—	(187,444)	—	—
Reclassification of equity unrealized gains	—	—	—	—	—	(4,918,655)	4,918,655	—	—
Other comprehensive loss	—	—	—	—	—	(6,602,985)	—	—	(6,602,985)
Balance, March 31, 2018	25,625,819	5,649,240	256,259	56,492	257,035,648	(14,205,915)	223,437,587	(41,226,357)	425,353,714
Issuance of common stock (stock compensation plans)	63,430	—	634	—	960,139	—	—	—	960,773
Share-based compensation	—	—	—	—	536,472	—	—	—	536,472
Net loss	—	—	—	—	—	—	(789,855)	—	(789,855)
Cash dividends declared	—	—	—	—	—	—	(3,930,019)	—	(3,930,019)
Grant of stock options	—	—	—	—	133,656	—	(133,656)	—	—
Other comprehensive loss	—	—	—	—	—	(2,461,046)	—	—	(2,461,046)
Balance, June 30, 2018	<u>25,689,249</u>	<u>5,649,240</u>	<u>\$256,893</u>	<u>\$56,492</u>	<u>\$258,665,915</u>	<u>\$(16,666,961)</u>	<u>\$218,584,057</u>	<u>\$(41,226,357)</u>	<u>\$419,670,039</u>

See accompanying notes to consolidated financial statements.

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

	<b>Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash Flows from Operating Activities:</b>		
Net income (loss)	\$ 27,811,618	\$(18,967,933)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, amortization and other non-cash items	3,013,417	3,093,372
Net investment gains	(19,663,270)	(598,971)
Equity in earnings of Donegal Financial Services Corporation	(295,000)	(1,419,970)
Changes in assets and liabilities:		
Losses and loss expenses	30,617,211	70,958,418
Unearned premiums	29,470,779	32,420,723
Premiums receivable	(19,555,531)	(8,814,392)
Deferred acquisition costs	(3,659,349)	(4,319,511)
Deferred income taxes	272,997	27,263
Reinsurance receivable	(14,260,221)	(13,302,328)
Prepaid reinsurance premiums	(8,589,599)	(8,693,950)
Accrued investment income	(737,007)	(232,947)
Due to affiliate	(4,864,419)	(3,826,317)
Reinsurance balances payable	(1,336,217)	2,273,786
Current income taxes	2,072,938	(8,686,822)
Accrued expenses	(261,869)	(3,913,386)
Other, net	1,154,221	135,249
Net adjustments	(6,620,919)	55,100,217
Net cash provided by operating activities	21,190,699	36,132,284
<b>Cash Flows from Investing Activities:</b>		
Purchases of fixed maturities, held to maturity	(38,094,242)	(26,231,784)
Purchases of fixed maturities, available for sale	(88,098,117)	(49,700,116)
Purchases of equity securities, available for sale	(12,356,474)	(4,344,974)
Maturity of fixed maturities:		
Held to maturity	6,656,093	7,143,696
Available for sale	41,569,635	56,797,178
Sales of fixed maturities, available for sale	20,548,077	208,817
Sales of equity securities, available for sale	37,071,301	1,819,212
Net purchases of property and equipment	(129,877)	(107,440)
Sale of investment in Donegal Financial Services Corporation	19,863,949	—
Dividends received from Donegal Financial Services Corporation	14,058,824	—
Net purchases of short-term investments	(7,704,029)	(736,775)
Net cash used in investing activities	(6,614,860)	(15,152,186)
<b>Cash Flows from Financing Activities:</b>		
Cash dividends paid	(7,985,652)	(7,780,426)
Issuance of common stock	1,760,919	1,618,991
Borrowings under line of credit	—	1,000,000
Payments on lines of credit	(25,000,000)	—
Net cash used in financing activities	(31,224,733)	(5,161,435)
Net (decrease) increase in cash	(16,648,894)	15,818,663
Cash at beginning of period	52,594,461	37,833,435
Cash at end of period	\$ 35,945,567	\$ 53,652,098
Cash paid during period—Interest	\$ 321,585	\$ 557,521
Net cash paid during period—Taxes	\$ 2,200,000	\$ —

See accompanying notes to consolidated financial statements.

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

**1 - Organization**

Donegal Mutual Insurance Company (“Donegal Mutual”) organized us as an insurance holding company on August 26, 1986. Our insurance subsidiaries, Atlantic States Insurance Company (“Atlantic States”), Southern Insurance Company of Virginia (“Southern”), Le Mars Insurance Company (“Le Mars”), the Peninsula Insurance Group (“Peninsula”), which consists of Peninsula Indemnity Company and The Peninsula Insurance Company, Sheboygan Falls Insurance Company (“Sheboygan”) and Michigan Insurance Company (“MICO”), write property and casualty insurance exclusively through independent insurance agents in certain Mid-Atlantic, Midwestern, New England and Southern states. Until March 8, 2019, we also owned 48.2% of the outstanding stock of Donegal Financial Services Corporation (“DFSC”), a grandfathered unitary savings and loan holding company that owned Union Community Bank (“UCB”), a state savings bank. Donegal Mutual owned the remaining 51.8% of the outstanding stock of DFSC.

At June 30, 2019, we had three segments: our investment function, our personal lines of insurance and our commercial lines of insurance. The personal lines products of our insurance subsidiaries consist primarily of homeowners and private passenger automobile policies. The commercial lines products of our insurance subsidiaries consist primarily of commercial automobile, commercial multi-peril and workers’ compensation policies.

At June 30, 2019, Donegal Mutual held approximately 43% of our outstanding Class A common stock and approximately 84% of our outstanding Class B common stock. This ownership provides Donegal Mutual with approximately 72% of the total voting power of our common stock. Our insurance subsidiaries and Donegal Mutual have interrelated operations due to a pooling agreement and other intercompany agreements and transactions. While each company maintains its separate corporate existence, Donegal Mutual and our insurance subsidiaries conduct business together as the Donegal Insurance Group. As such, Donegal Mutual and our insurance subsidiaries share the same business philosophy, the same management, the same employees and the same facilities and offer the same types of insurance products.

Atlantic States, our largest subsidiary, participates in a pooling agreement with Donegal Mutual. Under the pooling agreement, the two companies pool their insurance business and each company receives an allocated percentage of the pooled business. Atlantic States has an 80% share of the results of the pooled business, and Donegal Mutual has a 20% share of the results of the pooled business.

The same executive management and underwriting personnel administer products, classes of business underwritten, pricing practices and underwriting standards of Donegal Mutual and our insurance subsidiaries. In addition, as the Donegal Insurance Group, Donegal Mutual and our insurance subsidiaries share a combined business plan to achieve market penetration and underwriting profitability objectives. The products our insurance subsidiaries and Donegal Mutual market are generally complementary, thereby allowing the Donegal Insurance Group to offer a broader range of products to a given market and to expand the Donegal Insurance Group’s ability to service entire personal lines or commercial lines accounts. Distinctions within the products Donegal Mutual and our insurance subsidiaries offer relate generally to specific risk profiles targeted within similar classes of business, such as preferred tier products versus standard tier products, but we do not allocate all of the standard risk gradients to any specific company within the Donegal Insurance Group. Therefore, the underwriting profitability of the business the individual companies write directly will vary. However, because the risk characteristics of all business Donegal Mutual and Atlantic States write directly are homogenized within the underwriting pool, Donegal Mutual and Atlantic States share the underwriting results in proportion to their respective participation in the underwriting pool.

In July 2018, we consolidated the branch office operations of Peninsula into our home office operations to achieve economies of scale and enhance service levels for policyholders of Peninsula. We recorded a restructuring charge for employee termination costs associated with the Peninsula consolidation of approximately \$1.9 million and paid approximately \$1.5 million of these costs in 2018. We paid approximately \$130,000 of these costs in the first six months of 2019 and had an accrual of approximately \$260,000 remaining at June 30, 2019. We entered into a definitive purchase agreement for the sale of Peninsula’s branch office in 2018. The sale was completed in January 2019, and we received net proceeds of \$1.2 million. We recorded an impairment charge of \$1.1 million in other expenses in 2018 related to this real estate transaction and included the \$1.2 million fair value of the real estate we held for sale in other assets at December 31, 2018.

We and Donegal Mutual sold DFSC to Northwest Bancshares, Inc. (“Northwest”) on March 8, 2019, resulting in proceeds valued at approximately \$85.8 million in a combination of cash and Northwest common stock. Immediately prior to the closing of the merger, DFSC paid a dividend of approximately \$29.2 million to us and Donegal Mutual. As the owner of 48.2% of DFSC’s common stock, we received a dividend payment from DFSC of approximately \$14.1 million and consideration from

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Northwest that included a combination of cash in the amount of \$20.5 million and Northwest common stock with a fair value at the closing date of \$20.9 million. We recorded a gain of \$12.7 million from the sale of DFSC in our results of operations for the first quarter of 2019. We sold the Northwest common stock that we received as part of the consideration during the first quarter of 2019. This transaction represented the culmination of a banking strategy that began with the formation of DFSC in 2000.

On July 18, 2013, our board of directors authorized a share repurchase program pursuant to which we have the authority to purchase up to 500,000 shares of our Class A common stock at prices prevailing from time to time in the open market subject to the provisions of applicable rules of the Securities and Exchange Commission ("SEC") and in privately negotiated transactions. We did not purchase any shares of our Class A common stock under this program during the six months ended June 30, 2019 or 2018. We have purchased a total of 57,658 shares of our Class A common stock under this program from its inception through June 30, 2019.

### **2 - Basis of Presentation**

Our financial information for the interim periods included in this Form 10-Q Report is unaudited; however, our financial information we include in this Form 10-Q Report reflects all adjustments, consisting only of normal recurring adjustments that, in the opinion of our management, are necessary for a fair presentation of our financial position, results of operations and cash flows for those interim periods. Our results of operations for the six months ended June 30, 2019 are not necessarily indicative of the results of operations we expect for the year ending December 31, 2019.

We recommend you read the interim financial statements we include in this Form 10-Q Report in conjunction with the financial statements and the notes to our financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2018.

### **3 - Earnings Per Share**

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

	Three Months Ended June 30,			
	2019		2018	
	Class A	Class B	Class A	Class B
(in thousands, except per share data)				
Basic earnings (loss) per share:				
Numerator:				
Allocation of net income (loss)	\$ 3,941	\$ 848	\$ (625)	\$ (165)
Denominator:				
Weighted-average shares outstanding	22,933	5,577	22,686	5,577
Basic earnings (loss) per share	\$ 0.17	\$ 0.15	\$ (0.03)	\$ (0.03)
Diluted earnings (loss) per share:				
Numerator:				
Allocation of net income (loss)	\$ 3,941	\$ 848	\$ (625)	\$ (165)
Denominator:				
Number of shares used in basic computation	22,933	5,577	22,686	5,577
Weighted-average shares effect of dilutive securities:				
Director and employee stock options	200	—	—	—
Number of shares used in diluted computation	23,133	5,577	22,686	5,577
Diluted earnings (loss) per share	\$ 0.17	\$ 0.15	\$ (0.03)	\$ (0.03)

	Six Months Ended June 30,			
	2019		2018	
	Class A	Class B	Class A	Class B
(in thousands, except per share data)				
Basic earnings (loss) per share:				
Numerator:				
Allocation of net income (loss)	\$22,790	\$5,022	\$ (15,476)	\$ (3,492)
Denominator:				
Weighted-average shares outstanding	22,892	5,577	22,651	5,577
Basic earnings (loss) per share	\$ 1.00	\$ 0.90	\$ (0.68)	\$ (0.63)
Diluted earnings (loss) per share:				
Numerator:				
Allocation of net income (loss)	\$22,790	\$5,022	\$ (15,476)	\$ (3,492)
Denominator:				
Number of shares used in basic computation	22,892	5,577	22,651	5,577
Weighted-average shares effect of dilutive securities:				
Director and employee stock options	135	—	—	—
Number of shares used in diluted computation	23,027	5,577	22,651	5,577
Diluted earnings (loss) per share	\$ 0.99	\$ 0.90	\$ (0.68)	\$ (0.63)

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We did not include outstanding options to purchase 5,531,561 shares and 5,417,725 shares of Class A common stock in our computation of diluted earnings per share for the three months and six months ended June 30, 2019 because the exercise price of the options exceeded the average market price of our Class A common stock during the period.

We did not include any effect of dilutive securities in the computation of diluted earnings per share for the three and six months ended June 30, 2018 because we sustained a net loss for these periods.

### 4 - Reinsurance

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

Our insurance subsidiaries and Donegal Mutual implemented a combined third-party reinsurance program effective January 1, 2019. The coverage and parameters of the fully consolidated program are common to all of our insurance subsidiaries and Donegal Mutual. Our insurance subsidiaries use several different reinsurers, all of which have an A.M. Best rating of A- (Excellent) or better or, with respect to foreign reinsurers, have a financial condition that, in the opinion of our management, is equivalent to a company with at least an A- rating from A.M. Best. The following information describes the external reinsurance our insurance subsidiaries have in place for 2019:

- excess of loss reinsurance, under which the losses of Donegal Mutual and our insurance subsidiaries are automatically reinsured, through a series of contracts, over a set retention of \$1.0 million for property losses and a retention of \$2.0 million for casualty losses (including workers' compensation losses); and
- catastrophe reinsurance, under which Donegal Mutual and our insurance subsidiaries recover, through a series of reinsurance agreements, 100% of an accumulation of many losses resulting from a single event, including natural disasters, over a set retention of \$10.0 million and after exceeding an annual aggregate deductible of \$1.2 million up to aggregate losses of \$190.0 million per occurrence.

Our insurance subsidiaries and Donegal Mutual also purchase facultative reinsurance to cover exposures in excess of the covered limits of their third-party reinsurance agreements.

In addition to the pooling agreement and third-party reinsurance, our insurance subsidiaries have a catastrophe reinsurance agreement with Donegal Mutual, under which each of our insurance subsidiaries recovers 100% of an accumulation of multiple losses resulting from a single event, including natural disasters, over a set retention of \$2.0 million up to aggregate losses of \$8.0 million per occurrence. The agreement also provides additional coverage for an accumulation of losses from a single event including a combination of our insurance subsidiaries over a combined retention of \$5.0 million.

### 5 - Investments

The amortized cost and estimated fair values of our fixed maturities at June 30, 2019 were as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
	(in thousands)			
<b>Held to Maturity</b>				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 87,839	\$ 1,725	\$ 66	\$ 89,498
Obligations of states and political subdivisions	171,174	13,282	15	184,441
Corporate securities	139,037	5,513	438	144,112
Mortgage-backed securities	36,408	547	39	36,916
Totals	<u>\$ 434,458</u>	<u>\$ 21,067</u>	<u>\$ 558</u>	<u>\$ 454,967</u>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
<b>Available for Sale</b>				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 32,829	\$ 85	\$ 45	\$ 32,869
Obligations of states and political subdivisions	60,059	1,856	8	61,907
Corporate securities	150,056	2,998	244	152,810
Mortgage-backed securities	321,051	2,338	1,225	322,164
Totals	<u>\$ 563,995</u>	<u>\$ 7,277</u>	<u>\$ 1,522</u>	<u>\$ 569,750</u>

At June 30, 2019, our holdings of obligations of states and political subdivisions included general obligation bonds with an aggregate fair value of \$162.9 million and an amortized cost of \$153.7 million. Our holdings at June 30, 2019 also included special revenue bonds with an aggregate fair value of \$83.4 million and an amortized cost of \$77.5 million. With respect to both categories of those bonds at June 30, 2019, we held no securities of any issuer that comprised more than 10% of our holdings of either bond category. Education bonds and water and sewer utility bonds represented 46% and 32%, respectively, of our total investments in special revenue bonds based on the carrying values of these investments at June 30, 2019. Many of the issuers of the special revenue bonds we held at June 30, 2019 have the authority to impose ad valorem taxes. In that respect, many of the special revenue bonds we held at June 30, 2019 are similar to general obligation bonds.

The amortized cost and estimated fair values of our fixed maturities at December 31, 2018 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
<b>Held to Maturity</b>				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 76,222	\$ 175	\$ 1,087	\$ 75,310
Obligations of states and political subdivisions	159,292	8,237	704	166,825
Corporate securities	127,010	396	4,391	123,015
Mortgage-backed securities	40,274	64	450	39,888
Totals	<u>\$ 402,798</u>	<u>\$ 8,872</u>	<u>\$ 6,632</u>	<u>\$ 405,038</u>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
<b>Available for Sale</b>				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 45,188	\$ 25	\$ 1,003	\$ 44,210
Obligations of states and political subdivisions	73,761	1,762	307	75,216
Corporate securities	140,689	203	3,059	137,833
Mortgage-backed securities	275,475	149	6,325	269,299
Totals	<u>\$ 535,113</u>	<u>\$ 2,139</u>	<u>\$ 10,694</u>	<u>\$ 526,558</u>

At December 31, 2018, our holdings of obligations of states and political subdivisions included general obligation bonds with an aggregate fair value of \$157.7 million and an amortized cost of \$152.2 million. Our holdings also included special revenue bonds with an aggregate fair value of \$84.3 million and an amortized cost of \$80.9 million. With respect to both categories of bonds, we held no securities of any issuer that comprised more than 10% of that category at December 31, 2018. Education bonds and water and sewer utility bonds represented 49% and 29%, respectively, of our total investments in special revenue bonds based on their carrying values at December 31, 2018. Many of the issuers of the special revenue bonds we held at December 31, 2018 have the authority to impose ad valorem taxes. In that respect, many of the special revenue bonds we held are similar to general obligation bonds.

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We made reclassifications from available for sale to held to maturity of certain fixed maturities at fair value on November 30, 2013. We segregated within accumulated other comprehensive loss the net unrealized losses of \$15.1 million arising prior to the November 30, 2013 reclassifications. We are amortizing this balance over the remaining life of the related securities as an adjustment to yield in a manner consistent with the accretion of discount on the same fixed maturities. We recorded amortization of \$568,486 and \$575,107 in other comprehensive income (loss) during the six months ended June 30, 2019 and 2018, respectively. At June 30, 2019 and December 31, 2018, net unrealized losses of \$8.1 million and \$8.6 million, respectively, remained within accumulated other comprehensive loss.

We show below the amortized cost and estimated fair value of our fixed maturities at June 30, 2019 by contractual maturity. Expected maturities may differ from contractual maturities because issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
	(in thousands)	
<b>Held to maturity</b>		
Due in one year or less	\$ 23,975	\$ 24,103
Due after one year through five years	72,869	75,460
Due after five years through ten years	166,809	174,481
Due after ten years	134,397	144,007
Mortgage-backed securities	36,408	36,916
Total held to maturity	<u>\$ 434,458</u>	<u>\$ 454,967</u>
<b>Available for sale</b>		
Due in one year or less	\$ 30,622	\$ 30,840
Due after one year through five years	91,216	93,077
Due after five years through ten years	106,807	108,931
Due after ten years	14,299	14,738
Mortgage-backed securities	321,051	322,164
Total available for sale	<u>\$ 563,995</u>	<u>\$ 569,750</u>

The cost and estimated fair values of our equity securities at June 30, 2019 were as follows:

	<u>Cost</u>	<u>Gross Gains</u>	<u>Gross Losses</u>	<u>Estimated Fair Value</u>
	(in thousands)			
Equity securities	\$37,483	\$ 9,646	\$ 362	\$ 46,767

The cost and estimated fair values of our equity securities at December 31, 2018 were as follows:

	<u>Cost</u>	<u>Gross Gains</u>	<u>Gross Losses</u>	<u>Estimated Fair Value</u>
	(in thousands)			
Equity securities	\$40,943	\$ 4,818	\$ 2,094	\$ 43,667

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Gross investment gains and losses before applicable income taxes for the three and six months ended June 30, 2019 and 2018 were as follows:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	(in thousands)		(in thousands)	
<b>Gross investment gains:</b>				
Fixed maturities	\$ 14	\$ 12	\$ 372	\$ 12
Equity securities	1,586	2,125	7,572	3,270
Investment in affiliate	—	—	12,662	—
	<u>1,600</u>	<u>2,137</u>	<u>20,606</u>	<u>3,282</u>
<b>Gross investment losses:</b>				
Fixed maturities	2	1	320	45
Equity securities	32	619	623	2,638
	<u>34</u>	<u>620</u>	<u>943</u>	<u>2,683</u>
Net investment gains	<u>\$ 1,566</u>	<u>\$ 1,517</u>	<u>\$ 19,663</u>	<u>\$ 599</u>

We recognized \$6.2 million of gains and \$39,898 of losses on equity securities we held at June 30, 2019 in net investment gains for the six months ended June 30, 2019. We recognized \$2.1 million of gains and \$2.6 million of losses on equity securities held at June 30, 2018 in net investment gains for the six months ended June 30, 2018.

