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

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2022
OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to .
Commission file number 0-15341

Donegal Group Inc.

(Exact name of registrant as specified in its charter)

Delaware	**23-2424711**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

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

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

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

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

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

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 26,891,301 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 October 31, 2022.

DONEGAL GROUP INC.
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Donegal Group Inc. and Subsidiaries
Consolidated Balance Sheets

	September 30, 2022	December 31, 2021
	(Unaudited)	
Assets		
Investments		
Fixed maturities		
Held to maturity, at amortized cost	$ 696,391,647	$ 668,104,568
Available for sale, at fair value	500,896,200	532,629,015
Equity securities, at fair value	46,775,667	63,419,973
Short-term investments, at cost, which approximates fair value	36,660,795	12,692,341
Total investments	1,280,724,309	1,276,845,897
Cash	26,661,329	57,709,375
Accrued investment income	9,823,949	8,214,971
Premiums receivable	181,744,555	168,862,580
Reinsurance receivable	451,846,555	455,411,009
Deferred policy acquisition costs	74,383,642	68,028,373
Deferred tax asset, net	22,690,132	6,685,619
Prepaid reinsurance premiums	165,713,125	176,935,842
Property and equipment, net	2,798,113	2,956,930
Accounts receivable - securities	3,825	2,252
Federal income taxes recoverable	9,441,203	5,290,938
Receivable from Michigan Catastrophic Claims Association	—	18,112,800
Due from affiliate	3,264,838	1,922,717
Goodwill	5,625,354	5,625,354
Other intangible assets	958,010	958,010
Other	1,172,770	1,612,732
Total assets	$ 2,236,851,709	$ 2,255,175,399
Liabilities and Stockholders' Equity		
Liabilities		
Losses and loss expenses	$ 1,108,125,594	$ 1,077,620,301
Unearned premiums	595,353,323	572,958,422
Accrued expenses	4,310,945	4,028,659
Reinsurance balances payable	3,929,410	3,946,105
Borrowings under lines of credit	35,000,000	35,000,000
Cash dividends declared to stockholders	—	4,915,268
Cash refunds due to Michigan policyholders	—	18,112,800
Other	8,929,038	7,557,757
Total liabilities	1,755,648,310	1,724,139,312
Stockholders' Equity		
Preferred stock, $0.01 par value, authorized 2,000,000 shares; none issued	—	—
Class A common stock, $0.01 par value, authorized 50,000,000 shares, issued 29,839,927 and 28,756,203 shares and outstanding 26,837,339 and 25,753,615 shares	298,400	287,562
Class B common stock, $0.01 par value, authorized 10,000,000 shares, issued 5,649,240 shares and outstanding 5,576,775 shares	56,492	56,492
Additional paid-in capital	321,363,789	304,889,481
Accumulated other comprehensive (loss) income	(46,971,052)	3,283,551
Retained earnings	247,682,127	263,745,358
Treasury stock, at cost	(41,226,357)	(41,226,357)
Total stockholders' equity	481,203,399	531,036,087
Total liabilities and stockholders' equity	$ 2,236,851,709	$ 2,255,175,399

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,	
	2022	**2021**
Revenues:		
Net premiums earned	$ 206,121,826	$ 196,234,626
Investment income, net of investment expenses	8,568,671	7,763,562
Net investment losses (includes $371,194 and $26,163 accumulated other comprehensive income reclassifications)	(2,357,634)	(1,570,476)
Lease income	91,679	107,977
Installment payment fees	413,706	570,492
Total revenues	212,838,248	203,106,181
Expenses:		
Net losses and loss expenses	155,754,256	148,142,237
Amortization of deferred policy acquisition costs	35,513,000	31,778,000
Other underwriting expenses	33,411,529	30,101,717
Policyholder dividends	1,239,154	1,287,147
Interest	71,430	209,547
Other expenses, net	218,083	217,209
Total expenses	226,207,452	211,735,857
Loss before income tax benefit	(13,369,204)	(8,629,676)
Income tax benefit (includes $77,951 and $5,494 income tax expense from reclassification items)	(2,993,333)	(1,917,698)
Net loss	$ (10,375,871)	$ (6,711,978)
Loss per common share:		
Class A common stock - basic and diluted	$ (0.33)	$ (0.22)
Class B common stock - basic and diluted	$ (0.30)	$ (0.20)

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

	Three Months Ended September 30,	
	2022	**2021**
Net loss	$ (10,375,871)	$ (6,711,978)
Other comprehensive loss, net of tax		
Unrealized loss on securities:		
Unrealized holding loss during the period, net of income tax benefit of $4,572,428 and $432,664	(17,201,046)	(1,627,641)
Reclassification adjustment for gains included in net loss, net of income tax expense of $ 77,951 and $5,494	(293,243)	(20,669)
Other comprehensive loss	(17,494,289)	(1,648,310)
Comprehensive loss	$ (27,870,160)	$ (8,360,288)

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30, 2022	2021
Revenues:		
Net premiums earned	$ 609,498,939	$ 575,974,891
Investment income, net of investment expenses	24,631,398	22,926,320
Net investment (losses) gains (includes $824,409 and $476,188 accumulated other comprehensive income reclassifications)	(10,810,594)	5,139,609
Lease income	294,529	323,782
Installment payment fees	1,161,842	1,857,420
Total revenues	624,776,114	606,222,022
Expenses:		
Net losses and loss expenses	415,245,619	381,318,636
Amortization of deferred policy acquisition costs	104,867,000	95,060,000
Other underwriting expenses	106,753,031	100,113,444
Policyholder dividends	4,176,649	4,210,667
Interest	464,188	739,163
Other expenses, net	991,671	962,278
Total expenses	632,498,158	582,404,188
(Loss) income before income tax (benefit) expense	(7,722,044)	23,817,834
Income tax (benefit) expense (includes $173,126 and $99,999 income tax expense from reclassification items)	(2,283,445)	3,835,928
Net (loss) income	$ (5,438,599)	$ 19,981,906
(Loss) earnings per common share:		
Class A common stock - basic and diluted	$ (0.17)	$ 0.66
Class B common stock - basic and diluted	$ (0.16)	$ 0.59

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

	Nine Months Ended September 30, 2022	2021
Net (loss) income	$ (5,438,599)	$ 19,981,906
Other comprehensive loss, net of tax		
Unrealized loss on securities:		
Unrealized holding loss during the period, net of income tax benefit of $13,185,692 and $1,046,983	(49,603,320)	(3,929,262)
Reclassification adjustment for gains included in net income, net of income tax expense of $173,126 and $99,999	(651,283)	(376,189)
Other comprehensive loss	(50,254,603)	(4,305,451)
Comprehensive (loss) income	$ (55,693,202)	$ 15,676,455

See accompanying notes to consolidated financial statements.

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

	Class A Shares	Class B Shares	Class A Amount	Class B Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2021	28,756,203	5,649,240	$287,562	$56,492	$ 304,889,481	$ 3,283,551	$263,745,358	$ (41,226,357)	$ 531,036,087
Issuance of common stock (stock compensation plans)	33,407	—	335	—	423,665	—	—	—	424,000
Share-based compensation	900	—	9	—	256,451	—	—	—	256,460
Net income	—	—	—	—	—	—	13,145,029	—	13,145,029
Cash dividends declared	—	—	—	—	—	—	(5,490)	—	(5,490)
Grant of stock options	—	—	—	—	98,409	—	(98,409)	—	—
Other comprehensive loss	—	—	—	—	—	(20,590,225)	—	—	(20,590,225)
Balance, March 31, 2022	28,790,510	5,649,240	$287,906	$56,492	$ 305,668,006	$ (17,306,674)	$276,786,488	$ (41,226,357)	$ 524,265,861
Issuance of common stock (stock compensation plans)	54,743	—	547	—	736,349	—	—	—	736,896
Share-based compensation	775,898	—	7,759	—	11,476,429	—	—	—	11,484,188
Net loss	—	—	—	—	—	—	(8,207,757)	—	(8,207,757)
Cash dividends declared	—	—	—	—	—	—	(5,086,617)	—	(5,086,617)
Grant of stock options	—	—	—	—	59,216	—	(59,216)	—	—
Other comprehensive loss	—	—	—	—	—	(12,170,089)	—	—	(12,170,089)
Balance, June 30, 2022	29,621,151	5,649,240	$296,212	$56,492	$ 317,940,000	$ (29,476,763)	$263,432,898	$ (41,226,357)	$ 511,022,482
Issuance of common stock (stock compensation plans)	23,454	—	235	—	270,887	—	—	—	271,122
Share-based compensation	195,322	—	1,953	—	3,013,995	—	—	—	3,015,948
Net loss	—	—	—	—	—	—	(10,375,871)	—	(10,375,871)
Cash dividends declared	—	—	—	—	—	—	(5,235,993)	—	(5,235,993)
Grant of stock options	—	—	—	—	138,907	—	(138,907)	—	—
Other comprehensive loss	—	—	—	—	—	(17,494,289)	—	—	(17,494,289)
Balance, September 30, 2022	29,839,927	5,649,240	$298,400	$56,492	$ 321,363,789	$ (46,971,052)	$247,682,127	$ (41,226,357)	$ 481,203,399

See accompanying notes to consolidated financial statements.