We held fixed maturities with unrealized losses representing declines that we considered temporary at June 30, 2019 as follows:

	<u>Less Than 12 Months</u>		<u>More Than 12 Months</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
	(in thousands)			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ —	\$ —	\$ 25,618	\$ 111
Obligations of states and political subdivisions	3,740	15	4,864	8
Corporate securities	6,538	58	40,055	624
Mortgage-backed securities	3,693	5	130,148	1,259
Totals	<u>\$ 13,971</u>	<u>\$ 78</u>	<u>\$ 200,685</u>	<u>\$ 2,002</u>

We held fixed maturities with unrealized losses representing declines that we considered temporary at December 31, 2018 as follows:

	<u>Less Than 12 Months</u>		<u>More Than 12 Months</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
	(in thousands)			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 26,342	\$ 166	\$ 54,900	\$ 1,924
Obligations of states and political subdivisions	28,322	477	21,560	534
Corporate securities	149,270	4,483	59,397	2,968
Mortgage-backed securities	82,594	913	181,379	5,862
Totals	<u>\$286,528</u>	<u>\$ 6,039</u>	<u>\$317,236</u>	<u>\$ 11,288</u>

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We make estimates concerning the valuation of our investments and the recognition of other-than-temporary declines in the value of our investments. For equity securities, we measure investments at fair value, and we recognize changes in fair value in our results of operations. With respect to a debt security that is in an unrealized loss position, we first assess if we intend to sell the debt security. If we determine we intend to sell the debt security, we recognize the impairment loss in our results of operations. If we do not intend to sell the debt security, we determine whether it is more likely than not that we will be required to sell the debt security prior to recovery. If we determine it is more likely than not that we will be required to sell the debt security prior to recovery, we recognize the impairment loss in our results of operations. If we determine it is more likely than not that we will not be required to sell the debt security prior to recovery, we then evaluate whether a credit loss has occurred with respect to that security. We determine whether a credit loss has occurred by comparing the amortized cost of the debt security to the present value of the cash flows we expect to collect. If we expect a cash flow shortfall, we consider that a credit loss has occurred. If we determine that a credit loss has occurred, we consider the impairment to be other than temporary. We then recognize the amount of the impairment loss related to the credit loss in our results of operations, and we recognize the remaining portion of the impairment loss in our other comprehensive income, net of applicable taxes. In addition, we may write down securities in an unrealized loss position based on a number of other factors, including when the fair value of an investment is significantly below its cost, when the financial condition of the issuer of a security has deteriorated, the occurrence of industry, issuer or geographic events that have negatively impacted the value of a security and rating agency downgrades. We held 163 debt securities that were in an unrealized loss position at June 30, 2019. Based upon our analysis of general market conditions and underlying factors impacting these debt securities, we considered these declines in value to be temporary.

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

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

## **6 - Segment Information**

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

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Financial data by segment for the three and six months ended June 30, 2019 and 2018 is as follows:

	<b>Three Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
	(in thousands)	
<b>Revenues:</b>		
Premiums earned:		
Commercial lines	\$ 94,788	\$ 84,552
Personal lines	93,975	101,162
Premiums earned	188,763	185,714
Net investment income	7,290	6,342
Investment gains	1,566	1,517
Equity in earnings of DFSC	—	788
Other	1,170	1,429
Total revenues	<u>\$ 198,789</u>	<u>\$ 195,790</u>
<b>Income (loss) before income tax expense (benefit):</b>		
Underwriting income (loss):		
Commercial lines	\$ 4,113	\$ 150
Personal lines	(9,238)	(12,881)
SAP underwriting loss	(5,125)	(12,731)
GAAP adjustments	1,278	2,406
GAAP underwriting loss	(3,847)	(10,325)
Net investment income	7,290	6,342
Investment gains	1,566	1,517
Equity in earnings of DFSC	—	788
Other	529	345
Income (loss) before income tax expense (benefit)	<u>\$ 5,538</u>	<u>\$ (1,333)</u>

	<b>Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
	(in thousands)	
<b>Revenues:</b>		
Premiums earned:		
Commercial lines	\$ 186,269	\$ 166,778
Personal lines	190,568	200,701
Premiums earned	376,837	367,479
Net investment income	14,338	12,721
Investment gains	19,663	599
Equity in earnings of DFSC	295	1,420
Other	2,370	2,899
Total revenues	<u>\$ 413,503</u>	<u>\$ 385,118</u>
<b>Income (loss) before income tax expense (benefit):</b>		
Underwriting income (loss):		
Commercial lines	\$ 2,425	\$ (20,060)
Personal lines	(6,765)	(30,148)
SAP underwriting loss	(4,340)	(50,208)
GAAP adjustments	1,829	4,775
GAAP underwriting loss	(2,511)	(45,433)
Net investment income	14,338	12,721
Investment gains	19,663	599
Equity in earnings of DFSC	295	1,420
Other	598	825
Income (loss) before income tax expense (benefit)	<u>\$ 32,383</u>	<u>\$ (29,868)</u>

## 7 - Borrowings

### Lines of Credit

In March 2019, we terminated our previous credit agreement with Manufacturers and Traders Trust Company (“M&T”) and entered into a new credit agreement with M&T. The new credit agreement relates to a \$30.0 million unsecured revolving line of credit. The line of credit expires in July 2020. At June 30, 2019, we had no outstanding borrowings from M&T and had the ability to borrow up to \$30.0 million at interest rates equal to M&T’s current prime rate or the then-current LIBOR rate plus 2.25%. We pay a fee of 0.15% per annum on the loan commitment amount regardless of usage. The credit agreement requires our compliance with certain covenants. These covenants include minimum levels of our net worth, leverage ratio, statutory surplus and the A.M. Best ratings of our insurance subsidiaries. In addition, Atlantic States has guaranteed our payment obligations under the new credit agreement. We complied with all requirements of the credit agreement during the six months ended June 30, 2019.

Atlantic States is a member of the FHLB of Pittsburgh. Through its membership, Atlantic States has the ability to issue debt to the FHLB of Pittsburgh in exchange for cash advances. Atlantic States had \$35.0 million in outstanding advances at June 30, 2019. The interest rate on the advances was 2.76% at June 30, 2019. The table below presents the amount of FHLB of Pittsburgh stock Atlantic States purchased, collateral pledged and assets related to Atlantic States’ membership in the FHLB of Pittsburgh at June 30, 2019.

FHLB of Pittsburgh stock purchased and owned	\$ 1,639,200
Collateral pledged, at par (carrying value \$38,680,757)	38,891,639
Borrowing capacity currently available	2,497,850

## **Subordinated Debentures**

Donegal Mutual holds a \$5.0 million surplus note that MICO issued to increase MICO's statutory surplus. The surplus note carries an interest rate of 5.00%, and any repayment of principal or payment of interest on the surplus note requires prior approval of the Michigan Department of Insurance and Financial Services.

## **8 - Share-Based Compensation**

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

We charged compensation expense related to our stock compensation plans against income before income taxes of \$423,623 and \$521,689 for the three months ended June 30, 2019 and 2018, respectively, with a corresponding income tax benefit of \$88,961 and \$109,555, respectively. We charged compensation expense related to our stock compensation plans against income before income taxes of \$866,276 and \$1.0 million for the six months ended June 30, 2019 and 2018, respectively, with a corresponding income tax benefit of \$181,918 and \$218,897, respectively. At June 30, 2019, we had \$1.5 million of unrecognized compensation expense related to nonvested share-based compensation granted under our stock compensation plans that we expect to recognize over a weighted average period of approximately 1.7 years.

We received cash from option exercises under all stock compensation plans during the three months ended June 30, 2019 of \$795,182. We realized actual tax benefits for the tax deductions related to those option exercises of \$15,962. We did not receive any cash from option exercises under all stock compensation plans during the three months ended June 30, 2018. We received cash from option exercises under all stock compensation plans during the six months ended June 30, 2019 and 2018 of \$795,182 and \$478,650, respectively. We realized actual tax benefits for the tax deductions related to those option exercises of \$15,962 and \$18,803 for the six months ended June 30, 2019 and 2018, respectively.

## **9 - Fair Value Measurements**

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

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

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

Level 3 – unobservable inputs not corroborated by market data.

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

We present our investments in available-for-sale fixed maturity and equity securities at estimated fair value. The estimated fair value of a security may differ from the amount that could be realized if we sold the security in a forced transaction. In addition, the valuation of fixed maturity investments is more subjective when markets are less liquid, increasing the potential that the estimated fair value does not reflect the price at which an actual transaction would occur. We utilize nationally recognized independent pricing services to estimate fair values or obtain market quotations for substantially all of our fixed maturity and equity investments. These pricing services utilize market quotations for fixed maturity and equity securities that have quoted prices in active markets. For fixed maturity securities that generally do not trade on a daily basis, the pricing services prepare estimates of fair value measurements based predominantly on observable market inputs. The pricing services do not use broker quotes in determining the fair values of our investments. Our investment personnel review the estimates of fair value the pricing services provide to verify that the estimates we obtain from the pricing services are representative of fair values based upon our investment personnel's general knowledge of the market, their research findings related to unusual

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fluctuations in value and their comparison of such values to execution prices for similar securities. Our investment personnel regularly monitor the market, current trading ranges for similar securities and the pricing of specific investments. Our investment personnel review all pricing estimates that we receive from the pricing services against their expectations with respect to pricing based on fair market curves, security ratings, interest rates, security types and recent trading activity. Our investment personnel periodically review documentation with respect to the pricing services' pricing methodology that they obtain to determine if the primary pricing sources, market inputs and pricing frequency for various security types are reasonable. At June 30, 2019, we received two estimates per security from the pricing services, and we priced substantially all of our Level 1 and Level 2 investments using those prices. In our review of the estimates the pricing services provided at June 30, 2019, we did not identify any material discrepancies, and we did not make any adjustments to the estimates the pricing services provided.

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

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

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

The following table presents our fair value measurements for our investments in available-for-sale fixed maturity and equity securities at June 30, 2019:

Fair Value	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)		
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 32,869	\$ —	\$ 32,869
Obligations of states and political subdivisions	61,907	—	61,907
Corporate securities	152,810	—	152,810
Mortgage-backed securities	322,164	—	322,164
Equity securities	46,767	44,414	2,353
Total investments in the fair value hierarchy	<u>\$616,517</u>	<u>\$ 44,414</u>	<u>\$ 572,103</u>

The following table presents our fair value measurements for our investments in available-for-sale fixed maturity and equity securities at December 31, 2018:

Fair Value	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)		
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 44,210	\$ —	\$ 44,210
Obligations of states and political subdivisions	75,216	—	75,216
Corporate securities	137,833	—	137,833
Mortgage-backed securities	269,299	—	269,299
Equity securities	30,675	28,351	2,324
Total investments in the fair value hierarchy	<u>557,233</u>	<u>28,351</u>	<u>528,882</u>
Investment measured at net asset value	12,992	—	—
Totals	<u>\$570,225</u>	<u>\$ 28,351</u>	<u>\$ 528,882</u>

**10 - Income Taxes**

At June 30, 2019 and December 31, 2018, respectively, we had no material unrecognized tax benefits or accrued interest and penalties. Tax years 2015 through 2018 remained open for examination at June 30, 2019. We provide a valuation allowance when we believe it is more likely than not that we will not realize some portion of our tax assets. We established a valuation allowance of \$264,467 related to a portion of the net operating loss carryforward of Le Mars at January 1, 2004 and a valuation allowance of \$8.1 million for our net state operating loss carryforward. We have determined that we are not required to establish a valuation allowance for our other deferred tax assets of \$25.5 million and \$32.4 million at June 30, 2019 and December 31, 2018, respectively, because it is more likely than not that we will realize these deferred tax assets through reversals of existing temporary differences, future taxable income and the implementation of tax planning strategies.

Our deferred tax assets include a net operating loss carryforward of \$1.2 million related to Le Mars, which will begin to expire in 2020 if not previously utilized. This carryforward is subject to an annual limitation of approximately \$376,000.

**11 - Liability for Losses and Loss Expenses**

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

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

	<b>Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
	(in thousands)	
Balance at January 1	\$ 814,665	\$ 676,672
Less reinsurance recoverable	(339,267)	(293,271)
Net balance at January 1	<u>475,398</u>	<u>383,401</u>
Incurred related to:		
Current year	261,517	266,093
Prior years	(6,899)	26,244
Total incurred	<u>254,618</u>	<u>292,337</u>
Paid related to:		
Current year	118,045	127,392
Prior years	120,605	108,521
Total paid	<u>238,650</u>	<u>235,913</u>
Net balance at end of period	491,366	439,825
Plus reinsurance recoverable	<u>353,916</u>	<u>307,805</u>
Balance at end of period	<u>\$ 845,282</u>	<u>\$ 747,630</u>

Our insurance subsidiaries recognized a (decrease) increase in their liability for losses and loss expenses of prior years of (\$6.9 million) and \$26.2 million for the six months ended June 30, 2019 and 2018, respectively. Our insurance subsidiaries made no significant changes in their reserving philosophy or claims management personnel, and they have made no significant offsetting changes in estimates that increased or decreased their loss and loss expense reserves in those years. The 2019 development represented 1.5% of the December 31, 2018 net carried reserves and resulted primarily from lower-than-expected

severity in the workers' compensation line of business. The majority of the 2019 development related to decreases in the liability for losses and loss expenses of prior years for Michigan. During the first quarter of 2018, our insurance subsidiaries received new information on previously-reported commercial automobile and personal automobile claims that led our insurance subsidiaries to conclude that their prior actuarial assumptions did not fully anticipate recent changes in severity and reporting trends. Our insurance subsidiaries have encountered increasing difficulties in projecting the ultimate severity of automobile losses over recent accident years, which our insurance subsidiaries attribute to worsening litigation trends and an increased delay in the reporting to our insurance subsidiaries of information with respect to the severity of claims. As a result, our insurance subsidiaries' actuaries increased their projections of the ultimate cost of our insurance subsidiaries' prior-year personal automobile and commercial automobile losses, and our insurance subsidiaries added \$7.4 million to their reserves for personal automobile and \$18.8 million to their reserves for commercial automobile for accident years prior to 2018. The 2018 development represented 6.8% of the December 31, 2017 net carried reserves and resulted primarily from higher-than-expected severity in the personal automobile and commercial automobile lines of business, offset by lower-than-expected severity in the workers' compensation line of business, in accident years prior to 2018. The majority of the 2018 development related to increases in the liability for losses and loss expenses of prior years for Atlantic States, Southern and Peninsula.

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

Our insurance subsidiaries determine incurred but not reported ("IBNR") reserves by subtracting the cumulative loss and loss expense amounts our insurance subsidiaries have paid and the case reserves our insurance subsidiaries have established at the balance sheet date from their actuaries' estimate of the ultimate cost of losses and loss expenses. Accordingly, the IBNR reserves of our insurance subsidiaries include their actuaries' projections of the cost of unreported claims as well as their actuaries' projected development of case reserves on known claims and reopened claims. Our insurance subsidiaries' methodology for estimating IBNR reserves has been in place for many years, and their actuaries made no significant changes to that methodology during the six months ended June 30, 2019.

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

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

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

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

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

## 12 - Impact of New Accounting Standards

In February 2016, the FASB issued guidance that requires lessees to recognize leases, including operating leases, on the lessee's balance sheet, unless a lease is considered a short-term lease. This guidance also requires entities to make new judgments to identify leases. The guidance is effective for annual and interim reporting periods beginning after December 15, 2018 and permits early adoption. Our adoption of this guidance on January 1, 2019 did not have a significant impact on our financial position, results of operations or cash flows.

In June 2016, the FASB issued guidance that amends previous guidance on the impairment of financial instruments by adding an impairment model that requires an entity to recognize expected credit losses as an allowance rather than impairments as credit losses are incurred. The intent of this guidance is to reduce complexity and result in a more timely recognition of expected credit losses. The guidance is effective for annual and interim reporting periods beginning after December 15, 2019. We are in the process of evaluating the impact of the adoption of this guidance on our financial position, results of operations and cash flows.

In January 2017, the FASB issued guidance that simplifies the measurement of goodwill by modifying the goodwill impairment test previous guidance required. The guidance requires an entity to perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize impairment for the amount by which the reporting unit's carrying amount exceeds its fair value. The guidance is effective for annual and interim reporting periods beginning after December 15, 2019 and permits early adoption. We do not expect the adoption of this guidance to have a significant impact on our financial position, results of operations or cash flows.

In August 2018, the FASB issued guidance that modifies disclosure requirements related to fair value measurements. The guidance removes the requirements to disclose the amounts of, and reasons for, transfers between Level 1 and Level 2 of the fair value hierarchy. The guidance is effective for annual and interim reporting periods beginning after December 15, 2019 and permits early adoption. The adoption of this guidance on January 1, 2019 did not have a significant impact on our financial position, results of operations or cash flows.

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

We recommend that you read the following information in conjunction with the historical financial information and the footnotes to that financial information we include in this Quarterly Report on Form 10-Q. We also recommend you read Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2018.

### Critical Accounting Policies and Estimates

We combine our financial statements with those of our insurance subsidiaries and present our financial statements on a consolidated basis in accordance with GAAP.

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

#### Liability for Unpaid Losses and Loss Expenses

Liabilities for losses and loss expenses are estimates at a given point in time of the amounts an insurer expects to pay with respect to incurred policyholder claims based on facts and circumstances the insurer knows at that point in time. At the time of establishing its estimates, an insurer recognizes that its ultimate liability for losses and loss expenses will exceed or be less than such estimates. Our insurance subsidiaries base their estimates of liabilities for losses and loss expenses on assumptions as to future loss trends, expected claims severity, judicial theories of liability and other factors. However, during the loss adjustment period, our insurance subsidiaries may learn additional facts regarding individual claims, and, consequently, it often becomes necessary for our insurance subsidiaries to refine and adjust their estimates for these liabilities. We reflect any adjustments to the liabilities for losses and loss expenses of our insurance subsidiaries in our consolidated results of operations in the period in which our insurance subsidiaries make adjustments to their estimates.

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

Reserve estimates can change over time because of unexpected changes in assumptions related to our insurance subsidiaries' external environment and, to a lesser extent, assumptions related to our insurance subsidiaries' internal operations. For example, our insurance subsidiaries have experienced an increase in claims severity and a lengthening of the claim settlement periods on bodily injury claims during the past several years. These trend changes give rise to greater uncertainty as to the pattern of future loss settlements on bodily injury claims. Related uncertainties regarding future trends include the cost of medical technologies and procedures and changes in the utilization of medical procedures. Assumptions related to our insurance subsidiaries' external environment include the absence of significant changes in tort law and the legal environment that increase liability exposure, consistency in judicial interpretations of insurance coverage and policy provisions and the rate of loss cost inflation. Internal assumptions include consistency in the recording of premium and loss statistics, consistency in the recording of claims, payment and case reserving methodology, accurate measurement of the impact of rate changes and changes in policy provisions, consistency in the quality and characteristics of business written within a given line of business and consistency in reinsurance coverage and collectability of reinsured losses, among other items. To the extent our insurance subsidiaries determine that underlying factors impacting their assumptions have changed, our insurance subsidiaries make adjustments in their reserves that they consider appropriate for such changes. Accordingly, our insurance subsidiaries' ultimate liability for unpaid losses and loss expenses will likely differ from the amount recorded at June 30, 2019. For every 1% change in our insurance subsidiaries' loss and loss expense reserves, net of reinsurance recoverable, the effect on our pre-tax results of operations would be approximately \$4.9 million.

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

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

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

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Donegal Mutual and our insurance subsidiaries operate together as the Donegal Insurance Group and share a combined business plan designed to achieve market penetration and underwriting profitability objectives. The products our insurance subsidiaries and Donegal Mutual offer are generally complementary, thereby allowing Donegal Insurance Group to offer a broader range of products to a given market and to expand Donegal Insurance Group's ability to service an entire personal lines or commercial lines account. Distinctions within the products of Donegal Mutual and our insurance subsidiaries generally relate to specific risk profiles targeted within similar classes of business, such as preferred tier products compared to standard tier products, but we do not allocate all of the standard risk gradients to one company. Therefore, the underwriting profitability of the business the individual companies write directly will vary. However, because the pool homogenizes the risk characteristics of the predominant percentage of the business Donegal Mutual and Atlantic States write directly and each company shares the underwriting results according to each company's participation percentage, each company realizes its percentage share of the underwriting results of the pool.

Our insurance subsidiaries' unpaid liability for losses and loss expenses by major line of business at June 30, 2019 and December 31, 2018 consisted of the following:

	June 30, 2019	December 31, 2018
	(in thousands)	
<b>Commercial lines:</b>		
Automobile	\$ 115,633	\$ 106,734
Workers' compensation	111,043	109,512
Commercial multi-peril	91,968	85,937
Other	8,579	5,207
Total commercial lines	<u>327,223</u>	<u>307,390</u>
<b>Personal lines:</b>		
Automobile	139,584	144,788
Homeowners	19,951	18,374
Other	4,608	4,846
Total personal lines	<u>164,143</u>	<u>168,008</u>
Total commercial and personal lines	491,366	475,398
Plus reinsurance recoverable	<u>353,916</u>	<u>339,267</u>
Total liability for unpaid losses and loss expenses	<u>\$845,282</u>	<u>\$ 814,665</u>

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

Percentage Change in Loss and Loss Expense Reserves Net of Reinsurance	Adjusted Loss and Loss Expense Reserves Net of Reinsurance at June 30, 2019	Percentage Change in Stockholders' Equity at June 30, 2019(1)	Adjusted Loss and Loss Expense Reserves Net of Reinsurance at December 31, 2018	Percentage Change in Stockholders' Equity at December 31, 2018(1)
		(dollars in thousands)		
(10.0)%	\$ 442,229	8.9%	\$ 427,858	9.4%
(7.5)	454,514	6.6	439,743	7.1
(5.0)	466,798	4.4	451,628	4.7
(2.5)	479,082	2.2	463,513	2.4
Base	491,366	—	475,398	—
2.5	503,650	(2.2)	487,283	(2.4)
5.0	515,934	(4.4)	499,168	(4.7)
7.5	528,218	(6.6)	511,053	(7.1)
10.0	540,503	(8.9)	522,938	(9.4)

(1) Net of income tax effect.

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### Non-GAAP Information

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

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

### Net Premiums Written

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

The following table provides a reconciliation of our net premiums earned to our net premiums written for the three and six months ended June 30, 2019 and 2018:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net premiums earned	\$ 188,763	\$ 185,714	\$ 376,837	\$ 367,479
Change in net unearned premiums	9,040	10,235	20,881	23,726
Net premiums written	<u>\$ 197,803</u>	<u>\$ 195,949</u>	<u>\$ 397,718</u>	<u>\$ 391,205</u>

### Statutory Combined Ratio

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

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

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

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

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### Combined Ratios

The following table presents comparative details with respect to our GAAP and statutory combined ratios for the three and six months ended June 30, 2019 and 2018:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<b>GAAP Combined Ratios (Total Lines)</b>				
Loss ratio (non-weather)	60.7%	63.6%	60.5%	71.1%
Loss ratio (weather-related)	9.0	9.5	7.1	8.5
Expense ratio	31.3	31.8	32.0	32.1
Dividend ratio	1.0	0.7	1.1	0.7
Combined ratio	<u>102.0%</u>	<u>105.6%</u>	<u>100.7%</u>	<u>112.4%</u>
<b>Statutory Combined Ratios</b>				
Commercial lines:				
Automobile	112.7%	116.0%	114.5%	143.5%
Workers' compensation	71.7	92.9	80.2	88.1
Commercial multi-peril	93.2	91.2	92.1	103.8
Other	95.1	67.1	80.9	54.5
Total commercial lines	92.9	97.3	94.6	108.0
Personal lines:				
Automobile	107.2	109.7	104.2	113.8
Homeowners	113.6	113.9	104.4	112.8
Other	89.2	104.9	79.9	119.5
Total personal lines	108.5	111.0	103.1	113.6
Total commercial and personal lines	100.7	104.5	98.9	111.0

### Results of Operations—Three Months Ended June 30, 2019 Compared to Three Months Ended June 30, 2018

*Net Premiums Earned.* Our insurance subsidiaries' net premiums earned for the second quarter of 2019 were \$188.8 million, an increase of \$3.1 million, or 1.6%, compared to \$185.7 million for the second quarter of 2018, reflecting increases in net premiums written during 2019 and 2018.

*Net Premiums Written.* Our insurance subsidiaries' net premiums written for the three months ended June 30, 2019 were \$197.8 million, an increase of \$1.9 million, or 0.9%, from the \$195.9 million of net premiums written for the second quarter of 2018. We attribute the increase primarily to the impact of premium rate increases and an increase in the writing of new accounts in commercial lines of business. Commercial lines net premiums written increased \$12.3 million, or 13.5%, for the second quarter of 2019 compared to the second quarter of 2018. We attribute the increase in commercial lines primarily to premium rate increases throughout 2018 and 2019, increased writings of new commercial accounts and lower reinsurance premiums. Personal lines net premiums written decreased \$10.4 million, or 10.0%, for the second quarter of 2019 compared to the second quarter of 2018. We attribute the decrease in personal lines primarily to net attrition as a result of underwriting measures our insurance subsidiaries have implemented to slow new policy growth and to increase pricing on renewal policies, as well as the previously announced non-renewal of unprofitable personal lines business in seven states that began in February 2019, partially offset by premium rate increases our insurance subsidiaries have implemented over the past five quarters and lower reinsurance premiums.

*Investment Income.* Our net investment income increased to \$7.3 million for the second quarter of 2019, compared to \$6.3 million for the second quarter of 2018. We attribute the increase primarily to an increase in average invested assets.

*Net Investment Gains.* Net investment gains for the second quarter of 2019 were \$1.6 million, compared to \$1.5 million for the second quarter of 2018. The net investment gains for the second quarter of 2019 and 2018 resulted primarily from unrealized gains within our equity securities portfolio. We did not recognize any impairment losses in our investment portfolio during the second quarter of 2019 or 2018.

*Losses and Loss Expenses.* Our insurance subsidiaries' loss ratio, which is the ratio of incurred losses and loss expenses to premiums earned, for the second quarter of 2019 was 69.7%, a decrease from our insurance subsidiaries' loss ratio of 73.1% for the second quarter of 2018. Weather-related losses of \$17.0 million for the second quarter of 2019, or 9.0 percentage points of the loss ratio, decreased slightly from \$17.7 million for the second quarter of 2018, or 9.5 percentage points of the loss ratio. On a statutory basis, our insurance subsidiaries' commercial lines loss ratio was 60.6% for the second quarter of 2019, compared to 65.6% for the second quarter of 2018, primarily due to decreases in the commercial automobile and workers' compensation loss ratios. The personal lines statutory loss ratio of our insurance subsidiaries decreased to 78.4% for the second quarter of 2019, compared to 80.2% for the second quarter of 2018. We attribute this decrease primarily to a decrease in the personal automobile loss ratio. Our insurance subsidiaries experienced favorable loss reserve development of approximately \$2.9 million and \$500,000 during the second quarters of 2019 and 2018, respectively.

*Underwriting Expenses.* The expense ratio for an insurance company is the ratio of policy acquisition costs and other underwriting expenses to premiums earned. The expense ratio of our insurance subsidiaries was 31.3% for the second quarter of 2019, compared to 31.8% for the second quarter of 2018. We attribute the decrease to savings associated with the consolidation of certain operations of Peninsula in July 2018, partially offset by higher underwriting-based incentives for the second quarter of 2019 compared to the second quarter of 2018.

*Policyholder Dividends.* Our insurance subsidiaries pay policyholder dividends primarily on workers' compensation policies on a sliding scale based on the profitability of a given policy. We attribute the increase in dividends incurred for the second quarter of 2019 compared to the second quarter of 2018 to growth and profitability of the workers' compensation line of business over the respective periods to which the dividends applied. We also partially attribute the increase to growth in workers' compensation writings in Wisconsin, a state in which our insurance subsidiaries and their competitors pay a higher rate of dividends compared to other states and where such dividends are not dependent on the profitability of a given policy.

*Combined Ratio.* The combined ratio represents the sum of the loss ratio, the expense ratio and the dividend ratio, which is the ratio of policyholder dividends incurred to premiums earned. Our insurance subsidiaries' combined ratios were 102.0% and 105.6% for the second quarters ended June 30, 2019 and 2018, respectively. We attribute the decrease in the combined ratio to a decrease in the loss ratio for the second quarter of 2019 compared to the second quarter of 2018.

*Interest Expense.* Our interest expense for the second quarter of 2019 was \$303,423, compared to \$566,284 for the second quarter of 2018. We attribute the decrease to lower average borrowings under our lines of credit during the second quarter of 2019 compared to the second quarter of 2018.

*Income Taxes.* We recorded income tax expense of \$749,077 for the second quarter of 2019, representing an effective tax rate of 13.5%. We recorded an income tax benefit of \$543,191 for the second quarter of 2018 based upon an estimated carryback of our taxable loss in 2018 to prior tax years. The income tax expense and effective tax rate for the second quarter of 2019 represented an estimate based on our projected annual taxable income.

*Net Income (Loss) and Income (Loss) Per Share.* Our net income for the second quarter of 2019 was \$4.8 million, or \$.17 per share of Class A common stock on a diluted basis and \$.15 per share of Class B common stock, compared to a net loss of \$789,855, or \$.03 per share of Class A common stock and \$.03 per share of Class B common stock, for the second quarter of 2018. We had 23.0 million and 22.7 million Class A shares outstanding at June 30, 2019 and 2018, respectively. We had 5.6 million Class B shares outstanding at the end of both periods.

## **Results of Operations—Six Months Ended June 30, 2019 Compared to Six Months Ended June 30, 2018**

*Net Premiums Earned.* Our insurance subsidiaries' net premiums earned for the first half of 2019 were \$376.8 million, an increase of \$9.3 million, or 2.5%, compared to \$367.5 million for the first half of 2018, reflecting increases in net premiums written during 2019 and 2018.

*Net Premiums Written.* Our insurance subsidiaries' net premiums written for the first half of 2019 were \$397.7 million, an increase of \$6.5 million, or 1.7%, from the \$391.2 million of net premiums written for the first half of 2018. We attribute the increase primarily to the impact of premium rate increases and an increase in the writing of new accounts in commercial lines of business. Commercial lines net premiums written increased \$25.1 million, or 13.1%, for the first half of 2019 compared to the first half of 2018. We attribute the increase in commercial lines primarily to premium rate increases throughout 2018 and 2019, increased writings of new commercial accounts and lower reinsurance premiums. Personal lines net premiums written

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decreased \$18.6 million, or 9.3%, for the first half of 2019 compared to the first half of 2018. We attribute the decrease in personal lines primarily to net attrition as a result of underwriting measures our insurance subsidiaries have implemented to slow new policy growth and to increase pricing on renewal policies, as well as the previously announced non-renewal of unprofitable personal lines business in seven states that began in February 2019, partially offset by premium rate increases our insurance subsidiaries have implemented over the past five quarters and lower reinsurance premiums.

*Investment Income.* Our net investment income increased to \$14.3 million for the first half of 2019, compared to \$12.7 million for the first half of 2018. We attribute the increase primarily to an increase in average invested assets.

*Net Investment Gains.* Net investment gains for the first half of 2019 were \$19.7 million, compared to \$598,971 for the first half of 2018. The net investment gains for the first half of 2019 included \$12.7 million from the sale of DFSC and \$6.1 million related to unrealized gains within our equity securities portfolio. The net investment gains for the first half of 2018 resulted primarily from unrealized gains within our equity securities portfolio. We did not recognize any impairment losses in our investment portfolio during the first half of 2019 or 2018.

*Losses and Loss Expenses.* Our insurance subsidiaries' loss ratio, which is the ratio of incurred losses and loss expenses to premiums earned, for the first half of 2019 was 67.6%, a decrease from our insurance subsidiaries' loss ratio of 79.6% for the first half of 2018. Weather-related losses of \$26.7 million for the first half of 2019, or 7.1 percentage points of the loss ratio, decreased from \$31.4 million for the first half of 2018, or 8.5 percentage points of the loss ratio. On a statutory basis, our insurance subsidiaries' commercial lines loss ratio was 62.1% for the first half of 2019, compared to 77.0% for the first half of 2018, primarily due to decreases in the commercial automobile and commercial multiple-peril loss ratios. The personal lines statutory loss ratio of our insurance subsidiaries decreased to 72.3% for the first half of 2019, compared to 82.3% for the first half of 2018. We attribute this decrease primarily to decreases in the personal automobile and homeowners loss ratios. Our insurance subsidiaries experienced favorable loss reserve development of approximately \$6.9 million during the first half of 2019. Our insurance subsidiaries experienced adverse loss reserve development of approximately \$26.2 million during the first half of 2018.

*Underwriting Expenses.* The expense ratio for an insurance company is the ratio of policy acquisition costs and other underwriting expenses to premiums earned. The expense ratio of our insurance subsidiaries was 32.0% for the first half of 2019, comparable to 32.1% for the first half of 2018.

*Policyholder Dividends.* Our insurance subsidiaries pay policyholder dividends primarily on workers' compensation policies on a sliding scale based on the profitability of a given policy. We attribute the increase in dividends incurred for the first half of 2019 compared to the first half of 2018 to growth and profitability of the workers' compensation line of business over the respective periods to which the dividends applied. We also partially attribute the increase to growth in workers' compensation writings in Wisconsin, a state in which our insurance subsidiaries and their competitors pay a higher rate of dividends compared to other states and where such dividends are not dependent on the profitability of a given policy.

*Combined Ratio.* The combined ratio represents the sum of the loss ratio, the expense ratio and the dividend ratio, which is the ratio of policyholder dividends incurred to premiums earned. Our insurance subsidiaries' combined ratios were 100.7% and 112.4% for the first half of 2019 and 2018, respectively. We attribute the decrease in the combined ratio to a decrease in the loss ratio for the first half of 2019 compared to the first half of 2018.

*Interest Expense.* Our interest expense for the first half of 2019 was \$868,715, compared to \$1.0 million for the first half of 2018. We attribute the decrease to lower average borrowings under our lines of credit during the first half of 2019 compared to the first half of 2018.

*Income Taxes.* We recorded income tax expense of \$4.6 million for the first half of 2019, representing an effective tax rate of 14.1%. We recorded an income tax benefit of \$10.9 million for the first half of 2018 based upon an estimated carryback of our taxable loss in 2018 to prior tax years. The income tax expense and effective tax rate for the first half of 2019 represented an estimate based on our projected annual taxable income. The estimate for the first half of 2019 included income tax expense associated with the gain we realized on the sale of DFSC, which was partially offset by an accounting tax benefit with respect to a tax deduction that applies to a portion of the dividend we received from DFSC prior to the closing of the sale.

*Net Income (Loss) and Income (Loss) Per Share.* Our net income for the first half of 2019 was \$27.8 million, or \$.99 per share of Class A common stock on a diluted basis and \$.90 per share of Class B common stock, compared to a net loss of \$19.0 million, or \$.68 per share of Class A common stock and \$.63 per share of Class B common stock, for the first half of 2018. We had 23.0 million and 22.7 million Class A shares outstanding at June 30, 2019 and 2018, respectively. We had 5.6 million Class B shares outstanding at the end of both periods.

## Liquidity and Capital Resources

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

Our operations have historically generated sufficient net positive cash flow to fund our commitments and add to our investment portfolio, thereby increasing future investment returns and enhancing our liquidity. The impact of the pooling agreement between Donegal Mutual and Atlantic States has historically been cash-flow positive because of the consistent underwriting profitability of the pool. Donegal Mutual and Atlantic States settle their respective obligations to each other under the pool monthly, thereby resulting in cash flows substantially similar to the cash flows that would result from each company writing the business directly. We have not experienced any unusual variations in the timing of claim payments associated with the loss reserves of our insurance subsidiaries. We maintain significant liquidity in our investment portfolio in the form of readily marketable fixed maturities, equity securities and short-term investments. We structure our fixed-maturity investment portfolio following a "laddering" approach, so that projected cash flows from investment income and principal maturities are evenly distributed from a timing perspective, thereby providing an additional measure of liquidity to meet our obligations should an unexpected variation occur in the future. Our operating activities provided net cash flows in the first six months of 2019 and 2018 of \$21.2 million and \$36.1 million, respectively.

At June 30, 2019, we had no outstanding borrowings under our line of credit with M&T and had the ability to borrow up to \$30.0 million at interest rates equal to M&T's current prime rate or the then current LIBOR rate plus 2.25%. At June 30, 2019, Atlantic States had \$35.0 million in outstanding advances with the FHLB of Pittsburgh. The interest rate on these advances was 2.76% at June 30, 2019.

The following table shows our expected payments for significant contractual obligations at June 30, 2019:

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	(in thousands)				
Net liability for unpaid losses and loss expenses of our insurance subsidiaries	\$491,366	\$ 225,770	\$232,324	\$17,259	\$ 16,013
Subordinated debentures	5,000	—	—	—	5,000
Borrowings under lines of credit	35,000	35,000	—	—	—
Total contractual obligations	<u>\$531,366</u>	<u>\$ 260,770</u>	<u>\$232,324</u>	<u>\$17,259</u>	<u>\$ 21,013</u>

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

We discuss in Note 7 – Borrowings our estimate of the timing of the amounts payable for the borrowings under our lines of credit based on their contractual maturities. The borrowings under our lines of credit carry interest rates that vary as we discuss in Note 7 – Borrowings. We complied with all requirements of the credit agreement during the six months ended June 30, 2019. Based upon the interest rates in effect at June 30, 2019, our annual interest cost associated with the borrowings under our lines of credit is approximately \$1.0 million. For every 1% change in the interest rate associated with the borrowings under our lines of credit, the effect on our annual interest cost would be approximately \$350,000.

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We discuss in Note 7 – Borrowings our estimate of the timing of the amounts payable for the subordinated debentures based on their contractual maturity. The subordinated debentures carry an interest rate of 5%, and any repayment of principal or payment of interest on the subordinated debentures requires prior approval of the Michigan Department of Insurance and Financial Services. Our annual interest cost associated with the subordinated debentures is \$250,000.

On July 18, 2013, our board of directors authorized a share repurchase program pursuant to which we have the authority to purchase up to 500,000 shares of our Class A common stock at prices prevailing from time to time in the open market subject to the provisions of applicable rules of the SEC and in privately negotiated transactions. We did not purchase any shares of our Class A common stock under this program during the six months ended June 30, 2019 or 2018. We have purchased a total of 57,658 shares of our Class A common stock under this program from its inception through June 30, 2019.

On July 18, 2019, our board of directors declared quarterly cash dividends of 14.5 cents per share of our Class A common stock and 12.75 cents per share of our Class B common stock, payable on August 15, 2019 to our stockholders of record as of the close of business on August 1, 2019. We are not subject to any restrictions on our payment of dividends to our stockholders, although there are state law restrictions on the payment of dividends by our insurance subsidiaries to us. Dividends from our insurance subsidiaries are our principal source of cash for payment of dividends to our stockholders. Our insurance subsidiaries are subject to regulations that restrict the payment of dividends from statutory surplus and may require prior approval of their domiciliary insurance regulatory authorities. Our insurance subsidiaries are also subject to risk based capital (“RBC”) requirements that limit their ability to pay dividends to us. Our insurance subsidiaries’ statutory capital and surplus at December 31, 2018 exceeded the amount of statutory capital and surplus necessary to satisfy regulatory requirements, including the RBC requirements, by a significant margin. Our insurance subsidiaries paid \$4.0 million in dividends to us during the first half of 2019. Amounts remaining available for distribution to us as dividends from our insurance subsidiaries without prior approval of their domiciliary insurance regulatory authorities in 2019 are \$15.4 million from Atlantic States, \$4.5 million from Southern, \$2.0 million from Le Mars, \$1.7 million from Peninsula, \$1.7 million from Sheboygan and \$5.6 million from MICO, or a total of approximately \$30.9 million.

At June 30, 2019, we had no material commitments for capital expenditures.

### **Equity Price Risk**

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

### **Credit Risk**

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

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

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

### **Impact of Inflation**

We establish property and casualty insurance premium rates before we know the amount of unpaid losses and loss expenses or the extent to which inflation may impact such losses and expenses. Consequently, our insurance subsidiaries attempt, in establishing rates, to anticipate the potential impact of inflation.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

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

There have been no material changes to our quantitative or qualitative market risk exposure from December 31, 2018 through June 30, 2019.

**Item 4. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on such evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that, at June 30, 2019, our disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information we are required to disclose in the reports that we file or submit under the Exchange Act, and our disclosure controls and procedures were also effective to ensure that information we disclose in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosure.

**Changes in Internal Control Over Financial Reporting**

There has been no change in our internal control over financial reporting during the quarter covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to affect materially, our internal control over financial reporting.

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

We base all statements contained in this Quarterly Report on Form 10-Q that are not historic facts on our current expectations. Such statements are forward-looking in nature (as defined in the Private Securities Litigation Reform Act of 1995) and necessarily involve risks and uncertainties. Forward-looking statements we make may be identified by our use of words such as “will,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “seeks,” “estimates” and similar expressions. Our actual results could vary materially from our forward-looking statements. The factors that could cause our actual results to vary materially from the forward-looking statements we have previously made include, but are not limited to, adverse and catastrophic weather events, our ability to maintain profitable operations, the adequacy of the loss and loss expense reserves of our insurance subsidiaries, the availability and successful operation of the information technology systems our insurance subsidiaries utilize, the successful development of new information technology systems to allow our insurance subsidiaries to compete effectively, business and economic conditions in the areas in which we and our insurance subsidiaries operate, interest rates, competition from various insurance and other financial businesses, terrorism, the availability and cost of reinsurance, legal and judicial developments, adverse litigation and other industry trends that could increase our loss costs, changes in regulatory requirements, changes in our A.M. Best rating, our ability to integrate and manage successfully the companies we may acquire from time to time and the other risks that we describe from time to time in our filings with the SEC. We disclaim any obligation to update such statements or to announce publicly the results of any revisions that we may make to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

**Part II. Other Information**

**Item 1. Legal Proceedings.**

None.

**Item 1A. Risk Factors.**

Our business, results of operations and financial condition, and, therefore, the value of our Class A common stock and our Class B common stock, are subject to a number of risks. For a description of certain risks, we refer to “Risk Factors” in our 2018 Annual Report on Form 10-K that we filed with the SEC on March 14, 2019. There have been no material changes in the risk factors we disclosed in that Form 10-K Report during the six months ended June 30, 2019.