Donegal Group Inc. and Subsidiaries
Consolidated Statement of Stockholders' Equity
(Unaudited)
Nine Months Ended September 30, 2021

	Class A Shares	Class B Shares	Class A Amount	Class B Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2020	27,651,774	5,649,240	$276,518	$56,492	$ 289,149,567	$ 11,130,612	$258,387,288	$ (41,226,357)	$ 517,774,120
Issuance of common stock (stock compensation plans)	33,336	—	334	—	419,454	—	—	—	419,788
Share-based compensation	346,124	—	3,461	—	4,719,388	—	—	—	4,722,849
Net income	—	—	—	—	—	—	10,529,848	—	10,529,848
Cash dividends declared	—	—	—	—	—	—	(5,000)	—	(5,000)
Grant of stock options	—	—	—	—	109,184	—	(109,184)	—	—
Other comprehensive loss	—	—	—	—	—	(4,207,115)	—	—	(4,207,115)
Balance, March 31, 2021	28,031,234	5,649,240	$280,313	$56,492	$ 294,397,593	$ 6,923,497	$268,802,952	$ (41,226,357)	$ 529,234,490
Issuance of common stock (stock compensation plans)	49,613	—	496	—	730,005	—	—	—	730,501
Share-based compensation	539,019	—	5,390	—	7,313,031	—	—	—	7,318,421
Net income	—	—	—	—	—	—	16,164,036	—	16,164,036
Cash dividends declared	—	—	—	—	—	—	(4,840,629)	—	(4,840,629)
Grant of stock options	—	—	—	—	69,995	—	(69,995)	—	—
Other comprehensive income	—	—	—	—	—	1,549,974	—	—	1,549,974
Balance, June 30, 2021	28,619,866	5,649,240	$286,199	$56,492	$ 302,510,624	$ 8,473,471	$280,056,364	$ (41,226,357)	$ 550,156,793
Issuance of common stock (stock compensation plans)	24,619	—	246	—	292,302	—	—	—	292,548
Share-based compensation	54,680	—	547	—	946,004	—	—	—	946,551
Net loss	—	—	—	—	—	—	(6,711,978)	—	(6,711,978)
Cash dividends declared	—	—	—	—	—	—	(4,902,188)	—	(4,902,188)
Grant of stock options	—	—	—	—	95,569	—	(95,569)	—	—
Other comprehensive loss	—	—	—	—	—	(1,648,310)	—	—	(1,648,310)
Balance, September 30, 2021	28,699,165	5,649,240	$286,992	$56,492	$ 303,844,499	$ 6,825,161	$268,346,629	$ (41,226,357)	$ 538,133,416

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2022	2021
Cash Flows from Operating Activities:		
Net (loss) income	$ (5,438,599)	$ 19,981,906
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation, amortization and other non-cash items	3,747,654	4,492,720
Net investment losses (gains)	10,810,594	(5,139,609)
Changes in assets and liabilities:		
Losses and loss expenses	30,505,293	88,155,724
Unearned premiums	22,394,901	61,442,456
Premiums receivable	(12,881,975)	(11,948,363)
Deferred acquisition costs	(6,355,269)	(11,239,809)
Deferred income taxes	(2,645,695)	900,430
Reinsurance receivable	3,564,454	(47,742,018)
Prepaid reinsurance premiums	11,222,717	(14,935,811)
Accrued investment income	(1,608,978)	(1,170,798)
Due from affiliate	(1,342,121)	(3,979,682)
Reinsurance balances payable	(16,695)	710,021
Current income taxes	(4,150,265)	(3,267,599)
Accrued expenses	282,286	(18,768,686)
Other, net	1,811,243	973,775
Net adjustments	55,338,144	38,482,751
Net cash provided by operating activities	49,899,545	58,464,657
Cash Flows from Investing Activities:		
Purchases of fixed maturities, held to maturity	(68,902,605)	(106,290,824)
Purchases of fixed maturities, available for sale	(101,328,478)	(118,899,756)
Purchases of equity securities, available for sale	(12,488,733)	(25,354,790)
Maturity of fixed maturities:		
Held to maturity	41,194,285	31,914,527
Available for sale	60,346,490	140,908,191
Sales of fixed maturities securities, available for sale	6,568,154	6,281,963
Sales of equity securities, available for sale	17,498,036	17,391,396
Net sales of property and equipment	28,289	934,297
Net (purchases) sales of short-term investments	(23,968,454)	16,206,434
Net cash used in investing activities	(81,053,016)	(36,908,562)
Cash Flows from Financing Activities:		
Cash dividends paid	(15,243,368)	(14,184,118)
Issuance of common stock	15,348,793	13,438,245
Payment on subordinated debentures	—	(5,000,000)
Payments on lines of credit	—	(50,000,000)
Net cash provided by (used in) financing activities	105,425	(55,745,873)
Net decrease in cash	(31,048,046)	(34,189,778)
Cash at beginning of period	57,709,375	103,094,236
Cash at end of period	$ 26,661,329	$ 68,904,458
Cash paid during period - Interest	$ 464,188	$ 993,769
Net cash paid during period - Taxes	$ 4,500,000	$ 6,200,000

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"), the Peninsula Insurance Group ("Peninsula"), which consists of Peninsula Indemnity Company and The Peninsula Insurance Company and Michigan Insurance Company ("MICO"), and our affiliates write personal and commercial lines of property and casualty coverages exclusively through a network of independent insurance agents in certain Mid-Atlantic, Midwestern, New England, Southern and Southwestern states.

At September 30, 2022, we had three segments: our investment function, our commercial lines of insurance and our personal lines of insurance. The commercial lines products of our insurance subsidiaries consist primarily of commercial automobile, commercial multi-peril and workers' compensation policies. The personal lines products of our insurance subsidiaries consist primarily of homeowners and private passenger automobile policies.

At September 30, 2022, Donegal Mutual held approximately 42% of our outstanding Class A common stock and approximately 84% of our outstanding Class B common stock. This ownership provides Donegal Mutual with approximately 71% of the total voting power of our common stock. Our insurance subsidiaries and Donegal Mutual have interrelated operations due to a pooling agreement and other intercompany agreements and transactions. While each company maintains its separate corporate existence, our insurance subsidiaries and Donegal Mutual conduct business together as the Donegal Insurance Group. As such, Donegal Mutual and our insurance subsidiaries share the same business philosophy, the same management, the same employees and the same facilities and offer the same types of insurance products.

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

In addition, Donegal Mutual has a 100% quota-share reinsurance agreement with Southern Mutual Insurance Company, or Southern Mutual. Donegal Mutual places its assumed business from Southern Mutual into the underwriting pool.

Donegal Mutual completed the merger of Mountain States Mutual Casualty Company, or Mountain States, with and into Donegal Mutual effective May 25, 2017. Donegal Mutual was the surviving company in the merger, and Mountain States' insurance subsidiaries, Mountain States Indemnity Company and Mountain States Commercial Insurance Company (collectively, the "Mountain States insurance subsidiaries"), became insurance subsidiaries of Donegal Mutual upon completion of the merger. Upon completion of the merger, Donegal Mutual assumed all of the policy obligations of Mountain States and began to market its products together with the Mountain States insurance subsidiaries as the Mountain States Insurance Group in four Southwestern states. Donegal Mutual also entered into a 100% quota-share reinsurance agreement with the Mountain States insurance subsidiaries on the merger date. Beginning with policies effective in 2021, Donegal Mutual began to place the business of the Mountain States Insurance Group into the underwriting pool.

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

2 - Basis of Presentation

Our financial information for the interim periods included in this Form 10-Q Report is unaudited; however, our financial information we include in this Form 10-Q Report reflects all adjustments, consisting only of normal recurring adjustments that, in the opinion of our management, are necessary for a fair presentation of our financial position, results of operations and cash flows for those interim periods. Our results of operations for the nine months ended September 30, 2022 are not necessarily indicative of the results of operations we expect for the year ending December 31, 2022.

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, 2021.

3 - (Loss) 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 (loss) earnings per common share. The two-class method is an earnings allocation formula that determines (loss) earnings per share separately for each class of common stock based on dividends we have declared and an allocation of our remaining undistributed (loss) 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 (loss) income per share for our Class A common stock and our Class B common stock:

	Three Months Ended September 30,			
	2022		2021	
	Class A	Class B	Class A	Class B
	(in thousands, except per share data)			
Basic loss per share:				
Numerator:				
Allocation of net loss	$ (8,714)	$ (1,662)	$ (5,592)	$ (1,120)
Denominator:				
Weighted-average shares outstanding	26,781	5,577	25,676	5,577
Basic loss per share	$ (0.33)	$ (0.30)	$ (0.22)	$ (0.20)
Diluted loss per share:				
Numerator:				
Allocation of net loss	$ (8,714)	$ (1,662)	$ (5,592)	$ (1,120)
Denominator:				
Number of shares used in basic computation	26,781	5,577	25,676	5,577
Weighted-average shares effect of dilutive securities:				
Director and employee stock options	—	—	—	—
Number of shares used in diluted computation	26,781	5,577	25,676	5,577
Diluted loss per share	$ (0.33)	$ (0.30)	$ (0.22)	$ (0.20)

	Nine Months Ended September 30,			
	2022		2021	
	Class A	Class B	Class A	Class B
	(in thousands, except per share data)			
Basic (loss) earnings per share:				
Numerator:				
Allocation of net (loss) income	$ (4,529)	$ (910)	$ 16,682	$ 3,300
Denominator:				
Weighted-average shares outstanding	26,216	5,577	25,265	5,577
Basic (loss) earnings per share	$ (0.17)	$ (0.16)	$ 0.66	$ 0.59
Diluted (loss) earnings per share:				
Numerator:				
Allocation of net (loss) income	$ (4,529)	$ (910)	$ 16,682	$ 3,300
Denominator:				
Number of shares used in basic computation	26,216	5,577	25,265	5,577
Weighted-average shares effect of dilutive securities:				
Director and employee stock options	—	—	179	—
Number of shares used in diluted computation	26,216	5,577	25,444	5,577
Diluted (loss) earnings per share	$ (0.17)	$ (0.16)	$ 0.66	$ 0.59

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Number of options to purchase Class A shares excluded	—	—	—	4,839,910

We did not include any effect of dilutive securities in the computation of diluted (loss) earnings per share for the three and nine months ended September 30, 2022 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 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. Donegal Mutual began placing the business of the Mountain States Insurance Group into the pool beginning with policies effective in 2021.