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

None.

**Item 3. Defaults upon Senior Securities.**

None.

**Item 4. Removed and Reserved.**

**Item 5. Other Information.**

None.

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### **Item 6. Exhibits.**

<u>Exhibit No.</u>	<u>Description</u>
Exhibit 3.1	<a href="#"><u>Certificate of Incorporation of Donegal Group Inc., as amended</u></a>
Exhibit 10.1	<a href="#"><u>Donegal Group Inc. 2019 Equity Incentive Plan for Employees</u></a>
Exhibit 10.2	<a href="#"><u>Donegal Group Inc. 2019 Equity Incentive Plan for Directors</u></a>
Exhibit 10.3	<a href="#"><u>Donegal Group Inc. 2011 Employee Stock Purchase Plan, as amended</u></a>
Exhibit 31.1	<a href="#"><u>Certification of Chief Executive Officer</u></a>
Exhibit 31.2	<a href="#"><u>Certification of Chief Financial Officer</u></a>
Exhibit 32.1	<a href="#"><u>Statement of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 of Title 18 of the United States Code</u></a>
Exhibit 32.2	<a href="#"><u>Statement of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 of Title 18 of the United States Code</u></a>
Exhibit 101.INS	XBRL Instance Document
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.PRE	XBRL Taxonomy Presentation Linkbase Document
Exhibit 101.CAL	XBRL Taxonomy Calculation Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Label Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

**Signatures**

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

**DONEGAL GROUP INC.**

August 8, 2019

**By:** /s/ Kevin G. Burke

Kevin G. Burke, President and Chief Executive Officer

August 8, 2019

**By:** /s/ Jeffrey D. Miller

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

**CERTIFICATE OF INCORPORATION  
OF  
DONEGAL GROUP INC.**

1. The name of the Corporation is Donegal Group Inc.
2. The address of its registered office is 1220 Market Street Building, Wilmington, County of New Castle, Delaware 19801. The name of its registered agent at such address is Wilmington Corporate Services, Inc.
3. The nature of the business to be conducted or promoted is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.
4. a) The aggregate number of shares which the Corporation shall have authority to issue is: Ten Million (10,000,000) shares of Common Stock of the par value of One Dollar (\$1.00) per share (the "Common Stock") and One Million (1,000,000) shares of Series Preferred Stock of the par value of One Dollar (\$1.00) per share (the "Preferred Stock").
  - (b) The Preferred Stock may be issued from time to time by the Board of Directors as herein provided in one or more series. The designations, relative rights, preferences and limitations of the Preferred Stock, and particularly of the shares of each series thereof, may, to the extent permitted by law, be similar to or may differ from those of any other series. The Board of Directors of the Corporation is hereby expressly granted authority, subject to the provisions of this Article Four, to issue from time to time Preferred Stock in one or more series and to fix from time to time before issuance thereof, by filing a certificate pursuant to the General Corporation Law, the number of shares in each such series and all designations, relative rights (including the right, to the extent permitted by law, to convert into shares of any class or into shares of any series of any class), preferences and limitations of the shares in each such series, including, but without limiting the generality of the foregoing, the following:
    - (i) The number of shares to constitute such series (which number may at any time, or from time to time, be increased or decreased by the Board of Directors, notwithstanding that shares of the series may be outstanding at the time of such increase or decrease, unless the Board of Directors shall have otherwise provided in creating such series) and the distinctive designation thereof;

(ii) The dividend rate on the shares of such series, whether or not dividends on the shares of such series shall be cumulative and the date or dates, if any, from which dividends thereon shall be cumulative;

(iii) Whether or not the shares of such series shall be redeemable, and, if redeemable, the date or dates upon or after which they shall be redeemable and the amount or amounts per share (which shall be, in the case of each share, not less than its preference upon involuntary liquidation, plus an amount equal to all dividends thereon accrued and unpaid, whether or not earned or declared) payable thereon in the case of the redemption thereof, which amount may vary at different redemption dates or otherwise as permitted by law;

(iv) The right, if any, of holders of shares of such series to convert the same into, or exchange the same for, Common Stock or other stock as permitted by law, and the terms and conditions of such conversion or exchange, as well as provisions for adjustment of the conversion rate in such events as the Board of Directors shall determine;

(v) The amount per share payable on the shares of such series upon the voluntary and involuntary liquidation, dissolution or winding up of the Corporation;

(vi) Whether the holders of shares of such series shall have voting power, full or limited, in addition to the voting powers provided by law, and, in case additional voting powers are accorded, to fix the extent thereof; and

(vii) Generally to fix the other rights and privileges and any qualifications, limitations or restrictions of such rights and privileges of such series, provided, however, that no such rights, privileges, qualifications, limitations or restrictions shall be in conflict with the Certificate of Incorporation of the Corporation or with the resolution or resolutions adopted by the Board of Directors providing for the issue of any series of which there are shares then outstanding.

(c) All shares of Preferred Stock of the same series shall be identical in all respects, except that shares of any one series issued at different times may differ as to the dates, if any, from which dividends thereon may accumulate. All shares of Preferred Stock of all series shall be of equal rank and shall be identical in all respects, except that to the extent not otherwise limited in this Article Four any series may differ from any other series with respect to any one or more of the designations, relative rights, preferences and limitations described or referred to in subparagraphs (b) (i) to (vii) inclusive of this Article Four.

(d) Dividends on the outstanding Preferred Stock of each series shall be declared and paid or set apart for payment before any dividends shall be declared and paid or set apart for payment on the Common Stock with respect to the same quarterly dividend period. Dividends on any shares of Preferred Stock shall be cumulative only if and to the extent set forth in a certificate filed pursuant to law. After dividends on all shares of Preferred Stock (including cumulative dividends if and to the extent any such shares shall be entitled thereto) shall have been declared and paid or set apart for payment with respect to any quarterly dividend period, then and not otherwise as long as any shares of Preferred Stock shall remain outstanding, dividends may be declared and paid or set apart for payment with respect to the same quarterly dividend period on the Common Stock out of the assets or funds of the Corporation legally available therefor.

(e) All shares of Preferred Stock of all series shall be of equal rank, preference and priority as to dividends irrespective of whether or not the rates of dividends to which the particular series of Preferred Stock shall be entitled shall be the same and when the stated dividends are not paid in full, the shares of all series of Preferred Stock shall share ratably in the payment thereof in accordance with the sums which would be payable on such shares if all dividends were paid in full, provided, however, that any two or more series of Preferred Stock may differ from each other as to the existence and extent of the right to cumulative dividends, as aforesaid.

(f) Except as otherwise specifically provided in the certificate filed pursuant to law with respect to any series of Preferred Stock or as otherwise provided by law, the Preferred Stock shall not have any right to vote for the election of directors or for any other purpose and the Common Stock shall have the exclusive right to vote for the election of directors and for all other purposes. Each holder of Common Stock shall be entitled to one vote for each share thereof held. In all instances in which voting rights are granted to Preferred Stock or any series thereof, such Preferred Stock or series shall vote with the Common Stock as a single class, except with respect to any vote for the approval of any merger, consolidation, liquidation or dissolution of the Corporation and except as otherwise provided in the certificate filed pursuant to law with respect to any series of Preferred Stock or as otherwise provided by law.

(g) In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, each series of Preferred Stock shall have preference and priority over the Common Stock for payment of the amount to which each outstanding series of Preferred Stock shall be entitled in accordance with the provisions thereof and each holder of Preferred Stock shall be entitled to be paid in full such amount, or have a sum sufficient for the payment in full set aside, before any payments shall be made to the holders of the Common Stock. If, upon liquidation, dissolution or winding up of the Corporation, the assets of the Corporation or the proceeds thereof, distributable among the holders of the shares of all series of Preferred Stock shall be insufficient to pay in full the preferential amount aforesaid, then such assets, or the proceeds thereof, shall be distributed

among such holders ratably in accordance with the respective amounts which would be payable if all amounts payable thereon were paid in full. After the holders of the Preferred Stock of each series shall have been paid in full the amounts to which they respectively shall be entitled, or a sum sufficient for the payment in full set aside, the remaining net assets of the Corporation shall be distributed pro rata to the holders of the Common Stock in accordance with their respective rights and interests, to the exclusion of the holders of Preferred Stock. A consolidation or merger of the Corporation with or into another corporation or corporations, or a sale, whether for cash, shares of stock, securities or properties, of all or substantially all of the assets of the Corporation, shall not be deemed or construed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this Article Four.

(h) In the event that Preferred Stock of any series shall be made redeemable as provided in subparagraph (b)(iii) of this Article Four, the Corporation, at the option of the Board of Directors, may redeem at any time or times, and from time to time, all or any part of any one or more series of Preferred Stock outstanding by paying for each share the then applicable redemption price fixed by the Board of Directors as provided herein, plus an amount equal to accrued and unpaid dividends to the date fixed for redemption, upon such notice and terms as may be specifically provided in the certificate filed pursuant to law with respect to such series of Preferred Stock.

5. The Corporation shall have the power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in

connection with such action, suit or proceeding if he acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceedings, had no reasonable cause to believe his conduct was unlawful. The termination of any action, upon a plea of nolo contendere or equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which 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 reasonable cause to believe that his conduct was unlawful.

6. The directors of the Corporation shall incur no personal liability to the Corporation or its stockholders for monetary damages for any breach of the fiduciary duty as a director; provided, however, that the directors of the Corporation shall continue to be subject to liability (i) for any breach of their duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the General Corporation Law of the State of Delaware, or (iv) for any transaction from which the directors derived an improper benefit.

7. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors, the number of members of which shall be set forth in the By-laws of the Corporation. The Directors need not be elected by ballot unless required by the By-laws of the Corporation.

8. In the furtherance and not in limitation of the objects, purposes and powers conferred by the laws of the State of Delaware, the Board of Directors is expressly authorized to make, amend and repeal the By-laws, to fix the amount to be reserved as working capital, and to authorize and cause to be executed mortgages and liens without limit as to the amount, upon the property and franchise of this Corporation.

9. The Corporation is to have perpetual existence.

10. Meetings of the stockholders may be held within or without the State of Delaware, as the By-laws may provide. The books of the Corporation may be kept, subject to any provisions contained in the statutes, outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the By-laws of the Corporation. Elections of directors need not be by written ballot unless the By-laws of the Corporation shall so provide.

11. The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

12. The name and address of the Incorporator is John L. Olsen, Esquire, c/o Duane, Morris & Heckscher, 1220 Market Street Building, P.O. Box 195, Wilmington, Delaware 19899.

13. The powers of Incorporator shall terminate upon the election of directors.

I, THE UNDERSIGNED, being the Incorporator, for the purpose of forming a corporation under the laws of the State of Delaware, do make, file and record this Certificate of Incorporation, and do hereby certify that this is my act and deed and the facts herein stated are true; and accordingly, have hereunto set my hand and seal this 26th day of August, 1986.

/s/ John L. Olsen (SEAL)  
John L. Olsen, Incorporator

**CERTIFICATE OF AMENDMENT  
OF  
CERTIFICATE OF INCORPORATION  
OF  
DONEGAL GROUP INC.  
UNDER SECTION 242 OF THE GENERAL CORPORATION  
LAW OF THE STATE OF DELAWARE**

Donegal Group Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware,

**DOES HEREBY CERTIFY THAT:**

FIRST: The Board of Directors of Donegal Group Inc. (the "Corporation"), at a meeting of the Board of Directors held on March 16, 1998 pursuant to notice duly given, duly adopted the following resolution setting forth a proposed amendment of the Certificate of Incorporation of the Corporation, declaring such amendment to be advisable and calling for a meeting of the stockholders of said Corporation for consideration thereof. The resolution setting forth the proposed amendment is as follows:

RESOLVED, that Article 4(a) of the Certificate of Incorporation of Donegal Group Inc. is hereby amended and restated to provide in full as follows:

"4. (a) The aggregate number of shares which the Corporation shall have authority to issue is: Fifteen Million shares of Common Stock of the par value of One Dollar (\$1.00) per share (the "Common Stock") and One Million shares of Series Preferred Stock of the par value of One Dollar (\$1.00) per share (the "Preferred Stock")."

SECOND: Thereafter, pursuant to a resolution of the Board of Directors, at the annual meeting of the stockholders of the Corporation held on April 16, 1998, the holders of a majority of the outstanding shares entitled to vote thereon voted in favor of the approval and adoption of the amendment.

THIRD: Such amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to be signed by Donald H. Nikolaus, its President and Chief Executive Officer, and Ralph G. Spontak, its Senior Vice President, Chief Financial Officer and Secretary, this 20th day of April, 1998.

(SEAL)

DONEGAL GROUP INC.

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

ATTEST:

By: /s/ Ralph G. Spontak  
Ralph G. Spontak,  
Senior Vice President, Chief Financial Officer and Secretary

**CERTIFICATE OF AMENDMENT  
OF  
CERTIFICATE OF INCORPORATION  
OF  
DONEGAL GROUP INC.**

**UNDER SECTION 242 OF THE GENERAL CORPORATION  
LAW OF THE STATE OF DELAWARE**

Donegal Group Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware,

**DOES HEREBY CERTIFY THAT:**

FIRST: The Board of Directors of Donegal Group Inc. (the "Corporation"), at a meeting of the Board of Directors held on March 18, 1999 pursuant to notice duly given, duly adopted the following resolutions setting forth a proposed amendment of the Certificate of Incorporation of the Corporation, declaring such amendment to be advisable and calling for a meeting of the stockholders of said Corporation for consideration thereof. The resolutions setting forth the proposed amendment are as follows:

WHEREAS, the Board of Directors declares it advisable to amend Article 4 of the Corporation's Certificate of Incorporation to (i) increase the number of authorized shares of capital stock from 16,000,000 shares, consisting of 1,000,000 shares of Series Preferred Stock and 15,000,000 shares of Common Stock, to 37,000,000 shares, consisting of 2,000,000 shares of Series Preferred Stock, 20,000,000 shares of Common Stock and 15,000,000 shares of Class A Common Stock and (ii) restate in its entirety Article 4 of the Corporation's Certificate of Incorporation as so amended; it is

RESOLVED, that Article 4 of the Certificate of Incorporation of Donegal Group Inc. is hereby amended and restated to provide in full as set forth on Exhibit A hereto; and

FURTHER RESOLVED, that the amendment to and restatement of Article 4 of the Certificate of Incorporation shall be submitted to the stockholders of the Corporation for approval in accordance with the applicable provisions of the Delaware General Corporation Law.

SECOND: Thereafter, pursuant to a resolution of the Board of Directors, at the annual meeting of the stockholders of the Corporation held on April 15, 1999, the holders of a majority of the outstanding shares entitled to vote thereon voted in favor of the approval and adoption of the amendment.

THIRD: Such amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to be signed by Donald H. Nikolaus, its President and Chief Executive Officer, and Ralph G. Spontak, its Senior Vice President, Chief Financial Officer and Secretary, this 15th day of April, 1999.

(SEAL)

DONEGAL GROUP INC.

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

ATTEST:

By: /s/ Ralph G. Spontak  
Ralph G. Spontak,  
Senior Vice President, Chief  
Financial Officer and Secretary

**EXHIBIT A**

4. The aggregate number of shares of stock which the Corporation shall have authority to issue is 37,000,000 shares, consisting of (i) 20,000,000 shares of Common Stock (the "Common Stock"), par value \$1.00 per share, (ii) 15,000,000 shares of Class A Common Stock (the "Class A Common Stock"), par value \$.01 per share, and (iii) 2,000,000 shares of Series Preferred Stock (the "Preferred Stock"), par value \$.01 per share.

(a) The Class A Common Stock may be issued from time to time by the Board of Directors as herein provided in one or more series. The designations, relative rights (including voting rights), preferences, limitations and restrictions of the Class A Common Stock, and particularly of the shares of each series thereof, may, to the extent permitted by law, be similar to or may differ from those of any other series. The Board of Directors of the Corporation is hereby expressly granted authority, subject to the provisions of this Article 4, to issue from time to time Class A Common Stock in one or more series and to fix from time to time before issuance thereof, by filing a certificate of designations pursuant to the General Corporation Law of the State of Delaware (the "GCL"), the number of shares in each such series and all designations, relative rights (including the right, to the extent permitted by law, to convert into shares of any class or into shares of any series of any class), preferences, qualifications, limitations and restrictions of the shares in each such series. Notwithstanding anything to the contrary set forth above, the powers, preferences and rights, and the qualifications, limitations and restrictions, of the Common Stock and the Class A Common Stock shall be subject to the following:

(i) Except as otherwise required by law or as otherwise provided in this Certificate of Incorporation or in a certificate of designations filed pursuant to the GCL with respect to any series of Class A Common Stock, each share of Common Stock and each share of Class A Common Stock shall be of equal rank and shall have identical powers, preferences, qualifications, limitations, restrictions and other rights, including rights in liquidation. All shares of Class A Common Stock of the same series shall be identical in all respects.

(ii) Each holder of Common Stock shall be entitled to one vote for each share of Common Stock held. Except as otherwise specifically provided in the certificate of designations filed pursuant to the GCL with respect to any series of Class A Common Stock or as otherwise provided by law, the Class A Common Stock shall not have any right to vote for the election of directors or for any other purpose and the Common Stock and, to the extent

provided in a certificate of designations filed pursuant to the GCL with respect to any series of Preferred Stock, the Preferred Stock shall have the exclusive right to vote for the election of directors and for all other purposes. In all instances in which voting rights are granted to the Class A Common Stock or any series thereof, the Class A Common Stock or series thereof shall vote with the Common Stock and, to the extent provided in a certificate of designations filed pursuant to the GCL with respect to any series of Preferred Stock, the Preferred Stock as a single class, except as otherwise provided in the certificate of designations filed pursuant to the GCL with respect to any series of Class A Common Stock or as otherwise provided by law.

(iii) Each share of Common Stock and each share of Class A Common Stock shall be equal in respect of rights to dividends and distributions, except that (A) a dividend or distribution in cash or property on a share of Class A Common Stock may be greater than a dividend or distribution in cash or property on a share of Common Stock and (B) dividends or other distributions payable on the Common Stock and the Class A Common Stock in shares of capital stock shall be made to all holders of Common Stock and Class A Common Stock and may be made (1) in shares of Common Stock to the holders of Common Stock and in shares of Class A Common Stock to the holders of Class A Common Stock, (2) in shares of Class A Common Stock to the holders of Common Stock and to the holders of Class A Common Stock or (3) in any other authorized class or series of capital stock to the holders of Common Stock and to the holders of Class A Common Stock.

(iv) Except to the extent provided in paragraph (a)(iii) of this Article 4, the Corporation shall not split, divide or combine the shares of the Common Stock or the Class A Common Stock unless, at the same time, the Corporation splits, divides or combines, as the case may be, the shares of both the Common Stock and the Class A Common Stock in the same proportion and manner.

(v) The number of authorized shares of Common Stock and the number of authorized shares of Class A Common Stock may be increased or decreased (but not below the number of shares then outstanding) by the affirmative vote of the holders of a majority of the voting power of the stock of the Corporation entitled to vote irrespective of any other voting requirements set forth in Section 242(b)(2) of the GCL, but subject in all events to compliance with the requirements of this Article 4.

(b) The Preferred Stock may be issued from time to time by the Board of Directors of the Corporation as herein provided in one or more series. The designations, relative rights (including voting rights), preferences, limitations and restrictions of the Preferred Stock, and particularly of the shares of each series thereof, may, to the extent permitted by law, be similar to or may differ from those of any other series. The Board of Directors of the Corporation is hereby expressly granted authority, subject to the provisions of this Article 4, to issue from time to time Preferred Stock in one or more series and to fix from time to time before issuance thereof, by filing a certificate of designations pursuant to the GCL, the number of shares in each such series and all designations, relative rights (including the right, to the extent permitted by law, to convert into shares of any class or into shares of any series of any class), preferences, limitations and restrictions of the shares in each such series. Notwithstanding anything to the contrary set forth above, the powers, preferences and rights, and the qualifications, limitations and restrictions, of the Preferred Stock shall be subject to the following:

(i) The number of authorized shares of the Preferred Stock may be increased or decreased (but not below the number of shares then outstanding) by the affirmative vote of the holders of a majority of the voting power of the stock of the Corporation entitled to vote irrespective of any other voting requirements set forth in Section 242(b)(2) of the GCL, but subject in all events to compliance with the requirements of this Article 4.

(ii) All shares of Preferred Stock of the same series shall be identical in all respects, except that shares of any one series issued at different times may differ as to the dates, if any, from which dividends thereon, if any, may accumulate. All shares of Preferred Stock of all series shall be of equal rank and shall be identical in all respects, except that, to the extent not otherwise limited in this Article 4, any series may differ from any other series with respect to any one or more of the designations, relative rights, preferences, limitations and restrictions set forth in a certificate of designations filed under the GCL with respect to any series.

(iii) Except as otherwise specifically provided in the certificate of designations filed pursuant to the GCL with respect to any series of Preferred Stock or as otherwise provided by law, the Preferred Stock shall not have any right to vote for the election of directors or for any other purpose and the Common Stock and, to the extent provided in a certificate of designations filed pursuant to the GCL with respect to any series of Class A Common Stock, the Class A Common Stock shall have the exclusive right to vote for the election of directors and for all other purposes. In all instances in which voting rights are granted to the Preferred Stock or any series thereof, such Preferred Stock or series thereof shall vote with the Common Stock and, to the extent provided in a certificate of designations filed pursuant to the GCL with respect to any series of Class A Common Stock, the Class A Common Stock as a single class, except as otherwise provided in the certificate of designations filed pursuant to the GCL with respect to any series of Preferred Stock or as otherwise provided by law.

(c) In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, each series of Preferred Stock shall have preference and priority over the Common Stock and the Class A Common Stock for payment of the amount to which each outstanding series of Preferred Stock shall be entitled in accordance with the provisions thereof and each holder of Preferred Stock shall be entitled to be paid in full such amount, or have a sum sufficient for the payment in full set aside, before any payments shall be made to the holders of the Common Stock and the Class A Common Stock. After the holders of the Preferred Stock of each series shall have been paid in full the amounts to which they respectively shall be entitled, or a sum sufficient for the payment in full set aside, the remaining net assets of the Corporation shall be distributed pro rata to the holders of the Common Stock and the Class A Common Stock in accordance with their respective rights and interests, to the exclusion of the holders of Preferred Stock. A consolidation or merger of the Corporation with or into another corporation or corporations, or a sale, whether for cash, shares of stock, securities or properties, of all or substantially all of the assets of the Corporation, shall not be deemed or construed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this Article 4.

**CERTIFICATE OF AMENDMENT  
OF  
CERTIFICATE OF INCORPORATION  
OF  
DONEGAL GROUP INC.**

**UNDER SECTION 242 OF THE GENERAL CORPORATION  
LAW OF THE STATE OF DELAWARE**

Donegal Group Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware,

**DOES HEREBY CERTIFY THAT:**

FIRST: The Board of Directors of Donegal Group Inc. (the "Corporation"), at a meeting of the Board of Directors held on April 6, 2001 pursuant to notice duly given, duly adopted the following resolutions setting forth a proposed amendment of the Certificate of Incorporation of the Corporation, declaring such amendment to be advisable and calling for a meeting of the stockholders of said Corporation for consideration thereof. The resolutions setting forth the proposed amendment are as follows:

WHEREAS, the Board of Directors declares it advisable to amend Article 4 of the Corporation's Certificate of Incorporation to (i) authorize 30,000,000 shares of a new class of common stock with one-tenth of a vote per share designated as Class A Common Stock; (ii) reclassify the Corporation's existing Common Stock as Class B Common Stock, effect a one-for-three reverse split of the Class B Common Stock effective as of the close of business on April 19, 2001, reduce the number of authorized shares thereof from 20,000,000 shares to 10,000,000 shares and reduce the par value thereof from \$1.00 per share to \$.01 per share, and (iii) eliminate the Corporation's existing authorization to issue 15,000,000 shares of Class A Common Stock; it is

RESOLVED, that Article 4 of the Certificate of Incorporation of Donegal Group Inc. is hereby amended to provide in full as set forth on Exhibit A hereto; and

FURTHER RESOLVED, that the amendment to Article 4 of the Certificate of Incorporation shall be submitted to the stockholders of the Corporation for approval in accordance with the applicable provisions of the Delaware General Corporation Law.

SECOND: Thereafter, pursuant to a resolution of the Board of Directors, at the annual meeting of the stockholders of the Corporation held on April 19, 2001, the holders of a majority of the outstanding shares entitled to vote thereon voted in favor of the approval and adoption of the amendment.

THIRD: The amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

FOURTH: The amendment shall be effective at 5:00 p.m. on April 19, 2001.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to be signed by Donald H. Nikolaus, its President and Chief Executive Officer, and Ralph G. Spontak, its Senior Vice President, Chief Financial Officer and Secretary, this 19th day of April, 2001.

(SEAL)

DONEGAL GROUP INC.

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

ATTEST:

By: /s/ Ralph G. Spontak  
Ralph G. Spontak,  
Senior Vice President, Chief Financial Officer and  
Secretary

## EXHIBIT A

4. The aggregate number of shares of stock which the Corporation shall have authority to issue is 42,000,000 shares, consisting of (i) 30,000,000 shares of Class A Common Stock, par value \$.01 per share (the "Class A Common Stock"), (ii) 10,000,000 shares of Class B Common Stock, par value \$.01 per share (the "Class B Common Stock"), and (iii) 2,000,000 shares of Series Preferred Stock, par value \$.01 per share (the "Preferred Stock"). At the time the Certificate of Amendment of the Corporation's Certificate of Incorporation becomes effective (the "Effective Time") pursuant to the General Corporation Law of the State of Delaware (the "DGCL"), and without any further action on the part of the Corporation or its stockholders, the Corporation's Common Stock, par value \$1.00 per share, authorized and issued immediately prior to the Effective Time (the "Old Common Stock") shall be reclassified, converted and combined into shares of Class B Common Stock at the rate of one share of Class B Common Stock for each three shares of Old Common Stock (the "Reverse Split"); provided, however, that the Corporation shall not issue certificates for any fractional shares of Class B Common Stock but, in lieu of such fractional interest, each holder of Old Common Stock who would otherwise be entitled to receive a certificate for a fraction of a share of Class B Common Stock in the Reverse Split will receive cash in an amount equal to the average of the closing sale prices of a share of Old Common Stock for the ten trading days ending on the date on which the Effective Time occurs (adjusted if necessary to reflect the per share price of the Old Common Stock without giving effect to the Reverse Split) multiplied by the number of shares of Old Common Stock held by such holder that would otherwise be exchanged for such fractional interest. At the Effective Time, the certificates representing shares of the Old Common Stock shall be deemed cancelled and shall not be recognized as outstanding on the books of the Corporation for any purpose.

(a) The powers, preferences and rights and the qualifications, limitations and restrictions of the Class A Common Stock and the Class B Common Stock, respectively, shall be as follows:

(i) Except as otherwise required by law or as otherwise provided in this Article 4, each share of Class A Common Stock and each share of Class B Common Stock shall be of equal rank and shall have identical powers, preferences, qualifications, limitations, restrictions and other rights.

(ii) Except as otherwise required by law or as otherwise provided in the Corporation's Certificate of Incorporation, with respect to all matters upon which the stockholders of the Corporation are entitled to vote, each holder of Class A Common Stock shall be entitled to one-tenth of one vote for each share of Class A Common Stock held and each holder of Class B Common Stock shall be entitled to one vote for each share of Class B Common Stock held. Except as otherwise required by the DGCL or the Corporation's Certificate of Incorporation, the holders of Class A Common Stock and the holders of Class B Common Stock shall vote together as a single class on all matters to be voted upon by the stockholders of the Corporation.

(iii) Each share of Class A Common Stock outstanding at the time of the declaration of any dividend or other distribution payable in cash upon the shares of Class B Common Stock shall be entitled to a dividend or distribution payable at the same time and to stockholders of record on the same date in an amount at least 10% greater than any dividend declared upon each share of Class B Common Stock. Each share of Class A Common Stock and Class B Common Stock shall be equal in respect to dividends or other distributions payable in shares of capital stock provided that such dividends or distributions may be made (1) in shares of Class A Common Stock to the holders of Class A Common Stock and in shares of Class B Common Stock to the holders of Class B Common Stock, (2) in shares of Class A Common Stock to the holders of Class A Common Stock and to the holders of Class B Common Stock or (3) in any other authorized class or series of capital stock to the holders of Class A Common Stock and to the holders of Class B Common Stock.

(iv) Except as otherwise specifically provided under clause (a)(iii) above, the Corporation shall not split, divide or combine the shares of Class A Common Stock or Class B Common Stock unless, at the same time, the Corporation splits, divides or combines, as the case may be, the shares of both the Class A Common Stock and the Class B Common Stock in the same proportion and manner.

(v) In the event of a merger or consolidation of the Corporation with or into another entity (whether or not the Corporation is the surviving entity), the holders of Class A Common Stock and the holders of Class B Common Stock shall be entitled to receive the same per share consideration in such merger or consolidation, except that, if the consideration paid to the stockholders of the Corporation shall consist in whole or in part of shares of another entity, the shares of such other entity issued to the holders of the Class B Common Stock may have greater voting rights than the shares of the other entity issued to the holders of the Class A Common Stock.

(b) The Preferred Stock may be issued from time to time by the Board of Directors of the Corporation as herein provided in one or more series. The designations, relative rights (including voting rights), preferences, limitations and restrictions of the Preferred Stock, and particularly of the shares of each series thereof, may, to the extent permitted by law, be similar to or may differ from those of any other series. The Board of Directors of the Corporation is hereby expressly granted authority, subject to the provisions of this Article 4, to issue from time to time Preferred Stock in one or more series and to fix from time to time before issuance thereof, by filing a certificate of designations pursuant to the DGCL, the number of shares in each such series and all designations, relative rights (including the right, to the extent permitted by law, to convert into shares of any class of capital stock or into shares of any series of any class of capital stock), preferences, limitations and restrictions of the shares in each such series. Notwithstanding anything to the contrary set forth above, the powers, preferences and rights, and the qualifications, limitations and restrictions, of the Preferred Stock shall be subject to the following:

(i) Except as otherwise specifically provided in the certificate of designations filed under the DGCL with respect to any series of Preferred Stock, the number of authorized shares of any series of Preferred Stock may be increased or decreased (but not below the number of shares then outstanding) by the affirmative vote of the holders of a majority of the voting power of the stock of the Corporation entitled to vote irrespective of any other voting requirements set forth in Section 242(b)(2) of the DGCL, but subject in all events to compliance with the requirements of this Article 4.

(ii) All shares of Preferred Stock of the same series shall be identical in all respects, except that shares of any one series issued at different times may differ as to the dates, if any, from which dividends thereon, if any, may accumulate. All shares of Preferred Stock of all series shall be of equal rank and shall be identical in all respects, except that, to the extent not otherwise limited in this Article 4, any series may differ from any other series with respect to any one or more of the designations, relative rights, preferences, limitations and restrictions set forth in a certificate of designations filed under the DGCL with respect to any series.

(iii) Except as otherwise specifically provided in the certificate of designations filed pursuant to the DGCL with respect to any series of Preferred Stock or as otherwise provided by law, the Preferred Stock shall not have any right to vote for the election of directors or for any other purpose and the Class A Common Stock and the Class B Common Stock shall have the exclusive right to vote for the election of directors and for all other purposes. In all instances in which voting rights are granted to the Preferred Stock or any series thereof, such Preferred Stock or series thereof shall vote with the Class A Common Stock and the Class B Common Stock as a single class, except as otherwise provided in the certificate of designations filed pursuant to the DGCL with respect to any series of Preferred Stock or as otherwise provided by law.

(iv) In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, each series of Preferred Stock shall have preference and priority over the Class A Common Stock and the Class B Common Stock for payment of the amount to which each outstanding series of Preferred Stock shall be entitled in accordance with the provisions thereof and each holder of Preferred Stock shall be entitled to be paid in full such amount, or have a sum sufficient for the payment thereof in full set aside, before any payments shall be made to the holders of the Class A Common Stock and the Class B Common Stock. After the holders of the Preferred Stock of each series shall have been paid in full the amounts to which they respectively shall be entitled, or a sum sufficient for the payment thereof in full set aside, the remaining net assets of the Corporation shall be distributed pro rata to the holders of the Class A Common Stock and the Class B Common Stock in accordance with their respective rights and interests, to the exclusion of the holders of Preferred Stock. A consolidation or merger of the Corporation with or into another entity, or a sale, whether for cash, shares of stock, securities or properties, of all or substantially all of the assets of the Corporation, shall not be deemed or construed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this Article 4.

**CERTIFICATE OF AMENDMENT  
OF  
CERTIFICATE OF INCORPORATION  
OF  
DONEGAL GROUP INC.**

UNDER SECTION 242 OF THE GENERAL CORPORATION  
LAW OF THE STATE OF DELAWARE

Donegal Group Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "DGCL"),

DOES HEREBY CERTIFY THAT:

FIRST: The Board of Directors (the "Board") of Donegal Group Inc. (the "Corporation"), at a meeting thereof held on March 12, 2013 pursuant to notice duly given, duly adopted the following resolutions setting forth a proposed amendment of the Certificate of Incorporation of the Corporation, declaring such amendment to be advisable and calling for consideration of the proposed amendment by the stockholders of the Corporation. The resolutions setting forth the proposed amendment are as follows:

WHEREAS, the Board declares it advisable to amend Article 4 of the Corporation's Certificate of Incorporation to (i) increase the number of authorized shares of capital stock from 42,000,000 shares, consisting of 30,000,000 shares of Class A Common Stock, 10,000,000 shares of Class B Common Stock and 2,000,000 shares of Series Preferred Stock, to 52,000,000 shares, consisting of 40,000,000 shares of Class A Common Stock, 10,000,000 shares of Class B Common Stock and 2,000,000 shares of Series Preferred Stock and (ii) restate in its entirety Article 4 of the Corporation's Certificate of Incorporation as so amended; it is

RESOLVED, that the Corporation hereby amends and restates Article 4 of the Corporation's Certificate of Incorporation so that Article 4 as amended and restated shall read in its entirety as set forth on Exhibit A to this Certificate of Amendment; and

FURTHER RESOLVED, that the Corporation shall submit the amendment to and restatement of Article 4 of the Corporation's Certificate of Incorporation to the stockholders of the Corporation for approval in accordance with the applicable provisions of the DGCL.

SECOND: Thereafter, pursuant to a resolution of the Board, at the annual meeting of the stockholders of the Corporation held on April 18, 2013, (i) the holders of a majority of the voting power of the outstanding shares of the Corporation's Class A Common Stock and Class B Common Stock entitled to vote on the proposed amendment voting together as a single class approved and adopted the amendment and (ii) the holders of a majority of the voting power of the outstanding shares of the Corporation's Class A Common Stock entitled to vote on the proposed amendment voting separately as a single class approved and adopted the amendment.

THIRD: The Corporation duly adopted the amendment in accordance with the provisions of Section 242 of the DGCL.

IN WITNESS WHEREOF, the Corporation has executed this Certificate of Amendment by Donald H. Nikolaus, its President and Chief Executive Officer, and Sheri O. Smith, its Secretary this 22nd day of April, 2013.

DONEGAL GROUP INC.

By: /s/ Donald H. Nikolaus

Donald H. Nikolaus,  
President and  
Chief Executive Officer

ATTEST:

By: /s/ Sheri O. Smith

Sheri O. Smith, Secretary

## EXHIBIT A

4. The aggregate number of shares of stock which the Corporation shall have authority to issue is 52,000,000 shares, consisting of (i) 40,000,000 shares of Class A Common Stock, par value \$.01 per share (the "Class A Common Stock"), (ii) 10,000,000 shares of Class B Common Stock, par value \$.01 per share (the "Class B Common Stock"), and (iii) 2,000,000 shares of Series Preferred Stock, par value \$.01 per share (the "Preferred Stock").

(a) The powers, preferences and rights and the qualifications, limitations and restrictions of the Class A Common Stock and the Class B Common Stock, respectively, shall be as follows:

(i) Except as otherwise required by law or as otherwise provided in this Article 4, each share of Class A Common Stock and each share of Class B Common Stock shall be of equal rank and shall have identical powers, preferences, qualifications, limitations, restrictions and other rights.

(ii) Except as otherwise required by law or as otherwise provided in the Corporation's Certificate of Incorporation, with respect to all matters upon which the stockholders of the Corporation are entitled to vote, each holder of Class A Common Stock shall be entitled to one-tenth of one vote for each share of Class A Common Stock held and each holder of Class B Common Stock shall be entitled to one vote for each share of Class B Common Stock held. Except as otherwise required by the DGCL or the Corporation's Certificate of Incorporation, the holders of Class A Common Stock and the holders of Class B Common Stock shall vote together as a single class on all matters to be voted upon by the stockholders of the Corporation.

(iii) Each share of Class A Common Stock outstanding at the time of the declaration of any dividend or other distribution payable in cash upon the shares of Class B Common Stock shall be entitled to a dividend or distribution payable at the same time and to stockholders of record on the same date in an amount at least 10% greater than any cash dividend declared upon each share of Class B Common Stock. Each share of Class A Common Stock and Class B Common Stock shall be equal in respect to dividends or other distributions payable in shares of capital stock provided that such dividends or distributions may be made (1) in shares of Class A Common Stock to the holders of Class A Common Stock and in shares of Class B Common Stock to the holders of Class B Common Stock, (2) in shares of Class A Common Stock to the holders of Class A Common Stock and to the holders of Class B Common Stock or (3) in any other authorized class or series of capital stock to the holders of Class A Common Stock and to the holders of Class B Common Stock.

(iv) Except as otherwise specifically provided under clause (a)(iii) above, the Corporation shall not split, divide or combine the shares of Class A Common Stock or Class B Common Stock unless, at the same time, the Corporation splits, divides or combines, as the case may be, the shares of both the Class A Common Stock and the Class B Common Stock in the same proportion and manner.

(v) In the event of a merger or consolidation of the Corporation with or into another entity (whether or not the Corporation is the surviving entity), the holders of Class A Common Stock and the holders of Class B Common Stock shall be entitled to receive the same per share consideration in such merger or consolidation, except that, if the consideration paid to the stockholders of the Corporation shall consist in whole or in part of shares of another entity, the shares of such other entity issued to the holders of the Class B Common Stock may have greater voting rights than the shares of the other entity issued to the holders of the Class A Common Stock.

(b) The Preferred Stock may be issued from time to time by the Board of Directors of the Corporation as herein provided in one or more series. The designations, relative rights (including voting rights), preferences, limitations and restrictions of the Preferred Stock, and particularly of the shares of each series thereof, may, to the extent permitted by law, be similar to or may differ from those of any other series. The Board of Directors of the Corporation is hereby expressly granted authority, subject to the provisions of this Article 4, to issue from time to time Preferred Stock in one or more series and to fix from time to time before issuance thereof, by filing a certificate of designations pursuant to the DGCL, the number of shares in each such series and all designations, relative rights (including the right, to the extent permitted by law, to convert into shares of any class of capital stock or into shares of any series of any class of capital stock), preferences, limitations and restrictions of the shares in each such series. Notwithstanding anything to the contrary set forth above, the powers, preferences and rights, and the qualifications, limitations and restrictions, of the Preferred Stock shall be subject to the following:

(i) Except as otherwise specifically provided in the certificate of designations filed under the DGCL with respect to any series of Preferred Stock, the number of authorized shares of any series of Preferred Stock may be increased or decreased (but not below the number of shares then outstanding) by the affirmative vote of the holders of a majority of the voting power of the stock of the Corporation entitled to vote irrespective of any other voting requirements set forth in Section 242(b)(2) of the DGCL, but subject in all events to compliance with the requirements of this Article 4.

(ii) All shares of Preferred Stock of the same series shall be identical in all respects, except that shares of any one series issued at different times may differ as to the dates, if any, from which dividends thereon, if any, may accumulate. All shares of Preferred Stock of all series shall be of equal rank and shall be identical in all respects, except that, to the extent not otherwise limited in this Article 4, any series may differ from any other series with respect to any one or more of the designations, relative rights, preferences, limitations and restrictions set forth in a certificate of designations filed under the DGCL with respect to any series.

(iii) Except as otherwise specifically provided in the certificate of designations filed pursuant to the DGCL with respect to any series of Preferred Stock or as otherwise provided by law, the Preferred Stock shall not have any right to vote for the election of directors or for any other purpose and the Class A Common Stock and the Class B Common Stock shall have the exclusive right to vote for the election of directors and for all other purposes. In all instances in which voting rights are granted to the Preferred Stock or any series thereof, such Preferred Stock or series thereof shall vote with the Class A Common Stock and the Class B Common Stock as a single class, except as otherwise provided in the certificate of designations filed pursuant to the DGCL with respect to any series of Preferred Stock or as otherwise provided by law.

(iv) In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, each series of Preferred Stock shall have preference and priority over the Class A Common Stock and the Class B Common Stock for payment of the amount to which each outstanding series of Preferred Stock shall be entitled in accordance with the provisions thereof and each holder of Preferred Stock shall be entitled to be paid in full such amount, or have a sum sufficient for the payment thereof in full set aside, before any payments shall be made to the holders of the Class A Common Stock and the Class B Common Stock. After the holders of the Preferred Stock of each series shall have been paid in full the amounts to which they respectively shall be entitled, or a sum sufficient for the payment thereof in full set aside, the remaining

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net assets of the Corporation shall be distributed pro rata to the holders of the Class A Common Stock and the Class B Common Stock in accordance with their respective rights and interests, to the exclusion of the holders of Preferred Stock. A consolidation or merger of the Corporation with or into another entity, or a sale, whether for cash, shares of stock, securities or properties, of all or substantially all of the assets of the Corporation, shall not be deemed or construed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this Article 4.