Our insurance subsidiaries and Donegal Mutual participate in a consolidated third-party reinsurance program. The coverage and parameters of the program are common to all of our insurance subsidiaries and Donegal Mutual. The program utilizes several different reinsurers. They require their reinsurers to maintain an A.M. Best rating of A- (Excellent) or better or, with respect to foreign reinsurers, have a financial condition that, in the opinion of our management, is equivalent to a company with at least an A- rating from A.M. Best. The following information describes the external reinsurance Donegal Mutual and our insurance subsidiaries have in place for 2022:

- excess of loss reinsurance, under which Donegal Mutual and our insurance subsidiaries recover losses over a set retention of $2.0 million; and
- catastrophe reinsurance, under which Donegal Mutual and our insurance subsidiaries recover 100% of an accumulation of many losses resulting from a single event, including natural disasters, over a set retention of $15.0 million up to aggregate losses of $185.0 million per occurrence.

For property insurance, our insurance subsidiaries have excess of loss reinsurance that provide for coverage of $38.0 million per loss over a set retention of $2.0 million. For liability insurance, our insurance subsidiaries have excess of loss reinsurance that provide for coverage of $73.0 million per occurrence over a set retention of $2.0 million. For workers' compensation insurance, our insurance subsidiaries have excess of loss reinsurance that provide for coverage of $18.0 million on any one life over a set retention of $2.0 million.

In addition to the pooling agreement and third-party reinsurance, our insurance subsidiaries have a catastrophe reinsurance agreement with Donegal Mutual, under which each of our insurance subsidiaries recovers 100% of an accumulation of multiple losses resulting from a single event, including natural disasters, over a set retention of $2.0 million up to aggregate losses of $13.0 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.

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

In order to write automobile insurance in the state of Michigan, MICO is required to be a member of the Michigan Catastrophic Claims Association ("MCCA"). The MCCA provides reinsurance to MICO for personal automobile and commercial automobile personal injury claims in the state of Michigan over a set retention. In November 2021, the MCCA approved the return of approximately $3.0 billion of its estimated surplus to its member insurance companies and provided guidance to those companies with respect to the payment of refunds to Michigan policyholders in the first half of 2022. We recorded a receivable from the MCCA and a corresponding payable for cash refunds due to Michigan policyholders in the amount of $18.1 million on our balance sheet as of December 31, 2021. In March 2022, we received such payment from the MCCA and subsequently paid the refunds due to our Michigan policyholders.

5 - Investments

The amortized cost and estimated fair values of our fixed maturities at September 30, 2022 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(in thousands)		
Held to Maturity				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 103,894	$ —	$ 11,082	$ 92,812
Obligations of states and political subdivisions	389,864	1,138	71,368	319,634
Corporate securities	189,799	—	23,743	166,056
Mortgage-backed securities	12,835	—	748	12,087
Totals	$ 696,392	$ 1,138	$ 106,941	$ 590,589

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(in thousands)		
Available for Sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 48,343	$ —	$ 5,455	$ 42,888
Obligations of states and political subdivisions	50,777	28	6,929	43,876
Corporate securities	227,827	5	16,820	211,012
Mortgage-backed securities	228,642	—	25,522	203,120
Totals	$ 555,589	$ 33	$ 54,726	$ 500,896

At September 30, 2022, our holdings of obligations of states and political subdivisions included general obligation bonds with an aggregate fair value of $234.3 million and an amortized cost of $286.8 million. Our holdings at September 30, 2022 also included special revenue bonds with an aggregate fair value of $129.2 million and an amortized cost of $153.8 million. With respect to both categories of those bonds at September 30, 2022, 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 47% and 37%, respectively, of our total investments in special revenue bonds based on the carrying values of these investments at September 30, 2022. Many of the issuers of the special revenue bonds we held at September 30, 2022 have the authority to impose ad valorem taxes. In that respect, many of the special revenue bonds we held at September 30, 2022 are similar to general obligation bonds.

The amortized cost and estimated fair values of our fixed maturities at December 31, 2021 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(in thousands)		
Held to Maturity				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 89,268	$ 1,923	$ 1,015	$ 90,176
Obligations of states and political subdivisions	371,436	17,857	948	388,345
Corporate securities	191,147	11,576	773	201,950
Mortgage-backed securities	16,254	676	—	16,930
Totals	$ 668,105	$ 32,032	$ 2,736	$ 697,401

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(in thousands)		
Available for Sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 32,501	$ 144	$ 461	$ 32,184
Obligations of states and political subdivisions	55,459	2,002	83	57,378
Corporate securities	215,669	6,817	874	221,612
Mortgage-backed securities	219,664	3,001	1,210	221,455
Totals	$ 523,293	$ 11,964	$ 2,628	$ 532,629

At December 31, 2021, our holdings of obligations of states and political subdivisions included general obligation bonds with an aggregate fair value of $284.9 million and an amortized cost of $272.7 million. Our holdings also included special revenue bonds with an aggregate fair value of $160.8 million and an amortized cost of $154.2 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, 2021. Education bonds and water and sewer utility bonds represented 48% and 35%, respectively, of our total investments in special revenue bonds based on their carrying values at December 31, 2021. Many of the issuers of the special revenue bonds we held at December 31, 2021 have the authority to impose ad valorem taxes. In that respect, many of the special revenue bonds we held at December 31,2021 are similar to general obligation bonds.

We have segregated within accumulated other comprehensive (loss) income the net unrealized losses of $15.1 million arising prior to the November 30, 2013 reclassification date for fixed maturities reclassified from available for sale to held to maturity. We are amortizing this balance over the remaining life of the related securities as an adjustment of yield in a manner consistent with the accretion of discount on the same fixed maturities. We recorded amortization of $ 415,153 and $738,815 in other comprehensive loss during the nine months ended September 30, 2022 and 2021, respectively. At September 30, 2022 and December 31, 2021, net unrealized losses of $4.8 million and $5.2 million, respectively, remained within accumulated other comprehensive (loss) income.

We show below the amortized cost and estimated fair value of our fixed maturities at September 30, 2022 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.

	Amortized Cost	Estimated Fair Value
	(in thousands)	
Held to maturity		
Due in one year or less	$ 35,415	$ 35,679
Due after one year through five years	84,141	80,782
Due after five years through ten years	243,912	211,985
Due after ten years	320,089	250,056
Mortgage-backed securities	12,835	12,087
Total held to maturity	$ 696,392	$ 590,589
Available for sale		
Due in one year or less	$ 17,077	$ 16,946
Due after one year through five years	166,510	155,243
Due after five years through ten years	112,426	100,226
Due after ten years	30,934	25,361
Mortgage-backed securities	228,642	203,120
Total available for sale	$ 555,589	$ 500,896

The cost and estimated fair values of our equity securities at September 30, 2022 were as follows:

	Cost	Gross Gains	Gross Losses	Estimated Fair Value
		(in thousands)		
Equity securities	$ 39,581	$ 9,084	$ 1,889	$ 46,776

The cost and estimated fair values of our equity securities at December 31, 2021 were as follows:

	Cost	Gross Gains	Gross Losses	Estimated Fair Value
		(in thousands)		
Equity securities	$ 43,263	$ 20,413	$ 256	$ 63,420

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

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
	(in thousands)			
Gross realized gains:				
Fixed maturities	$ 326	$ 86	$ 998	$ 610
Equity securities	400	—	1,243	626
Real estate	—	—	477	—
	726	86	2,718	1,236
Gross realized losses:				
Fixed maturities	73	82	173	156
Equity securities	249	—	1,073	354
	322	82	1,246	510
Net realized gains	404	4	1,472	726
Gross unrealized gains on equity securities	117	—	123	4,662
Gross unrealized losses on equity securities	(2,879)	(1,574)	(12,406)	(248)
Net investment (losses) gains	$ (2,358)	$ (1,570)	$ (10,811)	$ 5,140

We held fixed maturities with unrealized losses representing declines that we considered temporary at September 30, 2022 as follows:

	Less Than 12 Months		More Than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 95,235	$ 7,142	$ 40,464	$ 9,395
Obligations of states and political subdivisions	282,073	62,899	42,755	15,398
Corporate securities	328,432	30,756	46,631	9,807
Mortgage-backed securities	159,877	15,675	55,330	10,595
Totals	$ 865,617	$ 116,472	$ 185,180	$ 45,195

We held fixed maturities with unrealized losses representing declines that we considered temporary at December 31, 2021 as follows:

	Less Than 12 Months		More Than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 27,691	$ 412	$ 28,426	$ 1,064
Obligations of states and political subdivisions	56,655	899	7,091	132
Corporate securities	92,737	1,610	1,463	37
Mortgage-backed securities	90,006	1,128	2,361	82
Totals	$ 267,089	$ 4,049	$ 39,341	$ 1,315

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 919 debt securities that were in an unrealized loss position at September 30, 2022. Based upon our analysis of general market conditions and underlying factors impacting these debt securities, we considered these declines in value to be temporary.