**CERTIFICATE OF AMENDMENT  
OF  
CERTIFICATE OF INCORPORATION  
OF  
DONEGAL GROUP INC.**

UNDER SECTION 242 OF THE GENERAL CORPORATION  
LAW OF THE STATE OF DELAWARE

Donegal Group Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the “DGCL”),

DOES HEREBY CERTIFY THAT:

FIRST: The Board of Directors (the “Board”) of Donegal Group Inc. (the “Corporation”), at a meeting thereof held on December 19, 2018 pursuant to notice duly given, duly adopted the following resolutions setting forth a proposed amendment of the Certificate of Incorporation of the Corporation, declaring such amendment to be advisable and calling for consideration of the proposed amendment by the stockholders of the Corporation. The resolutions setting forth the proposed amendment are as follows:

WHEREAS, the Board declares it advisable to amend Article 4 of the Corporation’s Certificate of Incorporation to (i) increase the number of authorized shares of capital stock from 52,000,000 shares, consisting of 40,000,000 shares of Class A Common Stock, 10,000,000 shares of Class B Common Stock and 2,000,000 shares of Series Preferred Stock, to 62,000,000 shares, consisting of 50,000,000 shares of Class A Common Stock, 10,000,000 shares of Class B Common Stock and 2,000,000 shares of Series Preferred Stock and (ii) restate in its entirety Article 4 of the Corporation’s Certificate of Incorporation as so amended (the “Amendment”); it is

RESOLVED, that the Corporation hereby amends and restates Article 4 of the Corporation’s Certificate of Incorporation so that Article 4 as amended and restated shall read in its entirety as set forth on Exhibit A to this Certificate of Amendment; and

FURTHER RESOLVED, that the Corporation shall submit the Amendment to and restatement of Article 4 of the Corporation's Certificate of Incorporation to the stockholders of the Corporation for approval at the 2019 annual meeting of stockholders of the Corporation in accordance with the applicable provisions of the DGCL.

SECOND: Thereafter, pursuant to a resolution of the Board, at the annual meeting of the stockholders of the Corporation held on April 18, 2019, (i) the holders of a majority of the voting power of the outstanding shares of the Corporation's Class A Common Stock and Class B Common Stock entitled to vote on the proposed amendment and restatement voting together as a single class approved and adopted the amendment and restatement and (ii) the holders of a majority of the voting power of the outstanding shares of the Corporation's Class A Common Stock entitled to vote on the proposed amendment and restatement voting separately as a single class approved and adopted the amendment and restatement.

THIRD: The Corporation duly adopted the amendment in accordance with the provisions of Section 242 of the DGCL.

IN WITNESS WHEREOF, the Corporation has executed this Certificate of Amendment by Kevin G. Burke, its President and Chief Executive Officer, and Sheri O. Smith, its Secretary, this 18th day of April, 2019.

DONEGAL GROUP INC.

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

ATTEST:

By: Sheri O. Smith  
Sheri O. Smith, Secretary

**EXHIBIT A**

4. The aggregate number of shares of stock which the Corporation shall have authority to issue is 62,000,000 shares, consisting of (i) 50,000,000 shares of Class A Common Stock, par value \$.01 per share (the "Class A Common Stock"), (ii) 10,000,000 shares of Class B Common Stock, par value \$.01 per share (the "Class B Common Stock"), and (iii) 2,000,000 shares of Series Preferred Stock, par value \$.01 per share (the "Preferred Stock").

(a) The powers, preferences and rights and the qualifications, limitations and restrictions of the Class A Common Stock and the Class B Common Stock, respectively, shall be as follows:

(i) Except as otherwise required by law or as otherwise provided in this Article 4, each share of Class A Common Stock and each share of Class B Common Stock shall be of equal rank and shall have identical powers, preferences, qualifications, limitations, restrictions and other rights.

(ii) Except as otherwise required by law or as otherwise provided in the Corporation's Certificate of Incorporation, with respect to all matters upon which the stockholders of the Corporation are entitled to vote, each holder of Class A Common Stock shall be entitled to one-tenth of one vote for each share of Class A Common Stock held and each holder of Class B Common Stock shall be entitled to one vote for each share of Class B Common Stock held. Except as otherwise required by the DGCL or the Corporation's Certificate of Incorporation, the holders of Class A Common Stock and the holders of Class B Common Stock shall vote together as a single class on all matters to be voted upon by the stockholders of the Corporation.

(iii) Each share of Class A Common Stock outstanding at the time of the declaration of any dividend or other distribution payable in cash upon the shares of Class B Common Stock shall be entitled to a dividend or distribution payable at the same time and to stockholders of record on the same date in an amount at least 10% greater than any cash dividend declared upon each share of Class B Common Stock. Each share of Class A Common Stock and Class B Common Stock shall be equal in respect to dividends or other distributions payable in shares of capital stock provided that such dividends or distributions may be made (1) in shares of Class A Common Stock to the holders of Class A Common Stock and in shares of Class B Common Stock to the holders of Class B Common

Stock, (2) in shares of Class A Common Stock to the holders of Class A Common Stock and to the holders of Class B Common Stock or (3) in any other authorized class or series of capital stock to the holders of Class A Common Stock and to the holders of Class B Common Stock.

(iv) Except as otherwise specifically provided under clause (a)(iii) above, the Corporation shall not split, divide or combine the shares of Class A Common Stock or Class B Common Stock unless, at the same time, the Corporation splits, divides or combines, as the case may be, the shares of both the Class A Common Stock and the Class B Common Stock in the same proportion and manner.

(v) In the event of a merger or consolidation of the Corporation with or into another entity (whether or not the Corporation is the surviving entity), the holders of Class A Common Stock and the holders of Class B Common Stock shall be entitled to receive the same per share consideration in such merger or consolidation, except that, if the consideration paid to the stockholders of the Corporation shall consist in whole or in part of shares of another entity, the shares of such other entity issued to the holders of the Class B Common Stock may have greater voting rights than the shares of the other entity issued to the holders of the Class A Common Stock.

(b) The Preferred Stock may be issued from time to time by the Board of Directors of the Corporation as herein provided in one or more series. The designations, relative rights (including voting rights), preferences, limitations and restrictions of the Preferred Stock, and particularly of the shares of each series thereof, may, to the extent permitted by law, be similar to or may differ from those of any other series. The Board of Directors of the Corporation is hereby expressly granted authority, subject to the provisions of this Article 4, to issue from time to time Preferred Stock in one or more series and to fix from time to time before issuance thereof, by filing a certificate of designations pursuant to the DGCL, the number of shares in each such series and all designations, relative rights (including the right, to the extent permitted by law, to convert into shares of any class of capital stock or into shares of any series of any class of capital stock), preferences, limitations and restrictions of the shares in each such series. Notwithstanding anything to the contrary set forth above, the powers, preferences and rights, and the qualifications, limitations and restrictions, of the Preferred Stock shall be subject to the following:

(i) Except as otherwise specifically provided in the certificate of designations filed under the DGCL with respect to any series of Preferred Stock, the number of authorized shares of any series of Preferred Stock may be increased or decreased (but not below the number of shares then outstanding) by the affirmative vote of the holders of a majority of the voting power of the stock of the Corporation entitled to vote irrespective of any other voting requirements set forth in Section 242(b)(2) of the DGCL, but subject in all events to compliance with the requirements of this Article 4.

(ii) All shares of Preferred Stock of the same series shall be identical in all respects, except that shares of any one series issued at different times may differ as to the dates, if any, from which dividends thereon, if any, may accumulate. All shares of Preferred Stock of all series shall be of equal rank and shall be identical in all respects, except that, to the extent not otherwise limited in this Article 4, any series may differ from any other series with respect to any one or more of the designations, relative rights, preferences, limitations and restrictions set forth in a certificate of designations filed under the DGCL with respect to any series.

(iii) Except as otherwise specifically provided in the certificate of designations filed pursuant to the DGCL with respect to any series of Preferred Stock or as otherwise provided by law, the Preferred Stock shall not have any right to vote for the election of directors or for any other purpose and the Class A Common Stock and the Class B Common Stock shall have the exclusive right to vote for the election of directors and for all other purposes. In all instances in which voting rights are granted to the Preferred Stock or any series thereof, such Preferred Stock or series thereof shall vote with the Class A Common Stock and the Class B Common Stock as a single class, except as otherwise provided in the certificate of designations filed pursuant to the DGCL with respect to any series of Preferred Stock or as otherwise provided by law.

(iv) In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, each series of Preferred Stock shall have preference and priority over the Class A Common Stock and the Class B Common Stock for payment of the amount to which each outstanding series of Preferred Stock shall be entitled in accordance with the provisions thereof and each holder of Preferred Stock shall be entitled to be paid in full such amount, or have a sum sufficient for the payment thereof in full set aside, before any payments shall be made to the holders of the Class A Common Stock and the Class B Common Stock. After the holders of the Preferred Stock of each series shall have been paid in full the amounts to which they respectively shall be entitled, or a sum sufficient for the payment thereof in full set aside, the

remaining net assets of the Corporation shall be distributed pro rata to the holders of the Class A Common Stock and the Class B Common Stock in accordance with their respective rights and interests, to the exclusion of the holders of Preferred Stock. A consolidation or merger of the Corporation with or into another entity, or a sale, whether for cash, shares of stock, securities or properties, of all or substantially all of the assets of the Corporation, shall not be deemed or construed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this Article 4.

## DONEGAL GROUP INC.

2019 EQUITY INCENTIVE PLAN FOR EMPLOYEES

1. Purpose. The purpose of this 2019 Equity Incentive Plan for Employees (this “Plan”) is to encourage the employees of Donegal Group Inc. (the “Company”), its subsidiaries and its affiliates to acquire a proprietary interest in the growth and performance of the Company, and to continue to align the interests of those employees with the interests of the Company’s stockholders to generate an increased incentive for such persons to contribute to the growth, development and financial success of the Company, Donegal Mutual Insurance Company and their respective subsidiaries and affiliates (the “Group”). To accomplish these purposes, this Plan provides a means whereby employees may receive stock options, stock awards and other stock-based awards that are based on, or measured by or payable in shares of the Company’s Class A common stock.

2. Administration.

(a) Administrators. The Board of Directors of the Company (the “Board”) shall administer this Plan. The Board shall appoint a committee, the initial members of which shall be the members of the compensation committee of the Board (the “Committee”), to assist in the administration of this Plan. The Committee, with the advice of the Company’s chief executive officer, shall recommend to the Board the employees to whom the Company should grant awards and the type, size and terms of each grant. The Board has the authority to make all other determinations necessary or advisable for the administration of this Plan. All decisions, determinations and interpretations of the Board shall be final and binding on all grantees and all other holders of awards granted under this Plan.

(b) The Committee. The Committee shall be comprised of two or more members of the Board, each of whom shall be a “non-employee director” within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934 (the “Exchange Act”). In addition, each member of the Committee shall be an “outside director” within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”). Subject to the foregoing, from time to time, the Board may increase or decrease the size of the Committee, appoint additional members, remove members with or without cause, appoint new members, fill vacancies or remove all members of the Committee and thereafter directly administer this Plan. The Committee shall have those duties and responsibilities assigned to it under this Plan, and the Board may assign to the Committee the authority to make certain other determinations and interpretations under this Plan. All decisions, determinations and interpretations of the Committee in such cases shall be final and binding on all grantees and all other holders of awards granted under this Plan.

3. Shares Subject to this Plan.

(a) Shares Authorized. The total aggregate number of shares of Class A common stock that the Company may issue under this Plan is 4,500,000 shares, subject to adjustment as described below, each of which may be granted as incentive stock options. The shares may be authorized but unissued shares or reacquired shares for purposes of this Plan.

(b) Share Counting. For administrative purposes, when the Board approves an award payable in shares of Class A common stock, the Board shall reserve, and count against the share limit, shares equal to the maximum number of shares that the Company may issue under the award. If and to the extent options granted under this Plan terminate, expire or are canceled, forfeited, exchanged or surrendered without having been exercised, and if and to the extent that any restricted stock awards are forfeited or terminated, or otherwise are not issued in full, the Company shall make the shares reserved for such awards available again for purposes of this Plan.

(c) Individual Limits. All awards under this Plan shall be expressed in shares of Class A common stock. The maximum number of shares of Class A common stock with respect to all awards that the Company may issue to any individual under this Plan during any calendar year shall be 200,000 shares, subject to adjustment as described below.

(d) Adjustments. If any change in the number or kind of shares of Class A common stock outstanding occurs by reason of:

- a stock dividend, spinoff, recapitalization, stock split or combination or exchange of shares;
- a merger, reorganization or consolidation;
- a reclassification or change in par value; or
- any other extraordinary or unusual event affecting the outstanding Class A common stock as a class without the Company's receipt of consideration for such extraordinary or unusual event or if the value of outstanding shares of Class A common stock is substantially reduced as a result of a spinoff or the Company's payment of any extraordinary dividend or distribution in cash,

the maximum number of shares of Class A common stock available for issuance under this Plan, the maximum number of shares of Class A common stock for which any individual may receive grants in any year, the kind and number of shares covered by outstanding awards, the kind and number of shares to be issued or issuable under this Plan and the price per share or applicable market value of such grants shall be automatically and equitably adjusted to reflect any increase or decrease in the number of, or change in the kind or value of, issued shares of Class A common stock to preclude, to the extent practicable, the enlargement or the dilution of rights and benefits under this Plan and such outstanding grants. The Company shall eliminate any fractional shares resulting from such adjustment. Any adjustments to outstanding awards shall be consistent with Section 409A of the Code, to the extent applicable.

4. Eligibility for Participation. All employees of member companies of the Group, including employees who are officers or members of the Board of any of the foregoing companies, shall be eligible to participate in this Plan. The Committee shall recommend to the Board from time to time the names of the employees to receive awards and the number of shares of Class A common stock subject to each award.

5. Awards. Awards under this Plan may consist of stock options as described in Section 7, stock awards as described in Section 8 and other stock-based awards as described in Section 9. The Committee shall specify the terms and conditions of the award granted to the grantee in an agreement. The award shall be conditioned upon the grantee's execution of an agreement accepting the award and acknowledging that all decisions and determinations of the Committee and the Board shall be final and binding on the grantee, the grantee's beneficiaries and any other person having or claiming an interest under the award. Awards under this Plan need not be uniform as among the grantees. The Board may grant awards that are contingent on, and subject to, stockholder approval of this Plan or of an amendment to this Plan.

6. Definition of Fair Market Value. For purposes of this Plan, "fair market value" shall mean the last sales price of a share of Class A common stock on the NASDAQ Global Select Market ("NASDAQ") on the day immediately preceding the date on which the Board determines the fair market value. In the event that there are no transactions in shares of Class A common stock on NASDAQ on such day, the Board will determine the fair market value as of the immediately preceding day on which there were transactions in shares of Class A common stock on that exchange. If shares of common stock are not listed on NASDAQ, the Board shall determine the fair market value pursuant to Section 422 of the Code.

7. Stock Options. The Committee may recommend to the Board the grant of stock options to an employee upon such terms and conditions as the Committee deems appropriate under this Section 7.

(a) Number of Shares Subject to a Stock Option. The Committee shall recommend the number of shares of Class A common stock that will be subject to each grant of a stock option.

(b) Type of Stock Option and Price. The Committee may recommend to the Board the grant of stock options to purchase Class A common stock that the Company intends to qualify as incentive stock options within the meaning of Section 422 of the Code, or incentive stock options, or stock options that the Company does not intend to so qualify, or non-qualified stock options. All options shall be exercisable for a term of five years from the date of grant at a price equal to the closing market value of a share of Class A common stock on the day before the date of the grant.

(c) Exercisability of Stock Options. Each stock option agreement shall specify the period or periods of time within which a grantee may exercise a stock option, in whole or in part, as the Board determines. No grantee may exercise a stock option after five years from the grant date of the stock option. The Board may accelerate the exercisability of any or all outstanding stock options at any time for any reason.

(d) Termination of Employment. Except as provided in the stock option agreement, a grantee may exercise a stock option only while a member company of the Group employs the grantee. The Board shall specify in the option agreement under what circumstances and during what time periods a grantee may exercise a stock option after employment terminates. If the term of an incentive stock option continues for more than three months after employment terminates due to retirement or more than one year after termination of employment due to death or disability, the stock option shall lose its status as an incentive stock option and the Company shall treat such stock option as a non-qualified stock option.

(e) Exercise of Stock Options. A grantee may exercise a stock option that has become exercisable, in whole or in part, by delivering a notice of exercise to the Company. The grantee shall pay the exercise price for the stock option:

- in cash;
- by delivery of shares of Class A common stock at fair market value, shares of Class B common stock at fair market value or a combination of those shares, as the Committee or the Board may determine from time to time and subject to such terms and conditions as the Committee or the Board may prescribe;
- by payment through a brokerage firm of national standing whereby the grantee will simultaneously exercise the stock option and sell the shares acquired upon exercise through the brokerage firm and the brokerage firm shall remit to the Company from the proceeds of the sale of the shares the exercise price as to which the option has been exercised in accordance with the procedures permitted by Regulation T of the Federal Reserve Board; or
- by any other method the Committee or the Board authorizes.

The Company must receive payment for the shares acquired upon exercise of the stock option, and any required withholding taxes and related amounts, by the time the Committee specifies depending on the type of payment being made, but in all cases prior to the issuance and delivery of the shares to the grantee.

(f) Incentive Stock Options. The Company may issue each of the shares authorized under this Plan pursuant to incentive stock option awards within the meaning of Section 422 of the Code. The Committee shall recommend other terms and conditions of an incentive stock option as the Committee deems necessary or desirable in order to qualify such stock option as an incentive stock option under Section 422 of the Code, including the following provisions, which the Committee may omit or modify if no longer required under Section 422 of the Code:

- As determined as of the grant date, the aggregate fair market value of shares subject to incentive stock options that first become exercisable by a grantee during any calendar year under all plans of the Company shall not exceed \$100,000;
- The exercise price of any incentive stock option granted to an individual who owns stock having more than 10% of the total combined voting power of all outstanding shares of all classes of stock of the Company must be at least 110% of the fair market value of the shares subject to the incentive stock option on the grant date, and the individual may not exercise the incentive stock option after the expiration of five years from the date of grant; and

- The grantee may not exercise the incentive stock option more than three months after termination of employment or one year in the case of death or disability within the meaning of the applicable Code provisions.

8. Stock Awards. The Committee may recommend to the Board the issuance of shares of Class A common stock to an employee upon such terms and conditions as the Committee deems appropriate under this Section 8. The Committee may recommend to the Board the issuance of shares of Class A common stock for cash consideration or for no cash consideration, and subject to restrictions or no restrictions. The Committee may recommend conditions under which restrictions on stock awards shall lapse over a period of time or according to other criteria as the Committee deems appropriate, including restrictions based upon the achievement of specific performance goals.

(a) Number of Shares Subject to a Stock Award. The Committee shall recommend the number of shares of Class A common stock to be issued pursuant to a stock award and any restrictions applicable to the stock award.

(b) Requirement of Service. The Board shall specify in the stock award agreement under what circumstances a grantee may retain stock awards after termination of the grantee's employment and under what circumstances the grantee must forfeit the stock awards.

(c) Restrictions on Transfer. During the period that the stock award is subject to restrictions, a grantee may not sell, assign, transfer, pledge or otherwise dispose of the shares subject to the stock award except upon death as described in Section 13. Each certificate representing a share of Class A common stock issued under a stock award shall contain a legend giving appropriate notice of the transfer restrictions on the stock award. The grantee shall have the right to have the legend removed when all transfer restrictions on the shares subject to the stock award have lapsed. The Company may maintain possession of any certificates representing shares subject to the stock award until all transfer restrictions on the shares subject to a stock award have lapsed.

(d) Right To Vote and To Receive Dividends. The grantee shall have the right to vote the shares subject to the stock award and to receive any dividends or other distributions paid on the shares during the restriction period.

9. Other Stock-Based Awards. The Committee may recommend to the Board the grant of other awards that are based on, measured by or payable in Class A common stock to an employee on such terms and conditions as the Committee deems appropriate under this Section 9. The Committee may recommend to the Board the grant of other stock-based awards subject to achievement of performance goals or other conditions and may be payable in shares of Class A common stock or cash, or a combination of cash and shares of Class A common stock, as the Committee recommends in the stock-based award agreement.

10. Grant Date. The grant date of an award under this Plan shall be the date of the Board of Directors approval or such later date as the Board may determine at the time it authorizes the award. The Board may not make retroactive grants of awards under this Plan. The Company shall provide notice of the award to the grantee within a commercially reasonable time after the grant date.

11. Withholding. All grants under this Plan shall be subject to applicable federal taxes, including FICA, and state and local tax withholding requirements. The Company may require that the grantee or other person receiving or exercising a grant pay to the Company the amount of any federal taxes, state or local taxes that applicable law requires the Company to withhold with respect to the grant, or the Company may deduct from other salary paid to the grantee the amount of any withholding taxes due with respect to the grants. The Board or

the Committee may permit a grantee to elect to satisfy the Company's tax withholding obligations with respect to grants paid in shares of Class A common stock by having shares of Class A common stock withheld, at the time such grants become taxable, up to an amount that does not exceed the minimum applicable withholding tax rate for federal, including FICA, state and local tax liabilities. The Board or the Committee will value any shares so withheld as of the date the grants become taxable.

12. Transferability of Grants. Only the grantee of an award may exercise rights under the award during the grantee's lifetime, and a grantee may not transfer those rights except by will or by the laws of descent and distribution. When a grantee dies, the personal representative or other person entitled to succeed to the rights of the grantee may exercise those rights. Any successor to a grantee must furnish proof satisfactory to the Company of the grantee's right to succeed to the award under the grantee's will or under the applicable laws of descent and distribution.

13. Requirements for Issuance of Shares. The Company shall not issue shares of Class A common stock in connection with any award under this Plan until and unless the issuance of the shares complies with all applicable legal requirements to the satisfaction of the Board. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which the Company's counsel has deemed such authority to be necessary to the lawful issuance and sale of any shares under this Plan, shall relieve the Company of any liability for the failure to issue or sell any shares as to which the Company has not obtained such requisite authority. The Board shall have the right to condition any award made to any employee under this Plan on the employee's undertaking in writing to comply with the restrictions on the grantee's subsequent disposition of shares subject to the award as the Board shall deem necessary or advisable. Certificates representing shares of Class A common stock issued under this Plan shall be subject to such stop-transfer orders and other restrictions as applicable laws, regulations and interpretations may require, including any requirement that the certificate bear a restrictive legend. No grantee shall have any right as a stockholder with respect to shares of Class A common stock covered by an award until shares have been issued to the grantee.

14. Amendment and Termination of this Plan.

(a) Amendments. The Board may amend or terminate this Plan at any time, except that the Board shall not amend this Plan without approval of the stockholders of the Company if the Code or applicable laws require such approval or to comply with applicable stock exchange requirements. The Board may not, without the consent of the grantee, negatively affect the rights of a grantee under any award previously granted under this Plan.

(b) No Repricing Without Stockholder Approval. The Board may not reprice stock options nor may the Board amend this Plan to permit repricing of options unless the stockholders of the Company provide prior approval of the repricing.

(c) Termination. This Plan shall terminate on April 18, 2024, unless the Board terminates this Plan earlier or extends the term of this Plan with the approval of the stockholders of the Company. The termination of this Plan shall not impair the power and authority of the Board or the Committee with respect to an outstanding award.

15. Grants in Connection with Corporate Transactions and Otherwise. Nothing contained in this Plan shall be construed to:

- limit the right of the Board to grant awards under this Plan in connection with the acquisition, by purchase, lease, merger, 100% reinsurance, consolidation or otherwise, of the business or assets of any corporation, firm or association, including awards to employees of those entities who become employees of the Company, or for other proper corporate purposes; or
- limit the right of the Company to grant stock options or make other stock-based awards outside of this Plan.

Without limiting the foregoing, the Board may grant an award to an employee of another corporation or other entity who becomes an employee by reason of a merger, consolidation, acquisition of stock or property, reorganization or liquidation involving the Company in substitution for a grant made by that corporation or other entity. The terms and conditions of the awards may vary from the terms and conditions this Plan requires and from those of the substituted stock awards, as the Board determines.

16. Right to Terminate Employment. Nothing contained in this Plan or in any award agreement entered into pursuant to this Plan shall confer upon any grantee the right to continue in the employment of any member company of the Group or affect any right that any member company of the Group may have to terminate the employment of the grantee.

17. Reservation of Shares. The Company, during the term of this Plan, shall at all times reserve and keep available the number of shares of Class A common stock needed to satisfy options and awards granted under this Plan.

18. Effect on Other Plans. Participation in this Plan shall not affect an employee's eligibility to participate in any other benefit or incentive plan of any member company of the Group. The Company shall not use any awards granted pursuant to this Plan in determining the benefits provided under any other plan unless specifically provided.

19. Forfeiture for Dishonesty. Notwithstanding anything to the contrary in this Plan, if the Board finds, by a majority vote, after full consideration of the facts presented on behalf of both the Company and any grantee, that the grantee has engaged in fraud, embezzlement, theft, commission of a felony or dishonest conduct in the course of the employee's employment that damaged any member company of the Group or that the grantee has disclosed confidential information of any member company of the Group, the grantee shall forfeit all unexercised or unvested awards and all exercised or vested awards under which the Company has not yet delivered the certificates for shares that shall automatically terminate without any further action by the Board and all of such awards shall be of no further force or effect. The decision of the Board in interpreting and applying the provisions of this Section 19 shall be final. No decision of the Board, however, shall affect the finality of the discharge or termination of the grantee.

20. No Prohibition on Corporate Action. No provision of this Plan shall be construed to prevent the Company or any officer or director of the Company from taking any action the Company or such officer or director of the Company deems to be appropriate or in the Company's best interest, whether or not such action could have an adverse effect on this Plan or any awards granted under this Plan, and no grantee or grantee's estate, personal representative or beneficiary shall have any claim against the Company or any officer or director of the Company as a result of the taking of any such action.

21. Indemnification. With respect to the administration of this Plan, the Company shall indemnify each present and future member of the Committee and the Board against, and each member of the Committee and the Board shall be entitled, without further action on such member's part, to indemnity from the Company for all expenses, including the amount of judgments and the amount of approved settlements made with a view to the curtailment of costs of litigation, other than amounts paid to the Company itself, such member reasonably incurs in connection with or arising out of, any action, suit or proceeding in which the member may be involved by reason of being or having been a member of the Committee or the Board, whether or not the member continues to be such member at the time of incurring such expenses; provided, however, that this indemnity shall not include any expenses such member incurs (i) in respect of matters as to which the member shall be finally adjudged in any such action, suit or proceeding to have been guilty of gross negligence or willful misconduct in the performance of the member's duty as such member of the Committee or the Board or (ii) in respect of any matter in which any settlement is effected for an amount in excess of the amount approved by the Company on the advice of its legal counsel; and provided further that no right of indemnification under the provisions set forth in this Section 21 shall be available to or enforceable by any such member of the Committee or the Board unless,

within 60 days after institution of any such action, suit or proceeding, the member shall have offered the Company in writing the opportunity to represent the member of the Committee or the Board and defend the same at its own expense. The foregoing right of indemnification shall inure to the benefit of the heirs, executors or administrators of each such member of the Committee or the Board and shall be in addition to all other rights to which such member of the Committee or the Board may be entitled as a matter of law, contract or otherwise.

22. Miscellaneous Provisions.

(a) Compliance with Plan Provisions. No grantee or other person shall have any right with respect to this Plan, the Class A common stock reserved for issuance under this Plan or in any award granted pursuant to this Plan until the Company and the grantee have executed a written agreement and all the terms, conditions and provisions of this Plan and the award applicable to the grantee have been met.

(b) Approval of Counsel. In the discretion of the Board, no shares of Class A common stock, other securities or property of the Company or other forms of payment shall be issued under this Plan with respect to any award unless counsel for the Company is satisfied that such issuance will be in compliance with applicable federal, state, local and foreign legal, securities exchange and other applicable requirements.

(c) Compliance with Rule 16b-3. To the extent that Rule 16b-3 under the Exchange Act applies to this Plan or to awards granted under this Plan, it is the intention of the Company that this Plan comply in all respects with the requirements of Rule 16b-3, that any ambiguities or inconsistencies in construction of this Plan be interpreted to give effect to such intention and that, if this Plan shall not so comply, whether on the date of adoption or by reason of any later amendment to or interpretation of Rule 16b-3, the provisions of this Plan shall be deemed to be automatically amended so as to bring them into full compliance with Rule 16b-3.

(d) Section 409A Compliance. This Plan is intended to comply with the requirements of Section 409A of the Code and the regulations issued thereunder. To the extent of any inconsistencies of this Plan with the requirements of Section 409A, the Committee and the Board shall interpret this Plan in order to meet the requirements of Section 409A. Notwithstanding anything contained in this Plan to the contrary, it is the intent of the Company to have this Plan interpreted and construed to comply with any and all provisions of Section 409A including any subsequent amendments, rulings or interpretations from appropriate governmental agencies.

(e) Effects of Acceptance of the Award. By accepting any award or other benefit under this Plan, each grantee and each person claiming under or through the grantee shall be conclusively deemed to have indicated his acceptance and ratification of, and consent to, any action taken under this Plan by the Company, the Board or the Committee.

## DONEGAL GROUP INC.

2019 EQUITY INCENTIVE PLAN FOR DIRECTORS

1. Purpose. The purpose of this 2019 Equity Incentive Plan for Directors (this “Plan”) is to enhance the ability of Donegal Group Inc. (the “Company”) and Donegal Mutual Insurance Company (“Donegal Mutual,” and together with the respective subsidiaries and affiliates of the Company and Donegal Mutual, the “Group”) to attract and retain highly qualified directors, to establish a basis for providing a portion of director compensation in the form of equity and, in doing so, to strengthen the alignment of the interests of the directors of the members of the Group with the interests of the Company’s stockholders.

2. Administration.

(a) Administration by the Board. The Board of Directors of the Company (the “Board”) shall administer this Plan.

(b) Duty and Powers of the Board. The Board shall have the power to interpret this Plan and the awards granted under this Plan and to adopt rules for the administration, interpretation and application of this Plan. The Board shall have the discretion to determine to whom the Company will grant stock options and to determine the number of stock options the Company will grant to any director, the timing of the grant and the terms of exercise. The Board shall not have any discretion to determine to whom the Company will grant restricted stock awards under this Plan.

(c) Compensation; Professional Assistance; Good Faith Actions. Members of the Board shall not receive any compensation for their services in administering this Plan. The Company shall pay all expenses and liabilities incurred in connection with the administration of this Plan. The Company may employ attorneys, consultants, accountants or other experts. The Board, the Company, Donegal Mutual and the officers and directors of the Company and Donegal Mutual shall be entitled to rely upon the advice, opinions or valuations of any such experts. All actions taken and all interpretations and determinations the Board makes in good faith with respect to this Plan shall be final and binding upon all grantees, the Group and all other interested persons. No member of the Board shall be personally liable for any action, determination or interpretation the Board makes in good faith with respect to this Plan, and the Company shall fully protect and indemnify all members of the Board in respect to any such action, determination or interpretation.

3. Shares Subject to this Plan.

(a) Shares Authorized. The shares of stock issuable pursuant to awards granted under this Plan shall be shares of the Company’s Class A common stock. The total aggregate number of shares of Class A common stock that the Company may issue under this Plan is 500,000 shares, subject to adjustment as described below. The shares may be authorized but unissued shares or reacquired shares for purposes of this Plan.

(b) Share Counting. For administrative purposes, when the Board approves an award payable in shares of Class A common stock, the Board shall reserve, and count against the share limit, shares equal to the maximum number of shares that the Company may issue under the award. If and to the extent options or awards granted under this Plan terminate, expire or are canceled, forfeited, exchanged or surrendered without having been exercised, and if and to the extent that any restricted stock awards are forfeited or terminated, or otherwise are not paid in full, the Company shall make the shares reserved for such options and awards available again for purposes of this Plan.

(c) Individual Limits. All awards under this Plan shall be expressed in shares of Class A common stock. The maximum number of shares of Class A common stock with respect to all awards that the Company may issue to any director under this Plan during any calendar year shall be 15,000 shares, subject to adjustment as described below.

- (d) Adjustments. If any change in the number or kind of shares of Class A common stock outstanding occurs by reason of:
- a stock dividend, spinoff, recapitalization, stock split or combination or exchange of shares;
  - a merger, reorganization or consolidation;
  - a reclassification or change in par value; or
  - any other extraordinary or unusual event affecting the outstanding Class A common stock as a class without the Company's receipt of consideration, or if the value of the outstanding shares of Class A common stock is substantially reduced as a result of a spinoff or the Company's payment of any extraordinary dividend or distribution in cash,

the maximum number of shares of Class A common stock available for issuance under this Plan, the maximum number of shares of Class A common stock for which any individual may receive grants in any year, the kind and number of shares covered by outstanding awards, the kind and number of shares to be issued or issuable under this Plan and the price per share or applicable market value of such grants shall be automatically and equitably adjusted to reflect any increase or decrease in the number of, or change in the kind or value of, issued shares of Class A common stock to preclude, to the extent practicable, the enlargement or dilution of rights and benefits under this Plan and such outstanding grants. Any fractional shares resulting from such adjustment shall be eliminated. Any adjustments to outstanding awards shall be consistent with Section 409A of the Internal Revenue Code of 1986, as amended, or the Code, to the extent applicable.

4. Eligibility for Participation. Each director of the Company and each director of a member of the Group who is not eligible to receive stock options under the Company's Equity Incentive Plan for Employees shall be eligible to receive stock options under this Plan. Each director of the Company and each director of the member companies of the Group shall be eligible to receive restricted stock awards under this Plan.

5. Awards. Awards under this Plan may consist of stock options as described in Section 7 and restricted stock awards as described in Section 8. Each award shall be evidenced by a written agreement between the Company and the grantee.

6. Definition of Fair Market Value. For purposes of this Plan, "fair market value" shall mean the last sales price of a share of Class A common stock on the NASDAQ Global Select Market ("NASDAQ") on the day immediately preceding the date on which the Board determines the fair market value of a share of Class A common stock. In the event that there are no transactions in shares of Class A common stock on NASDAQ on such day, the Board shall determine the fair market value as of the immediately preceding day on which there were transactions in shares of Class A common stock on NASDAQ. If shares of Class A common stock are not listed by NASDAQ, the Board shall determine the fair market value pursuant to Section 422 of the Code.

7. Stock Options.

(a) Granting of Stock Options. The Board may grant stock options to an eligible director upon such terms as the Board deems appropriate under this Section 7.

(b) Type of Stock Option and Price. The Board may grant stock options to purchase Class A common stock that the Board does not intend to qualify as incentive stock options within the meaning of Section 422 of the Code. The Board shall determine the exercise price of shares of Class A common stock subject to a stock option, which shall be the closing market price of a share of Class A common stock on NASDAQ on the day before the date of the grant.

(c) Exercisability of Stock Options. Each stock option agreement shall specify the period or periods of time within which a grantee may exercise a stock option, in whole or in part, as the Board determines. No grantee may exercise a stock option after five years from the grant date of the stock option. The Board may accelerate the exercisability of any or all outstanding stock options at any time for any reason.

(d) Rights upon Termination of Service. Upon a grantee's termination of service as a director, as a result of resignation, retirement, failure to be re-elected, removal for cause or any reason other than death, the grantee shall have the right to exercise the stock option during its term within a period of three years after such termination to the extent that the stock option was exercisable at the time of termination, or within such other period and subject to such terms and conditions as the Board may specify. In the event that a grantee dies prior to the expiration of the grantee's stock option and without having fully exercised the grantee's stock option, the grantee's representative or successor shall have the right to exercise the stock option during its term within a period of one year after the grantee's death to the extent that the stock option was exercisable at the time of death, or within such other period, and subject to such terms and conditions, as the Board may specify.

(e) Exercise of Stock Options. A grantee may exercise a stock option that has become exercisable, in whole or in part, by delivering a notice of exercise to the Company. The grantee shall pay the exercise price set forth in the stock option:

- in cash;
- by delivery of shares of Class A common stock at fair market value, shares of Class B common stock at fair market value, or a combination of those shares, as the Board may determine from time to time and subject to the terms and conditions as the Board may prescribe;
- by payment through a brokerage firm of national standing whereby the grantee will simultaneously exercise the stock option and sell the shares acquired upon exercise through the brokerage firm and the brokerage firm shall remit to the Company from the proceeds of the sale of the shares the exercise price as to which the option has been exercised in accordance with the procedures permitted by Regulation T of the Federal Reserve Board; or
- by any other method the Board authorizes.

The Company must receive payment for the shares acquired upon exercise of the stock option, and any required withholding taxes and related amounts, by the time the Board specifies depending on the type of payment being made, but in all cases prior to the issuance of the shares issuable upon exercise of the option.

#### 8. Restricted Stock Awards.

(a) Granting of Awards. The Company shall grant each director of the Company and each director of Donegal Mutual an annual restricted stock award consisting of 500 shares of Class A common stock, except that a person who serves as a director on both boards shall receive only one annual grant. The Company shall grant the restricted stock awards on the first business day of January in each year, provided that the director served as a member of the Board or of the board of directors of Donegal Mutual during any portion of the preceding calendar year.

(b) Terms of Restricted Stock Awards. Each restricted stock award agreement shall contain such restrictions, terms and conditions as this Plan requires:

- The grantee may not sell or otherwise transfer the shares of Class A common stock comprising the restricted stock award until one year after the date of grant. Although the Company shall register the shares of Class A common stock comprising each restricted stock award in the name of the grantee, the Company reserves the right to place a restrictive legend on the stock certificate. None of such shares of Class A common stock shall be subject to forfeiture.
- Subject to the restrictions on transfer set forth in this Section 8(b), a grantee shall have all the rights of a stockholder with respect to the shares of Class A common stock the Company issues pursuant to restricted stock awards made under this Plan, including the right to vote the shares and to receive all dividends and other distributions paid or made with respect to the shares.

- In the event of changes in the Class A common stock of the Company by reason of stock dividends, split-ups or combinations of shares, reclassifications, mergers, consolidations, reorganizations or liquidations while the shares comprising a restricted stock award shall be subject to restrictions on transfer, any and all new, substituted or additional securities to which the grantee shall be entitled by reason of the ownership of a restricted stock award shall be subject immediately to the terms, conditions and restrictions of this Plan.
- If a grantee receives rights or warrants with respect to any shares comprising a restricted stock award, the grantee may hold, exercise, sell or otherwise dispose of such rights or warrants or any shares or other securities acquired by the exercise of such rights or warrants free and clear of the restrictions and obligations set forth in this Plan.

9. Date of Grant. The grant date of a stock option under this Plan shall be the date of the Board's approval or such later date as the Board determines at the time it authorizes the grant. The Board may not make retroactive grants of stock options under this Plan. The Company shall provide notice of the grant to the grantee within a commercially reasonable time after the grant date.

10. Requirements for Issuance of Shares. The Company will not issue shares of Class A common stock in connection with any award under this Plan until the issuance of the shares complies with all of the applicable legal requirements to the commercially reasonable satisfaction of the Board. The Board shall have the right to condition any award made to any director on the director's undertaking in writing to comply with the restrictions on the director's subsequent disposition of shares subject to the award as the Board shall deem necessary or advisable, and certificates representing those shares may be legended to reflect any such restrictions. Certificates representing shares of Class A common stock issued under this Plan will be subject to such stop-transfer orders and other restrictions as applicable laws, regulations and interpretations may require, including any requirement that a legend be placed on the certificate.

11. Withholding. The Company shall have the right to require the grantee to remit to the Company an amount sufficient to satisfy any federal, state or local withholding tax requirements prior to the delivery of any certificate for shares of Class A common stock. If and to the extent the Board authorizes, in its sole discretion, a grantee may make an election, by means of a form of election the Board prescribes, to have shares of Class A common stock that are acquired upon exercise of a stock option withheld by the Company or to tender other shares of Class A common stock or other securities of the Company owned by the grantee to the Company at the time of exercise of a stock option to pay the amount of tax that would otherwise be required by law to be withheld by the Company. Any such election shall be irrevocable and shall be subject to termination by the Board, in its sole discretion, at any time. Any securities so withheld or tendered shall be valued by the Board as of the date of exercise.

12. Transferability of Awards. Only the grantee of an award may exercise rights under the award during the grantee's lifetime, and a grantee may not transfer those rights except by will or by the laws of descent and distribution. When a grantee dies, the personal representative or other person entitled to succeed to the rights of the grantee may exercise those rights. Any successor to a grantee must furnish proof satisfactory to the Company of the successor's right to receive the award under the grantee's will or under the applicable laws of descent and distribution. Except as stated in this Section 12, no stock option or interest therein and, for a period of one year after the date of grant, no restricted stock award or any interest therein, shall be subject to the debts, contracts or engagements of the grantee or the grantee's successors in interest, nor shall they be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means, whether such disposition is voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings, including bankruptcy, and any attempted disposition thereof shall be null and void and of no effect.

13. Amendment and Termination of this Plan.

(a) Amendments. The Board may amend or terminate this Plan at any time, except that the Board shall not amend this Plan without approval of the stockholders of the Company if such approval is required in order to comply with the Code or applicable laws, or to comply with applicable stock exchange requirements. The Board may not, without the consent of the grantee, negatively affect the rights of a grantee under any award previously granted under this Plan.

(b) No Repricing Without Stockholder Approval. The Board may not reprice stock options, nor may the Board amend this Plan to permit repricing of stock options unless the stockholders of the Company provide prior approval for the repricing.

(c) Termination. This Plan shall terminate on April 18, 2024, unless the Board earlier terminates this Plan or the Board extends the term with the approval of the stockholders of the Company. The termination of this Plan shall not impair the power and authority of the Board with respect to an outstanding award.

14. Reservation of Shares. The Company, during the term of this Plan, shall at all times reserve and keep available the number of shares of Class A common stock needed to satisfy the requirements of this Plan. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority the Company's counsel deems necessary to the lawful issuance and sale of any shares under this Plan, shall relieve the Company of any liability for the failure to issue any shares as to which the Company has not obtained the requisite authority.