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

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

6 - Segment Information

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

Financial data by segment for the three and nine months ended September 30, 2022 and 2021 is as follows:

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021
	(in thousands)	
Revenues:		
Premiums earned:		
Commercial lines	$ 127,497	$ 119,709
Personal lines	78,625	76,526
GAAP premiums earned	206,122	196,235
Net investment income	8,569	7,764
Investment losses	(2,358)	(1,570)
Other	505	677
Total revenues	$ 212,838	$ 203,106
Loss before income tax benefit:		
Underwriting loss:		
Commercial lines	$ (12,100)	$ (10,962)
Personal lines	(9,126)	(4,976)
SAP underwriting loss	(21,226)	(15,938)
GAAP adjustments	1,430	864
GAAP underwriting loss	(19,796)	(15,074)
Net investment income	8,569	7,764
Investment losses	(2,358)	(1,570)
Other	216	250
Loss before income tax benefit	$ (13,369)	$ (8,630)

	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
	(in thousands)	
Revenues:		
Premiums earned:		
Commercial lines	$ 378,680	$ 344,234
Personal lines	230,819	231,741
GAAP premiums earned	609,499	575,975
Net investment income	24,631	22,926
Investment (losses) gains	(10,811)	5,140
Other	1,457	2,181
Total revenues	$ 624,776	$ 606,222
(Loss) income before income tax (benefit) expense:		
Underwriting (loss) income:		
Commercial lines	$ (16,873)	$ (17,437)
Personal lines	(12,654)	608
SAP underwriting loss	(29,527)	(16,829)
GAAP adjustments	7,984	12,101
GAAP underwriting loss	(21,543)	(4,728)
Net investment income	24,631	22,926
Investment (losses) gains	(10,811)	5,140
Other	1	480
(Loss) income before income tax (benefit) expense	$ (7,722)	$ 23,818

7 - Borrowings

Lines of Credit

In August 2020, we entered into a credit agreement with Manufacturers and Traders Trust Company (“M&T”) that related to a $20.0 million unsecured demand line of credit. The line of credit has no expiration date, no annual fees and no covenants. At September 30, 2022, we had no outstanding borrowings from M&T and had the ability to borrow up to $20.0 million at interest rates equal to the then-current LIBOR rate plus 2.00%.

Atlantic States is a member of the FHLB of Pittsburgh. Through its membership, Atlantic States has the ability to issue debt to the FHLB of Pittsburgh in exchange for cash advances. Atlantic States has a fixed-rate cash advance of $35.0 million that was outstanding at September 30, 2022. The cash advance carries a fixed interest rate of 1.74% and is due in August 2024. In March 2020, Atlantic States issued $50.0 million of debt to the FHLB of Pittsburgh in exchange for a cash advance in the same amount that carried a fixed interest rate of 0.83%. Atlantic States obtained this contingent liquidity funding in light of uncertainty surrounding the economic impact of the COVID-19 pandemic. Atlantic States repaid this advance when it became due in March 2021. 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 September 30, 2022.

FHLB of Pittsburgh stock purchased and owned	$	1,573,300
Collateral pledged, at par (carrying value $43,360,439)		47,762,273
Borrowing capacity currently available		5,322,661

8 - Share–Based Compensation

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

We recorded compensation expense related to our stock compensation plans of $158,966 and $181,595 for the three months ended September 30, 2022 and 2021, respectively, with a corresponding income tax benefit of $33,383 and $38,135, respectively. We recorded compensation expense related to our stock compensation plans of $644,751 and $778,763 for the nine months ended September 30, 2022 and 2021, respectively, with a corresponding income tax benefit of $135,398 and $163,540, respectively. At September 30, 2022, we had $801,846 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 1.5 years.

We received cash from option exercises under all stock compensation plans during the three months ended September 30, 2022 and 2021 of $ 2.9 million and $764,956, respectively. We received cash from option exercises under all stock compensation plans during the nine months ended September 30, 2022 and 2021 of $14.1 million and $12.2 million, respectively. We realized actual tax benefits for the tax deductions related to those option exercises of $ 65,030 and $16,655 for the three months ended September 30, 2022 and 2021, respectively. We realized actual tax benefits for the tax deductions related to those option exercises of $329,842 and $437,790 for the nine months ended September 30, 2022 and 2021, respectively.

9 - Fair Value Measurements

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

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

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

Level 3 – unobservable inputs not corroborated by market data.

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

We present our investments in available-for-sale fixed maturity and equity securities at estimated fair value. The estimated fair value of a security may differ from the amount that could be realized if we sold the security in a forced transaction. In addition, the valuation of fixed maturity investments is more subjective when markets are less liquid, increasing the potential that the estimated fair value does not reflect the price at which an actual transaction would occur. We utilize nationally recognized independent pricing services to estimate fair values or obtain market quotations for substantially all of our fixed maturity and equity investments. We generally obtain two prices per security. These pricing services utilize market quotations for fixed maturity and equity securities that have quoted prices in active markets. For fixed maturity securities that generally do not trade on a daily basis, the pricing services prepare estimates of fair value measurements based predominantly on observable market inputs. The pricing services do not use broker quotes in determining the fair values of our investments. Our investment personnel review the estimates of fair value the pricing services provide to verify that the estimates we obtain from the pricing services are representative of fair values based upon our investment personnel's general knowledge of the market, their research findings related to unusual fluctuations in value and their comparison of such values to execution prices for similar securities. Our investment personnel monitor the market and are familiar with current trading ranges for similar securities and the pricing of specific investments. Our investment personnel review all pricing estimates that we receive from the pricing services against their expectations with respect to pricing based on fair market curves, security ratings, coupon rates, security types and recent trading activity. Our investment personnel periodically review documentation with respect to the pricing services' pricing methodology that they obtain to determine if the primary pricing sources, market inputs and pricing frequency for various security types are reasonable. At September 30, 2022, 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 September 30, 2022, we did not identify any material discrepancies, and we did not make any adjustments to the estimates the pricing services provided.

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

The carrying values we report in our balance sheet for premium receivables, reinsurance receivables related to paid losses and loss expenses and reinsurance balances payable approximate their fair values. The carrying amounts we report in our balance sheets for our 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 September 30, 2022:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 42,888	$ —	$ 42,888	$ —
Obligations of states and political subdivisions	43,876	—	43,876	—
Corporate securities	211,012	—	211,012	—
Mortgage-backed securities	203,120	—	203,120	—
Equity securities	46,776	44,492	2,284	—
Total investments in the fair value hierarchy	$ 547,672	$ 44,492	$ 503,180	$ —

The following table presents our fair value measurements for our investments in available-for-sale fixed maturity and equity securities at December 31, 2021:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 32,185	$ —	$ 32,185	$ —
Obligations of states and political subdivisions	57,378	—	57,378	—
Corporate securities	221,611	—	221,611	—
Mortgage-backed securities	221,455	—	221,455	—
Equity securities	63,420	61,130	2,290	—
Totals	$ 596,049	$ 61,130	$ 534,919	$ —

10 - Income Taxes

At September 30, 2022 and December 31, 2021, respectively, we had no material unrecognized tax benefits or accrued interest and penalties. Tax years 2016 through 2021 remained open for examination at September 30, 2022. 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 $7.9 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 $41.5 million and $28.1 million at September 30, 2022 and December 31, 2021, respectively, because it is more likely than not that we will realize these deferred tax assets through reversals of existing temporary differences, future taxable income and the implementation of tax planning strategies.

11 - Liabilities for Losses and Loss Expenses

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

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

	Nine Months Ended September 30,	
	2022	2021
	(in thousands)	
Balance at January 1	$ 1,077,620	$ 962,007
Less reinsurance recoverable	(451,261)	(404,818)
Net balance at January 1	626,359	557,189
Incurred related to:		
Current year	445,855	407,193
Prior years	(30,609)	(25,874)
Total incurred	415,246	381,319
Paid related to:		
Current year	209,051	183,165
Prior years	170,129	149,910
Total paid	379,180	333,075
Net balance at end of period	662,425	605,433
Plus reinsurance recoverable	445,701	444,730
Balance at end of period	$ 1,108,126	$ 1,050,163

Our insurance subsidiaries recognized a decrease in their liabilities for losses and loss expenses of prior years of $30.6 million and $25.9 million for the nine months ended September 30, 2022 and 2021, 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 2022 development represented 4.9% of the December 31, 2021 net carried reserves and resulted primarily from lower-than-expected loss emergence or severity in nearly all lines of business. The majority of the 2022 development related to decreases in the liabilities for losses and loss expenses of prior years for Atlantic States and MICO. The 2021 development represented 4.6% of the December 31, 2020 net carried reserves and resulted primarily from lower-than-expected loss emergence or severity in nearly all lines of business. The majority of the 2021 development related to decreases in the liabilities for losses and loss expenses of prior years for Atlantic States and MICO.

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

Our insurance subsidiaries determine incurred but not reported ("IBNR") reserves by subtracting the cumulative loss and loss expense amounts our insurance subsidiaries have paid and the case reserves our insurance subsidiaries have established at the balance sheet date from their actuaries' estimate of the ultimate cost of losses and loss expenses. Accordingly, the IBNR reserves of our insurance subsidiaries include their actuaries' projections of the cost of unreported claims as well as their actuaries' projected development of case reserves on known claims and reopened claims. Our insurance subsidiaries' methodology for estimating IBNR reserves has been in place for many years, and their actuaries made no significant changes to that methodology during the nine months ended September 30, 2022.

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

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

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

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

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

12 - Impact of New Accounting Standards

In September 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. In November 2019, the FASB issued guidance that delays the effective date for “smaller reporting companies,” as defined in Item 10(f)(1) of Regulation S-K, to annual and interim reporting periods beginning after December 15, 2022 from December 15, 2019. We are a smaller reporting company and are in the process of evaluating our investment portfolio, reinsurance receivable and premiums receivable, including a review of historical credit loss data and issuer credit standing and using a probability of default methodology, to determine the impact of the adoption of this guidance on our financial position, results of operations and 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, 2021.

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 liabilities of our insurance subsidiaries for property and casualty insurance losses and loss expenses. While we believe our estimates and the estimates of our insurance subsidiaries are appropriate, the ultimate amounts of these liabilities may differ from the estimates we provided. We regularly review our methods for making these estimates and we reflect any adjustment we consider necessary in our current consolidated results of operations.

Liabilities for Losses and Loss Expenses

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

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

Reserve estimates can change over time because of unexpected changes in assumptions related to our insurance subsidiaries’ external environment and, to a lesser extent, assumptions related to our insurance subsidiaries’ internal operations. For example, our insurance subsidiaries have experienced an increase in claims severity and a lengthening of the claim settlement periods on bodily injury claims during the past several years. In addition, the COVID-19 pandemic and related government mandates and restrictions resulted in various changes from historical claims reporting and settlement trends during 2020 and resulted in significant increases in loss costs in 2021 and 2022 due to a number of factors, including supply chain disruption, higher used automobile values, lengthening of repair completion times, increases in the cost of replacement automobile parts and rising labor rates. These trend changes give rise to greater uncertainty as to the pattern of future loss settlements. Related uncertainties regarding future trends include social inflation, availability and cost of building materials, availability of skilled labor, the rate of plaintiff attorney involvement in claims and the cost of medical technologies and procedures. Assumptions related to our insurance subsidiaries’ external environment include the absence of significant changes in tort law and the legal environment that increase liability exposure, consistency in judicial interpretations of insurance coverage and policy provisions and the rate of loss cost inflation. Internal assumptions include consistency in the recording of premium and loss statistics, consistency in the recording of claims, payment and case reserving methodology, accurate measurement of the impact of rate changes and changes in policy provisions, consistency in the quality and characteristics of business written within a given line of business and consistency in reinsurance coverage and collectability of reinsured losses, among other items. To the extent our insurance subsidiaries determine that underlying factors impacting their assumptions have changed, our insurance subsidiaries make adjustments in their reserves that they consider appropriate for such changes. Accordingly, our insurance subsidiaries’ ultimate liability for unpaid losses and loss expenses will likely differ from the amount recorded at September 30, 2022. For every 1% change in our insurance subsidiaries’ loss and loss expense reserves, net of reinsurance recoverable, the effect on our pre-tax results of operations would be approximately $6.6 million.

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

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

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

Our insurance subsidiaries' liabilities for losses and loss expenses by major line of business at September 30, 2022 and December 31, 2021 consisted of the following:

	September 30, 2022	December 31, 2021
	(in thousands)	
Commercial lines:		
Automobile	$ 177,188	$ 172,302
Workers' compensation	123,784	122,398
Commercial multi-peril	189,906	168,445
Other	25,220	18,530
Total commercial lines	516,098	481,675
Personal lines:		
Automobile	109,444	109,915
Homeowners	28,743	26,169
Other	8,140	8,600
Total personal lines	146,327	144,684
Total commercial and personal lines	662,425	626,359
Plus reinsurance recoverable	445,701	451,261
Total liabilities for losses and loss expenses	$ 1,108,126	$ 1,077,620

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

Percentage Change in Loss and Loss Expense Reserves Net of Reinsurance	Adjusted Loss and Loss Expense Reserves Net of Reinsurance at September 30, 2022	Percentage Change in Stockholders' Equity at September 30, 2022(1)	Adjusted Loss and Loss Expense Reserves Net of Reinsurance at December 31, 2021	Percentage Change in Stockholders' Equity at December 31, 2021(1)
		(dollars in thousands)		
(10.0)%	$ 596,183	10.9%	$ 563,723	9.3%
(7.5)	612,743	8.2	579,382	7.0
(5.0)	629,304	5.4	595,041	4.7
(2.5)	645,864	2.7	610,700	2.3
Base	662,425	—	626,359	—
2.5	678,986	(2.7)	642,018	(2.3)
5.0	695,546	(5.4)	657,677	(4.7)
7.5	712,107	(8.2)	673,336	(7.0)
10.0	728,668	(10.9)	688,995	(9.3)

(1) Net of income tax effect.

Non-GAAP Information

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

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

Net Premiums Written

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

The following table provides a reconciliation of our net premiums earned to our net premiums written for the three and nine months ended September 30, 2022 and 2021:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in thousands)		(in thousands)	
Net premiums earned	$ 206,122	$ 196,235	$ 609,499	$ 575,975
Change in net unearned premiums	107	780	33,618	46,507
Net premiums written	$ 206,229	$ 197,015	$ 643,117	$ 622,482

Statutory Combined Ratio

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

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

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

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

Combined Ratios

The following table presents comparative details with respect to our GAAP and statutory combined ratios for the three and nine months ended September 30, 2022 and 2021:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
GAAP Combined Ratios (Total Lines)				
Loss ratio (non-weather)	66.2%	66.3%	60.4%	59.8%
Loss ratio (weather-related)	9.4	9.2	7.7	6.4
Expense ratio	33.4	31.5	34.7	33.9
Dividend ratio	0.6	0.7	0.7	0.7
Combined ratio	109.6%	107.7%	103.5%	100.8%
Statutory Combined Ratios				
Commercial lines:				
Automobile	107.0%	111.9%	98.7%	106.7%
Workers' compensation	105.9	109.0	93.9	96.0
Commercial multi-peril	125.0	116.9	114.9	106.5
Other	85.9	64.0	81.9	67.2
Total commercial lines	112.1	109.4	102.4	101.1
Personal lines:				
Automobile	103.1	102.0	100.2	95.4
Homeowners	125.0	117.5	118.8	107.4
Other	54.6	65.4	49.9	72.2
Total personal lines	107.8	105.2	103.4	98.2
Total commercial and personal lines	110.1	107.7	102.8	100.0

Results of Operations - Three Months Ended September 30, 2022 Compared to Three Months Ended September 30, 2021

Net Premiums Earned. Our insurance subsidiaries’ net premiums earned for the third quarter of 2022 were $206.1 million, an increase of $9.9 million, or 5.0%, compared to $196.2 million for the third quarter of 2021, primarily reflecting the inclusion of the business of the Mountain States Insurance Group in the underwriting pool beginning with policies effective in 2021, as well as solid premium retention and renewal premium increases.

Net Premiums Written. Our insurance subsidiaries’ net premiums written for the third quarter of 2022 were $206.2 million, an increase of $9.2 million, or 4.7%, from the $197.0 million of net premiums written for the third quarter of 2021. Commercial lines net premiums written increased $2.3 million, or 2.0%, for the third quarter of 2022 compared to the third quarter of 2021. Personal lines net premiums written increased $6.9 million, or 8.5%, for the third quarter of 2022 compared to the third quarter of 2021. We attribute the increase in commercial lines and personal lines net premiums written primarily to new business growth, solid premium retention and renewal premium increases.

Investment Income. Our net investment income was $8.6 million for the third quarter of 2022, compared to $7.8 million for the third quarter of 2021. We attribute the increase primarily to an increase in average invested assets and an increase in the average investment yield relative to the third quarter of 2021.

Net Investment Losses. Net investment losses for the third quarter of 2022 were $2.4 million, compared to $1.6 million for the third quarter of 2021. The net investment losses for the third quarter of 2022 and 2021, respectively, resulted primarily from the net change in unrealized gains and losses within our equity securities portfolio at September 30, 2022 and 2021, respectively. We did not recognize any impairment losses in our investment portfolio during the third quarter of 2022 or 2021.

Losses and Loss Expenses. Our insurance subsidiaries’ loss ratio, which is the ratio of incurred losses and loss expenses to premiums earned, was 75.6% for the third quarter of 2022, an increase from our insurance subsidiaries’ loss ratio of 75.5% for the third quarter of 2021. We attribute this increase primarily to higher weather-related and large fire losses, which we define as individual fire losses in excess of $50,000. Weather-related losses of $19.4 million, or 9.4 percentage points of the loss ratio, for the third quarter of 2022, increased from $18.0 million, or 9.2 percentage points of the loss ratio, for the third quarter of 2021. The impact of weather-related loss activity to the loss ratio for the third quarter of 2022 was in line with our previous five-year average of 9.4 percentage points for third quarter weather-related losses. Large fire losses for the third quarter of 2022 were $17.4 million, or 8.4 percentage points of the loss ratio, compared to $12.7 million, or 6.5 percentage points of the loss ratio, for the third quarter of 2021. On a statutory basis, our insurance subsidiaries’ commercial lines loss ratio was 74.9% for the third quarter of 2022, compared to 76.3% for the third quarter of 2021, primarily due to decreases in the commercial automobile and workers’ compensation loss ratios. The personal lines statutory loss ratio of our insurance subsidiaries increased to 78.7% for the third quarter of 2022, compared to 75.0% for the third quarter of 2021. We attribute this increase primarily to increases in the personal automobile and homeowners’ loss ratios. Our insurance subsidiaries experienced favorable loss reserve development for the third quarter of 2022 of approximately $6.2 million, or 3.0 percentage points of the loss ratio, compared to $4.3 million that decreased the loss ratio for the third quarter of 2021 by 2.2 percentage points. Our insurance subsidiaries experienced favorable development primarily relating to reserves for accident years 2020 and 2019 in the commercial automobile, personal automobile and commercial multi-peril lines of business.