15. No Prohibition on Corporate Action. No provision of this Plan shall be construed to prevent the Company or any officer or director of the Company from taking any action the Company or such officer or director deems appropriate or in the Company's best interest, whether or not such action could have an adverse effect on this Plan or any awards granted under this Plan, and no grantee or grantee's estate, personal representative or beneficiary shall have any claim against the Company or any officer or director of the Company as a result of the taking of the action.

16. Indemnification. With respect to the administration of this Plan, the Company shall indemnify each present and future member of the Board against, and each member of the Board shall be entitled without further action on such member's part to indemnity from the Company for, all expenses, including the amount of judgments and the amount of approved settlements made with a view to the curtailment of costs of litigation, other than amounts paid to the Company itself, reasonably incurred by such member in connection with or arising out of, any action, suit or proceeding in which the member may be involved by reason of being or having been a member of the Board, whether or not the member continues to be such member at the time of incurring such expenses; provided, however, that this indemnity shall not include any expenses incurred by any such member of the Board (i) in respect of matters as to which the member shall be finally adjudged in any such action, suit or proceeding to have been guilty of gross negligence or willful misconduct in the performance of the member's duty as a member of the Board or (ii) in respect of any matter in which any settlement is effected for an amount in excess of the amount approved by the Company on the advice of its legal counsel; and provided further that no right of indemnification under the provisions set forth in this Section 16 shall be available to or enforceable by any such member of the Board unless, within 60 days after institution of any such action, suit or proceeding, the member shall have offered the Company in writing the opportunity to represent the member and defend same at its own expense. The foregoing right of indemnification shall inure to the benefit of the heirs, executors or administrators of each such member of the Board and shall be in addition to all other rights to which such member may be entitled as a matter of law, contract or otherwise.

17. Miscellaneous Plan Provisions.

(a) Compliance with Plan Provisions. No grantee or other person shall have any right with respect to this Plan, the Class A common stock reserved for issuance under this Plan or in any award until the Company and the grantee execute a written agreement and the Company and the grantee satisfy all the applicable terms, conditions and provisions of this Plan and any award.

(b) Approval of Counsel. In the discretion of the Board, no shares of Class A common stock, other securities or property of the Company or other forms of payment shall be issued hereunder with respect to any award unless counsel for the Company shall be satisfied that such issuance will be in compliance with applicable federal, state, local and foreign legal, securities exchange and other applicable requirements.

(c) Compliance with Rule 16b-3. To the extent that Rule 16b-3 under the Securities Exchange Act of 1934, as amended, applies to awards granted under this Plan, it is the intention of the Company that this Plan comply in all respects with the requirements of Rule 16b-3, that any ambiguities or inconsistencies in construction of this Plan be interpreted to give effect to such intention and that if this Plan shall not so comply, whether on the date of adoption or by reason of any later amendment to or interpretation of Rule 16b-3, the provisions of this Plan shall be deemed to have been automatically amended so as to bring them into full compliance with that rule.

(d) Section 409A Compliance. This Plan is intended to comply with the requirements of Section 409A of the Code and the regulations issued thereunder. To the extent of any provision of this Plan is inconsistent with the requirements of Section 409A, this Plan shall be interpreted and amended in order to meet the requirements of Section 409A. Notwithstanding anything contained in this Plan to the contrary, it is the intent of the Company to have this Plan be interpreted and construed to comply with any and all provisions of Section 409A including any subsequent amendments, rulings or interpretations from appropriate governmental agencies.

(e) Effects of Acceptance of the Award. By accepting any award or other benefit under this Plan, the Company shall conclusively deem each grantee and each person claiming under or through the grantee to have indicated the grantee's acceptance and ratification of, and consent to, any action taken under this Plan by the Company, the Board or its delegates.

## DONEGAL GROUP INC.

## 2011 EMPLOYEE STOCK PURCHASE PLAN, AS AMENDED

Section 1. Purpose.

Donegal Group Inc. (the "Company") has established this 2011 Employee Stock Purchase Plan (this "Plan") for the benefit of the eligible employees of the Company, its parent, Donegal Mutual Insurance Company ("Donegal Mutual"), participating subsidiaries of the Company and of Donegal Mutual and any company from which the Company or Donegal Mutual assumes 100% quota share reinsurance.

The purpose of this Plan is to provide each eligible employee with an opportunity to acquire or increase his or her proprietary interest in the Company through the purchase of shares of the Company's Class A common stock (the "Class A common stock") at a discount from the market prices prevailing at the time of purchase. The Company intends that this Plan meet the requirements of Section 423 of the Internal Revenue Code of 1986, as amended (the "Code").

Section 2. Eligible Employees.

(a) Employees eligible to participate in this Plan ("Eligible Employees") will consist of all individuals: (i) who are full-time employees, as defined in Section 2(b) of this Plan, of the Company, Donegal Mutual, any subsidiary, as defined in Section 424 of the Code, of the Company or Donegal Mutual or any company from which the Company or Donegal Mutual assumes 100% quota share reinsurance (a "Participating Company"), and (ii) who have completed one month of employment on or prior to the date on which an Enrollment Period, as defined in Section 4 of this Plan, begins.

(b) A "full-time employee" is an employee of the Company, Donegal Mutual or any Participating Company who works or is scheduled to work at least 1,000 hours during any calendar year. The Company will consider an employee who is not scheduled to work at least 1,000 hours during a calendar year, but who in fact works at least 1,000 hours during a calendar year, a "full-time employee" once the employee is credited with at least 1,000 hours during such year.

(c) A person who is otherwise an Eligible Employee may not purchase any shares of Class A common stock under this Plan to the extent that: (i) immediately after such person purchases Class A common stock, the person would own shares of Class A common stock, including shares that would be owned if all outstanding options to purchase Common Stock such person holds were exercised, that possess 5% or more of the total combined voting power or value of all classes of stock of the Company or any subsidiary of the Company or (ii) such right would cause such person to have purchase rights under this Plan and all other stock purchase plans of the Company or any subsidiary of the Company or Donegal Mutual that meet the requirements of Section 423 of the Code, that accrue at a rate that exceeds \$25,000 of fair market value of the stock of the Company, or any subsidiary of the Company, determined at the time the right to purchase Class A common stock under this Plan is exercisable, for each calendar year in which a purchase right under this Plan is outstanding. For this purpose, a right to purchase Class A common stock accrues when such right first becomes exercisable during the calendar year, but the rate of accrual for any calendar year may in no event exceed \$25,000 of the fair market value of Class A common stock subject to the right, and the number of shares of Class A common stock under one right may not be carried over to any other right.

(d) Notwithstanding other provisions in this Plan to the contrary, any officer of the Company, Donegal Mutual or any Participating Company who is subject to Section 16 of the Securities Exchange Act of 1934 (the "Exchange Act") with respect to his or her ownership of shares of Class A common stock (a "Section 16 officer") will be subject to the restrictions and conditions set forth in Sections 7(b) and 9 of this Plan.

Section 3. Duration of Plan and Subscription Periods.

This Plan is effective as of July 1, 2011 through and including June 30, 2022. During the term of this Plan, this Plan will have 20 semi-annual "Subscription Periods." Each Subscription Period will extend from July 1 through December 31 or from January 1 through June 30, respectively, with the first Subscription Period beginning on July 1, 2011 and the last Subscription Period ending on June 30, 2022.

Section 4. Enrollment and Enrollment Period.

Enrollment for participation in this Plan will take place during the "Enrollment Period" that precedes each Subscription Period. Enrollment Periods are in effect from June 1 through June 30 and from December 1 through December 31 of each year. In addition, the Company will deem each individual who participates in the Company's 2001 Employee Stock Purchase Plan and who is an Eligible Employee as of May 31, 2011 as automatically enrolled in this Plan effective as of the first Subscription Period. Except as provided regarding automatic enrollment in this Plan as of the first Subscription Period, any person who is an Eligible Employee and who would like to participate in this Plan should file a subscription agreement during an Enrollment Period, and that eligible employee's participation in this Plan will then commence as of the commencement of the next Subscription Period. Once enrolled, an Eligible Employee will continue to participate in this Plan for each succeeding Subscription Period until such Eligible Employee terminates his or her participation, the Eligible Employee ceases to be an Eligible Employee or elects to withdraw from this Plan, this Plan expires or the Company terminates this Plan. An Eligible Employee who desires to change his or her rate of contribution may do so effective as of the beginning of the next Subscription Period by submitting a properly completed and executed enrollment form to the Company during the Enrollment Period for the next Subscription Period. An Eligible Employee who is not a Section 16 officer may also change his or her rate of contribution during a Subscription Period only pursuant to Section 7(b) of this Plan.

Section 5. Total Number of Shares Available.

The total number of shares available under this Plan is 500,000 shares of Class A common stock. Such Class A common stock may be authorized and unissued shares or previously issued shares that the Company reacquired. In the event the total number of shares available for purchase under this Plan have been purchased prior to the expiration of this Plan, the Company may terminate this Plan in accordance with Section 13 of this Plan.

Section 6. Subscription Price.

The "Subscription Price" for each share of Class A common stock subscribed for purchase under this Plan during each Subscription Period will be the lesser of (i) 85% of the fair market value of such share as determined as of the last trading day before the first day of the Enrollment Period with respect to such Subscription Period or (ii) 85% of the fair market value of such share as determined on the last trading day of such Subscription Period. The fair market value of a share will be the closing price the NASDAQ Stock Market reports for the applicable date.

Section 7. Amount of Contribution and Method of Payment.

(a) An Eligible Employee must pay the Subscription Price through a payroll deduction. The maximum payroll deduction may not be more than 10% of an Eligible Employee's Base Pay, as defined in Section 7(c) of this Plan. An Eligible Employee must authorize a minimum payroll deduction, based on such employee's Base Pay at the time of such authorization, that will enable such employee to accumulate by the end of the Subscription Period an amount sufficient to purchase at least ten shares of Class A common stock. An Eligible Employee may not make separate cash deposits toward the payment of the Subscription Price.

(b) An Eligible Employee who is not a Section 16 officer may at any time during a Subscription Period reduce the amount the Eligible Employee previously authorized the Company to deduct from his or her Base Pay, provided the reduction conforms with the minimum payroll deduction set forth in Section 7(a) of this Plan. To do so, an Eligible Employee should forward to the Company a properly completed and executed written notice setting forth the requested reduction in his or her payroll deduction. The change in payroll deduction will become effective on a prospective basis as soon as practicable after the Company receives the change notice. An Eligible Employee may change his or her payroll deduction under this Section 7(b), by forwarding to the Company a properly completed and executed written notice setting forth such reduction in his or her payroll deduction only once during any Subscription Period. Any such reduction will remain in effect for subsequent Subscription Periods, subject to compliance with Section 7(a) of this Plan, until such Eligible Employee terminates his or her participation in this Plan, the Eligible Employee ceases to be an Eligible Employee, this Plan expires or the Company terminates this Plan. A Section 16 officer may not change his or her rate of contribution during a Subscription Period.

(c) "Base Pay" means the straight-time earnings or regular salary paid to an Eligible Employee. Base Pay will not include overtime, bonuses or other items that the committee administering this Plan pursuant to Section 14 of this Plan does not consider to be regular compensation. Payroll deductions will commence with the first paycheck issued during the Subscription Period and, except as set forth in Sections 9 and 10, will continue with each paycheck throughout the entire Subscription Period, except for pay periods for which the Eligible Employee receives no compensation (*i.e.*, uncompensated personal leave, leave of absence, etc.).

#### Section 8. Purchase of Shares.

The Company will maintain a "Plan Account" on its books for recordkeeping purposes only in the name of each Eligible Employee who authorized a payroll deduction (a "participant"). At the close of each pay period, the Company will credit the amount deducted from the participant's Base Pay to the participant's Plan Account. The Company will pay no interest on any Plan Account balance in any circumstance. As of the last day of each Subscription Period, the Company will divide the amount then in the participant's Plan Account by the Subscription Price for such Subscription Period as determined pursuant to Section 6, and credit the participant's Plan Account with the number of whole shares that results. The Company will not credit fractional shares under this Plan. The Company will issue and deliver share certificates to each participant within a reasonable time thereafter. The Company will carry forward any amount remaining in a participant's Plan Account to the next Subscription Period. However, any amount the Company carries forward pursuant to this Section 8 will not reduce the amount a participant may contribute pursuant to Section 7 of this Plan during the next Subscription Period. If a participant does not accumulate sufficient funds in his or her Plan Account to purchase at least ten shares of Class A common stock during a Subscription Period, the Company will deem such participant to have withdrawn from this Plan pursuant to Section 9 of this Plan.

If the number of shares subscribed for purchase during any Subscription Period exceeds the number of shares available for purchase under this Plan, the Company will allocate the remaining shares available for purchase among all participants in proportion to their Plan Account balances, exclusive of any amounts carried forward pursuant to the preceding paragraph. If the number of shares that would be credited to any participant's Plan Account in either or both of the Subscription Periods occurring during any calendar year exceeds the limit specified in Section 2(c) of this Plan, the Company will credit the participant's Plan Account with the maximum number of shares permissible, and refund the remaining amounts to the participant in cash without interest thereon.

#### Section 9. Withdrawal from This Plan.

A participant, other than a Section 16 officer, may withdraw from this Plan at any time by giving a properly completed and executed written notice of withdrawal to the Company. As soon as practicable following the Company's receipt of a notice of withdrawal, the Company will refund the amount credited to the participant's Plan Account in cash without interest thereon. The Company will make no further payroll deductions with respect to such participant except in accordance with an authorization for a new payroll deduction filed during a

subsequent Enrollment Period in accordance with Section 4 of this Plan. A participant's withdrawal will not affect the participant's eligibility to participate during any succeeding Subscription Period. A withdrawal by a Section 16 officer, other than a withdrawal under Section 10 of this Plan, will not become effective until the Subscription Period that commences after the date the Company receives written notice of such withdrawal.

#### Section 10. Separation from Employment.

The Company will treat separation from employment for any reason, including death, disability or retirement, as defined in this Section 10, as an automatic withdrawal pursuant to Section 9 of this Plan. However, at the election of a participant who retires, or in the event of a participant's death at the election of the participant's beneficiary, any cash balance in such participant's Plan Account may be used to purchase the appropriate number of whole shares of Class A common stock at a Subscription Price determined in accordance with Section 6 of this Plan using the date of the participant's retirement or death as though it was the last day of the Subscription Period. The Company will refund in cash any cash balance in the Plan Account after such purchase to the participant, or in the event of the participant's death to the participant's beneficiary without interest thereon. As used in this Section 10, "retirement" means a termination of employment by reason of a participant's retirement at or after the participant's earliest permissible retirement date pursuant to and in accordance with his or her employer's regular retirement plan or practice.

#### Section 11. Assignment and Transfer Prohibited.

No participant may assign, pledge, hypothecate or otherwise dispose of his or her subscription or rights to subscribe under this Plan to any other person, and any attempted assignment, pledge, hypothecation or disposition will be void. However, a participant may acquire shares of Class A common stock subscribed to under this Plan in the names of the participant and another person jointly with the right of survivorship upon appropriate written notice to the Company. No subscription or right to subscribe granted to a participant under this Plan will be transferable by the participant otherwise than by will or by the laws of descent and distribution, and such subscription rights will be exercisable only by the participant during the participant's lifetime.

#### Section 12. Adjustment of and Changes in Class A Common Stock.

In the event that the outstanding shares of Class A common stock of the Company are hereafter increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company, or of another corporation, by reason of reorganization, merger, consolidation, recapitalization, reclassification, stock split-up, stock dividend, either in shares of Class A common stock or of another class of the Company's stock, spin-off or combination of shares, the committee appointed pursuant to Section 14 of this Plan will make appropriate adjustments in the aggregate number and kind of shares that are reserved for sale under this Plan.

#### Section 13. Amendment or Termination of This Plan.

The Board of Directors of the Company (the "Board") will have the right to amend, modify or terminate this Plan at any time without notice, provided that the amendment, modification or termination of this Plan does not adversely affect any participant's existing rights and provided further that, without the approval of the stockholders of the Company in accordance with applicable law and regulations, no such amendment will increase the benefits accruing to participants under this Plan, increase the total number of shares subject to this Plan, change the formula by which the price at which the shares will be sold is determined, or change the class of employees eligible to participate in this Plan.

#### Section 14. Administration.

A committee of three employees of the Company the Board appoints from time to time will administer this Plan. The committee may from time to time adopt rules and regulations for carrying out this Plan. Any interpretation or construction of any provision of this Plan by the committee will be final and conclusive on all persons absent contrary action by the Board. Any interpretation or construction of any provision of this Plan by the Board will be final and conclusive on all persons.

Section 15. Designation of Beneficiary.

A participant may file a written designation of a beneficiary who is to receive any cash credited to the participant under this Plan in the event of such participant's death prior to the delivery to the participant of such cash. A participant may change such designation of a beneficiary at any time upon written notice to the Company. Upon the death of a participant and upon the committee's receipt of proof of the participant's death and of the identity and existence of a beneficiary validly designated by the participant under this Plan, the Company will deliver such cash to such beneficiary. In the event of the death of a participant and in the absence of a beneficiary validly designated under this Plan who is living at the time of such participant's death, the Company will deliver such cash to the executor or administrator of the estate of the participant, or if, to the knowledge of the Company, the participant has not appointed such executor or administrator, the Company, in its sole discretion, may deliver such cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent, or relative is known to the Company, then to such other person as the Company may designate. No designated beneficiary will, prior to the death of the participant by whom the beneficiary has been designated, acquire any interest in the shares or cash credited to the participant under this Plan.

Section 16. Employees' Rights.

Nothing contained in this Plan will prevent the Company, Donegal Mutual or any Participating Company from terminating any employee's employment. No employee will have any rights as a stockholder of the Company by reason of participation in this Plan unless and until the Company has issued and delivered certificates to the participant representing shares of Class A common stock for which the participant has subscribed.

Section 17. Use of Funds.

The Company may use all payroll deductions it receives or holds under this Plan for any corporate purpose, and the Company will not be obligated to segregate such payroll deductions. Any account established for a participant will be for recordkeeping purposes only.

Section 18. Government Regulations.

The Company's obligation to sell and deliver Class A common stock under this Plan is subject to any prior approval or compliance that may be required to be obtained or made from or with any governmental or regulatory authority in connection with the authorization, issuance or sale of such Class A common stock.

Section 19. Titles.

Titles are provided in this Plan for convenience only and are not to serve as a basis for interpretation or construction of this Plan.

Section 20. Applicable Law.

This Plan will be construed, administered and governed in all respects under the laws of the Commonwealth of Pennsylvania and the United States of America.

Section 21. Compliance with Rule 16b-3.

To the extent that Rule 16b-3 under the Exchange Act applies to purchases made under this Plan, it is the Company's intent that this Plan comply in all respects with the requirements of Rule 16b-3, that the Company interpret any ambiguities or inconsistencies in the construction of this Plan to give effect to such intention and that if this Plan will not so comply, whether on the date of adoption or by reason of any later amendment to or interpretation of Rule 16b-3, the provisions of this Plan will be deemed to be automatically amended so as to bring them into full compliance with such rule.

Section 22. Approval of Stockholders.

Prior to June 30, 2011, the Company will submit this Plan to its stockholders for approval in accordance with applicable law and regulations. Subscriptions for the purchase of shares under this Plan will be subject to the condition that the stockholders of the Company approve this Plan prior to such date in the manner contemplated by Section 423(b)(2) of the Code. If the Company's stockholders do not approve this Plan prior to such date, this Plan will terminate, all subscriptions under this Plan will be terminated and be of no further force or effect and the Company shall promptly refund in cash, without interest, of all sums previously deducted from their compensation pursuant to this Plan.

## CERTIFICATION

I, Kevin G. Burke, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2019 of Donegal Group Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2019

/s/ Kevin G. Burke

Kevin G. Burke,  
President and Chief Executive Officer

## CERTIFICATION

I, Jeffrey D. Miller, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2019 of Donegal Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2019

/s/ Jeffrey D. Miller

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

Statement of President  
Pursuant to Section 1350 of Title 18 of the United States Code

Pursuant to Section 1350 of Title 18 of the United States Code, I, Kevin G. Burke, the President and Chief Executive Officer of Donegal Group Inc. (the "Company"), hereby certify that, to the best of my knowledge:

1. The Company's Form 10-Q Quarterly Report for the period ended June 30, 2019 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 8, 2019

/s/ Kevin G. Burke

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Kevin G. Burke,  
President and Chief Executive Officer

Statement of Chief Financial Officer  
Pursuant to Section 1350 of Title 18 of the United States Code

Pursuant to Section 1350 of Title 18 of the United States Code, I, Jeffrey D. Miller, the Executive Vice President and Chief Financial Officer of Donegal Group Inc. (the "Company"), hereby certify that, to the best of my knowledge:

1. The Company's Form 10-Q Quarterly Report for the period ended June 30, 2019 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 8, 2019

/s/ Jeffrey D. Miller

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