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 33.4% for the third quarter of 2022, compared to 31.5% for the third quarter of 2021. The increase in the expense ratio primarily reflected an increase in technology costs related to our ongoing systems modernization project.

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 109.6% and 107.7% for the three months ended September 30, 2022 and 2021, respectively. We attribute the increase in the combined ratio primarily to an increase in the expense ratio for the third quarter of 2022 compared to the third quarter of 2021.

Income Tax Benefit. We recorded an income tax benefit of $3.0 million and $1.9 million for the third quarter of 2022 and 2021, respectively. The income tax benefit for the third quarter of 2022 and 2021 represented estimates based on our projected annual taxable income and effective tax rates.

Net Loss and Loss Per Share. Our net loss for the third quarter of 2022 was $10.4 million, or $.33 per share of Class A common stock and $.30 per share of Class B common stock, compared to $6.7 million, or $.22 per share of Class A common stock and $.20 per share of Class B common stock, for the third quarter of 2021. We had 26.8 million and 25.7 million Class A shares outstanding at September 30, 2022 and 2021, respectively. We had 5.6 million Class B shares outstanding at the end of both periods.

Results of Operations - Nine Months Ended September 30, 2022 Compared to Nine Months Ended September 30, 2021

Net Premiums Earned. Our insurance subsidiaries' net premiums earned for the first nine months of 2022 were $609.5 million, an increase of $33.5 million, or 5.8%, compared to $576.0 million for the first nine months of 2021, primarily reflecting the inclusion of the business of the Mountain States Insurance Group in the underwriting pool beginning with policies effective in 2021, as well as solid premium retention and renewal premium increases.

Net Premiums Written. Our insurance subsidiaries' net premiums written for the nine months ended September 30, 2022 were $643.1 million, an increase of $20.6 million, or 3.3%, from the $622.5 million of net premiums written for the first nine months of 2021. Commercial lines net premiums written increased $10.2 million, or 2.6%, for the first nine months of 2022 compared to the first nine months of 2021. Personal lines net premiums written increased $10.4 million, or 4.5%, for the first nine months of 2022 compared to the first nine months of 2021. We attribute the increase in commercial lines and personal lines net premiums written primarily to new business growth, solid premium retention and renewal premium increases.

Investment Income. Our net investment income was $24.6 million for the first nine months of 2022, compared to $22.9 million for the first nine months of 2021. We attribute the increase primarily to an increase in average invested asset and an increase in the average investment yield relative to the first nine months of 2021.

Net Investment (Losses) Gains. Net investment losses for the first nine months of 2022 were $10.8 million, compared to net investment gains of $5.1 million for the first nine months of 2021. The net investment losses and gains for the first nine months of 2022 and 2021, respectively, resulted primarily from the net change in unrealized gains and losses within our equity securities portfolio at September 30, 2022 and 2021, respectively. We did not recognize any impairment losses in our investment portfolio during the first nine months of 2022 or 2021.

Losses and Loss Expenses. Our insurance subsidiaries' loss ratio, which is the ratio of incurred losses and loss expenses to premiums earned, was 68.1% for the first nine months of 2022, an increase from our insurance subsidiaries' loss ratio of 66.2% for the first nine months of 2021. We attribute this increase primarily to higher weather-related and large fire losses. Weather-related losses of $47.0 million, or 7.7 percentage points of the loss ratio, for the first nine months of 2022, increased from $36.6 million, or 6.4 percentage points of the loss ratio, for the first nine months of 2021. The impact of weather-related loss activity to the loss ratio for the first nine months of 2022 was lower than our previous five-year average of 8.1 percentage points. Large fire losses for the first nine months of 2022 were $40.4 million, or 6.6 percentage points of the loss ratio, compared to $34.7 million, or 6.0 percentage points of the loss ratio, for the first nine months of 2021. On a statutory basis, our insurance subsidiaries' commercial lines loss ratio was 66.1% for the first nine months of 2022, compared to 66.4% for the first nine months of 2021, primarily due to a decrease in the commercial automobile loss ratio. The personal lines statutory loss ratio of our insurance subsidiaries increased to 72.5% for the first nine months of 2022, compared to 66.5% for the first nine months of 2021. We attribute this increase primarily to increases in the personal automobile and homeowner loss ratios. Our insurance subsidiaries experienced favorable loss reserve development for the first nine months of 2022 of approximately $30.6 million, or 5.0 percentage points of the loss ratio, compared to $25.9 million that decreased the loss ratio for the first nine months of 2021 by 4.5 percentage points. Our insurance subsidiaries experienced favorable development in all major lines of business in the first nine months of 2022, with the majority of the impact relating to reserves for accident years 2021, 2020 and 2019 in the commercial automobile, personal automobile, commercial multi-peril and workers' compensation lines of business.

Underwriting Expenses. The expense ratio for an insurance company is the ratio of policy acquisition costs and other underwriting expenses to premiums earned. The expense ratio of our insurance subsidiaries was 34.7% for the first nine months of 2022, compared to 33.9% for the first nine months of 2021. The increase in the expense ratio primarily reflected higher technology costs related to our ongoing systems modernization project.

Combined Ratio. The combined ratio represents the sum of the loss ratio, the expense ratio and the dividend ratio, which is the ratio of policyholder dividends incurred to premiums earned. Our insurance subsidiaries' combined ratios were 103.5% and 100.8% for the nine months ended September 30, 2022 and 2021, respectively. We attribute the increase in the combined ratio primarily to increases in the loss and expense ratios for the first nine months of 2022 compared to the first nine months of 2021.

Interest Expense. Our interest expense for the first nine months of 2022 was $464,188, compared to $739,163 for the first nine months of 2021. We attribute the decrease to lower average borrowings under our lines of credit during the first nine months of 2022 compared to the first nine months of 2021.

Income Tax (Benefit) Expense. We recorded an income tax benefit of $2.3 million for the first nine months of 2022. We recorded income tax expense of $3.8 million for the first nine months of 2021, representing an effective tax rate of 16.1%. The income tax benefit and expense for the first nine months of 2022 and 2021, respectively, represented estimates based on our projected annual taxable income and effective tax rates.

Net (Loss) Income and (Loss) Income Per Share. Our net loss for the first nine months of 2022 was $5.4 million, or $.17 per share of Class A common stock and $.16 per share of Class B common stock, compared to net income of $20.0 million, or $.66 per share of Class A common stock on a diluted basis and $.59 per share of Class B common stock, for the first nine months of 2021. We had 26.8 million and 25.7 million Class A shares outstanding at September 30, 2022 and 2021, 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 nine months of 2022 and 2021 of $49.9 million and $58.5 million, respectively.

At September 30, 2022, we had no outstanding borrowings under our line of credit with M&T and had the ability to borrow up to $20.0 million at interest rates equal to the then-current LIBOR rate plus 2.00%. At September 30, 2022, Atlantic States had a $35.0 million outstanding advance with the FHLB of Pittsburgh that carries a fixed interest rate of 1.74%.

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

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

On July 18, 2013, our board of directors authorized a share repurchase program pursuant to which we have the authority to purchase up to 500,000 shares of our Class A common stock at prices prevailing from time to time in the open market subject to the provisions of applicable rules of the SEC and in privately negotiated transactions. We did not purchase any shares of our Class A common stock under this program during the nine months ended September 30, 2022 or 2021. We have purchased a total of 57,658 shares of our Class A common stock under this program from its inception through September 30, 2022.

On October 20, 2022, our board of directors declared quarterly cash dividends of 16.5 cents per share of our Class A common stock and 14.75 cents per share of our Class B common stock, payable on November 15, 2022 to our stockholders of record as of the close of business on November 1, 2022. 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, 2021 exceeded the amount of statutory capital and surplus necessary to satisfy regulatory requirements, including the RBC requirements, by a significant margin. Our insurance subsidiaries did not pay any dividends to us during the first nine months of 2022. Amounts remaining available for distribution to us as dividends from our insurance subsidiaries without prior approval of their domiciliary insurance regulatory authorities in 2022 are $27.9 million from Atlantic States, $6.9 million from Southern, $4.8 million from Peninsula and $7.7 million from MICO, or a total of approximately $47.3 million.

At September 30, 2022, we had no material commitments for capital expenditures.

Equity Price Risk

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

Credit Risk

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

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

There have been no material changes to our quantitative or qualitative market risk exposure from December 31, 2021 through September 30, 2022.

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 September 30, 2022, our disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information we are required to disclose in the reports that we file or submit under the Exchange Act, and our disclosure controls and procedures were also effective to ensure that information we disclose in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

Donegal Mutual implemented a new application system that Donegal Mutual and our insurance subsidiaries began to utilize during 2021 for the allocation of expenses and, beginning in 2022, for reinsurance premiums and commissions. The new application system provides for further automation of, and enhanced internal controls over these processes. The implementation of the new system is part of a multi-year accounting systems and process modernization initiative Donegal Mutual is implementing to achieve various benefits for Donegal Mutual and our insurance subsidiaries, including streamlined financial reporting workflows and a more efficient control environment.

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

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

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

Part II. Other Information

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

Our business, results of operations and financial condition, and, therefore, the value of our Class A common stock and our Class B common stock, are subject to a number of risks. For a description of certain risks, we refer to “Risk Factors” in our 2021 Annual Report on Form 10-K that we filed with the SEC on March 7, 2022. There have been no material changes in the risk factors we disclosed in that Form 10-K Report during the nine months ended September 30, 2022.

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

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Month #1 July 1-31, 2022	Class A – None Class B – None	Class A – None Class B – None	Class A – None Class B – None	
Month #2 August 1-31, 2022	Class A – 310,408 Class B – None	Class A – $14.99 Class B – None	Class A – 310,408 Class B – None	(1)
Month #3 September 1-30, 2022	Class A – 98,785 Class B – None	Class A – $14.49 Class B – None	Class A – 98,785 Class B – None	(1)
Total	Class A – 409,193 Class B – None	Class A – $14.87 Class B –None	Class A – 409,193 Class B – None	

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

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosure.

Not Applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit No.	Description	
10.1	Employment Agreement dated as of October 1, 2020 among Donegal Mutual Insurance Company and David W. Sponic.	Filed herewith
Exhibit 31.1	Certification of Chief Executive Officer	Filed herewith
Exhibit 31.2	Certification of Chief Financial Officer	Filed herewith
Exhibit 32.1	Statement of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 of Title 18 of the United States Code	Filed herewith
Exhibit 32.2	Statement of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 of Title 18 of the United States Code	Filed herewith
Exhibit 101.INS	XBRL Instance Document	Filed herewith
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
Exhibit 101.PRE	XBRL Taxonomy Presentation Linkbase Document	Filed herewith
Exhibit 101.CAL	XBRL Taxonomy Calculation Linkbase Document	Filed herewith
Exhibit 101.LAB	XBRL Taxonomy Label Linkbase Document	Filed herewith
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
Exhibit 104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)	Filed herewith

Signatures

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

	DONEGAL GROUP INC.
November 4, 2022	**By:** /s/ Kevin G. Burke Kevin G. Burke, President and Chief Executive Officer
November 4, 2022	**By:** /s/ Jeffrey D. Miller Jeffrey D. Miller, Executive Vice President and Chief Financial Officer

Exhibit 10.1

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement"), dated as of October 1, 2020 (the "Effective Date"), among Donegal Mutual Insurance Company, a Pennsylvania mutual insurance company having its principal place of business at 1195 River Road, Marietta, Pennsylvania 17547 ("Donegal Mutual" or the "Employer"), and David W. Sponic, an individual ("Executive").

WITNESSETH:

WHEREAS, the Employer desires, by this Agreement, to provide for the continued employment of Executive by the Employer, and Executive agrees to the continued employment of Executive by the Employer, all in accordance with the terms and subject to the conditions set forth in this Agreement; and

WHEREAS, the parties are entering into this Agreement to set forth and confirm their respective rights and obligations with respect to Executive's continued employment by the Employer;

NOW THEREFORE, in consideration of the promises and mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Employment. Beginning on the Effective Date, the Employer agrees to continue to employ Executive and Executive agrees to continue to provide services to the Employer from the Effective Date until 2 years (i.e., 24 months) later (the "Employment Period"). The Employment Period shall be automatically extended for an additional one (1) year term thereafter, unless either party provides the other party with written notice of intent to have the Employment Period expire without renewal no later than sixty (60) days prior to the end of the then-current Employment Period, or this Agreement is otherwise terminated by either party.

2. Position and Duties.

(a) During the Employment Period the Employer agrees to continue to employ Executive, and Executive agrees to continue Executive's employment, as the Vice President, Personal Lines of the Employer (the "Position,") in accordance with the terms and subject to the conditions this Agreement sets forth. Executive shall serve in the Position and in such capacity and shall have the normal duties, responsibilities, functions and authority consistent with the Position, subject to the power and authority of the board of directors of Donegal Mutual (the "Board") to expand or limit such duties, responsibilities, functions and authority and to overrule actions of officers of the Employer. During the Employment Period, Executive shall render such services to the Employer which are consistent with the Position and as the Senior Vice President, Personal Lines and/or as the Board may from time to time direct.

(b) During the Employment Period, Executive shall devote his best efforts and his full business time and attention to the business and affairs of the Employer. Executive shall perform his duties, responsibilities and functions to the best of his abilities in a diligent, trustworthy, professional and efficient manner and shall comply with the policies and procedures of the Employer in all material respects. In performing his duties and exercising his authority under this Agreement, Executive shall develop, support and implement the business and strategic plans approved from time to time by the Board and shall support and cooperate with the Employer's efforts to expand its business and operate profitably and in conformity with the business and strategic plans approved by the Board. So long as Executive is employed by the Employer, Executive shall not, without the prior written consent of the Board, accept other employment, perform other services for compensation, or perform other work that results in any financial benefit to Executive. Notwithstanding the foregoing, nothing in this Agreement shall preclude Executive from engaging in educational, charitable, political, professional and civic activities, provided that such engagement does not interfere with Executive's duties and responsibilities hereunder.

3. Compensation and Benefits.

(a) Base Salary. During the Employment Period, Executive shall receive a base salary of One Hundred Ninety-Four Thousand One Hundred One Dollars ($194,101) per annum (the "Base Salary"), which may be modified by the Employer in its sole discretion (provided, however, that any decrease in Executive's Base Salary shall be made only if the Employer contemporaneously and proportionately decreases the base salaries of all senior executives of the Employer).

(b) Payment of Base Salary. The Base Salary shall be payable by the Employer in regular installments in accordance with the Employer's payroll practices in effect from time to time, less withholdings and deductions required or permitted by applicable law.

(c) Annual Bonus. During the Employment Period, Executive shall be eligible to receive an annual performance bonus (an "Annual Bonus"), subject to the (i) achievement of Employer's performance criteria, as determined in the Employer's sole discretion, and (ii) Executive's continued employment with the Employer through the end of the year for which such bonus is paid (except as otherwise provided in Section 4). The Employer's performance criteria shall be determined in good faith by the President and Chief Executive Officer or his designee, in consultation with Executive. The Annual Bonus shall be paid in a single lump sum payment, less withholdings and deductions required or permitted by applicable law, to Executive when annual bonuses for that year are paid to other employees of the Employer, but in no event later than the March 15th following the end of the year for which the bonus is paid.

(d) Employee Benefits. Throughout Executive's employment during the Employment Period, the Employer shall provide Executive with all employee benefits and fringe benefits as may be provided from time to time to the Employer's executives.

(e) Expense Reimbursement. During the Employment Period, and subject to Section 21(d) hereunder, the Employer shall reimburse Executive, within a reasonable period of time of Executive submitting an expense report to the Employer, for all reasonable business expenses incurred by him in the course of performing his duties and responsibilities under this Agreement which are consistent with the Employer's policies in effect from time to time with respect to travel, entertainment and other business expenses, subject to the Employer's requirements with respect to reporting and documentation of such expenses.

4. Notice of Termination; Employer's Obligations Upon Cessation of Employment Period.

(a) Notice of Termination. Subject to the terms of this Agreement, the Employment Period and Executive's employment with the Employer may be terminated by either party at any time and for any or no reason. Any termination of employment by the Employer or by Executive under this Section 4 shall be communicated by a written notice to the other party hereto indicating the specific termination provision in this Agreement relied upon. Executive's final day of employment with the Employer, as set forth in such written notice, shall be the "Termination Date."

(b) Employer's Obligations Upon Cessation of the Employment Period.

(i) Accrued Payments. Upon Executive's termination of employment for any reason, Executive shall be entitled to receive: (A) payment of any unpaid premiums for medical and dental insurance coverage through the Termination Date for Executive (and his immediate family) and any other employee benefits Executive is entitled to hereunder, (B) payment of all accrued but unpaid vacation; (C) any expense reimbursement owed to Executive under Section 3(f), which shall be paid within thirty (30) days of the Termination Date; and (D) the Base Salary earned for services rendered by Executive through the Termination Date, which shall be paid on the next succeeding payroll date (collectively, the "Accrued Payments").

(ii) Termination Without Cause, for Good Reason or Following Change of Control. If Executive's employment is terminated without Cause by the Employer, Executive resigns for Good Reason either before or after a Change of Control, and subject to Section 4(c) below, then Executive shall be entitled to the Accrued Payments and shall also be entitled to receive:

(A) any unpaid Annual Bonus earned by Executive with respect to the year ending prior to the year in which the Termination Date occurs, notwithstanding Executive's termination of employment, which shall be paid in a lump sum at the same time, and calculated in the same manner, as the Annual Bonus would have been paid and calculated had there not been a termination of Executive's employment;

(B) severance pay in an amount equal to twenty-four (24) months of his Base Salary in effect on the Termination Date (the "Severance Payment"). The Severance Payment shall be payable in equal installments, with the first installment payable on the Employer's first regularly scheduled payroll date occurring after the effective date of the general release; and

(C) The Employer shall pay as a lump sum to Executive the full aggregate premium cost (calculated based on the current premium cost as of the Termination Date) that the Employer and Executive would have paid to maintain the same medical, health, disability and life insurance coverage the Employer provided to Executive immediately prior to the Termination Date had Executive remained employed for twenty-four (24) months following the Termination Date.

For purposes of the Agreement, the compensation and benefits referenced in Section 4(b)(ii)(A)-(C) are referred to as the "Severance Benefits." The Severance Benefits shall be paid to Executive less withholdings and deductions required or permitted by applicable law.

(i) Termination for Cause, Death or Incapacity, or Resignation Without Good Reason. If the Employment Period is terminated by the Employer for Cause or upon Executive's resignation without Good Reason, or death or Incapacity (as determined by the Board in its good faith judgment), Executive shall only be entitled to receive the Accrued Payments (if any), and shall not be entitled to any other salary, compensation or benefits from the Employer after termination of the Employment Period, except as otherwise specifically provided for under the Employer's employee benefit plans or as otherwise expressly required by applicable law. Notwithstanding the foregoing, in the event of Executive's death, the Employer shall continue to pay Executive's then Base Salary to the Executive's estate or personal representative for a period of two (2) years in fifty-two (52) equal bi-weekly installment payments, with the first payment commencing on the Employer's first regularly scheduled payroll date occurring after Executive's death.

(ii) Except as otherwise expressly provided herein, all of Executive's rights to salary, employee benefits and other compensation hereunder which would have accrued or become payable after the termination of the Employment Period shall cease upon such termination, other than those expressly required under applicable law. The Employer may offset any amounts Executive owes the Employer against any amounts the Employer owes Executive hereunder, provided, that such amounts claimed to be owed by Executive have not been disputed by Executive after sufficient advance written notice thereof by the Employer.

(c) The Employer's obligation to provide the Severance Benefits to Executive shall be conditioned upon Executive's execution and the irrevocability of a general release in a form reasonably acceptable to the Employer. Except as otherwise expressly provided herein, Executive shall not be entitled to any other salary, compensation or other benefits after termination of the Employment Period, except as specifically provided for in the Employer's employee benefit plans or as otherwise expressly required by applicable law.

(d) For purposes of this Agreement, "Cause" shall mean (i) Executive's willful and continued failure substantially to perform Executive's material duties with the Employer as set forth in this Agreement, or the commission by Executive of any activities constituting a willful violation or breach under any material federal, state or local law or regulation applicable to the activities of the Employer or its subsidiaries and affiliates, in each case, after notice of such failure, breach or violation from the Employer to Executive and a reasonable opportunity for Executive to cure such failure, breach or violation in all material respects, (ii) fraud, breach of fiduciary duty, dishonesty, misappropriation or other actions by Executive that cause intentional material damage to the property or business of the Employer or its subsidiaries and affiliates, (iii) Executive's repeated absences from work such that Executive is substantially unable to perform Executive's duties under this Agreement in all material respects other than for physical or mental impairment or illness or (iv) Executive's non-compliance with the provisions of Section 2(b) of this Agreement after notice of such non-compliance from the Employer to Executive and a reasonable opportunity for Executive to cure such non-compliance.

(e) For purposes of this Agreement "Incapacity" shall be deemed to occur if the Board, in its good faith judgment, determines that Executive is mentally or physically disabled or incapacitated such that he cannot perform his duties and responsibilities under this Agreement and, within thirty (30) days of receipt of the Board's good faith determination, either (i) Executive fails to undertake a physical and/or mental examination by a physician reasonably acceptable to the Board or (ii) after Executive undertakes a physical and/or mental examination by a physician reasonably acceptable to the Board, such physician fails to certify to the Board that Executive is physically and mentally able and capable of performing his duties and responsibilities under this Agreement.

(f) For purposes of this Agreement, "Good Reason" shall mean (i) a material diminishment of Executive's Position or the scope of Executive's authority, duties or responsibilities as this Agreement describes without Executive's written consent, excluding for this purpose any action the Employer does not take in bad faith and that the Employer remedies promptly following written notice thereof from Executive to the Employer, (ii) a relocation of Executive's principal business location to a location that is more than forty (40) miles farther from Executive's current resident office, or (iii) a material breach by the Employer of its obligations to Executive under this Agreement; provided, however, that with respect to any termination by Executive for Good Reason, Executive shall have provided the Employer with written notice within ninety (90) days of the date on which Executive first had actual knowledge of the existence of the Good Reason condition and which such Good Reason condition shall not have been cured or otherwise rectified by the Employer in all material respects to the reasonable satisfaction of Executive within thirty (30) days after the Employer receives such written notice.

(g) For purposes of this Agreement, a "Change of Control" shall be deemed to have occurred in the event of any of the following (each a "Transaction"):

(i) the acquisition of shares of Donegal Group Inc. ("DGI") by any "person" or "group," as Rule 13d-3 under the Securities Exchange Act of 1934, as now or hereafter amended, uses such terms, in a transaction or series of transactions that result in such person or group directly or indirectly first owning after the Effective Date more than 25% of the aggregate voting power of DGI's Class A common stock and Class B common stock taken as a single class,

(ii) the consummation of a merger of Donegal Mutual or other business combination transaction involving Donegal Mutual in which Donegal Mutual is not the surviving entity,

(iii) the consummation of a merger of DGI or other business combination transaction involving DGI after which the holders of the outstanding voting capital stock of DGI taken as a single class do not collectively own 60% or more of the aggregate voting power of the entity surviving such merger or other business combination transaction,

(iv) the sale, lease, exchange or other transfer in a transaction or series of transactions of all or substantially all of the assets of DGI, but excluding therefrom the sale and re-investment of the consolidated investment portfolio of DGI and its subsidiaries,

(v) a change in the composition of the board of directors of Donegal Mutual in which the individuals who, as of the Effective Date, constitute the board of directors of Donegal Mutual (the "Incumbent Donegal Mutual Board") cease for any reason to constitute at least a majority of the board of directors of Donegal Mutual; *provided*, *however*, that any individual becoming a director subsequent to the Effective Date whose election, or nomination for election by Donegal Mutual's members, was approved by a vote of at least a majority of the directors then comprising the Incumbent Donegal Mutual Board shall be considered as though such individual were a member of the Incumbent Donegal Mutual Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of an individual or entity other than the board of directors of Donegal Mutual or

(vi) a change in the composition of the board of directors of DGI in which the individuals who, as of the Effective Date, constitute the board of directors of DGI (the "Incumbent DGI Board") cease for any reason to constitute at least a majority of the board of directors of DGI; *provided*, *however*, that any individual becoming a director subsequent to the Effective Date whose election, or nomination for election by DGI's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent DGI Board shall be considered as though such individual were a member of the Incumbent DGI Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of an individual or entity other than the board of directors of DGI.

A Transaction constituting a Change of Control in the case of subsections (i), (ii), (iii) or (iv) shall only be deemed to have occurred upon the closing of the Transaction. For purposes of this Agreement, consummation of a Change of Control shall only be deemed to have occurred upon the closing of a Transaction.

(h) The Employer and Executive mutually agree to reimburse either party for the reasonable fees and expenses of either party's attorneys and for court and related costs in any proceeding to enforce the provisions of this Agreement in which the Employer or Executive are successful on the merits.

(i) In the event that the independent registered public accounting firm of either of the Employer or the Internal Revenue Service ("IRS") determines that any payment, coverage or benefit provided to Executive pursuant to this Agreement is subject to the excise tax imposed by Sections 280G or 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), any successor provisions thereto or any interest or penalties Executive incurs with respect to such excise tax, the Employer, within thirty (30) days thereafter, shall pay to Executive, in addition to any other payment, coverage or benefit due and owing under this Agreement, an additional amount that will result in Executive's net after tax position, after taking into account any interest, penalties or taxes imposed on the amounts payable under this Section 4(i), upon the receipt of the payments for which this Agreement provides being no less advantageous to Executive than the net after tax position to Executive that would have been obtained had Sections 280G and 4999 of the Code not been applicable to such payment, coverage or benefits. Except as this Agreement otherwise provides, tax counsel, whose selection shall be reasonably acceptable to Executive and the Employer and whose fees and costs shall be paid for by the Employer, shall make all determinations this Section 4(i) requires.

5. Confidential Information.

(a) Executive shall not, except as may be required to perform his duties hereunder or as required by applicable law, during the Employment Period and after employment ends (regardless of the reason), without limitation in time or until such information shall have become public other than by Executive's unauthorized disclosure, disclose to others or use, whether directly or indirectly, any non-public confidential or proprietary information with respect to the Employer, including, without limitation, its business relationships, negotiations and past, present and prospective activities, methods of doing business, know-how, trade secrets, data, formulae, product designs and styles, product development plans, customer lists, investors, and all papers, resumes and records (including computer records) of the documents containing such information ("Confidential Information"). Executive stipulates and agrees that as between Executive and the Employer the foregoing matters are important and that material and confidential proprietary information and trade secrets affect the successful conduct of the businesses of the Employer (and any successors or assignees of the Employer). Nothing about the foregoing shall preclude Executive from testifying truthfully in any forum or from providing truthful information, including, but not limited to, Confidential Information, to any government agency or commission. The term "Confidential Information" does not include information which (i) was already in Executive's possession prior to the time of disclosure by or on behalf of the Employer, provided that such information was not furnished to Executive by a source known by Executive to be bound by a confidentiality agreement with, or other obligations of confidentiality in favor of, the Employer, (ii) was or becomes generally available to the public other than as a result of a disclosure by Executive in violation of this Agreement, (iii) becomes available to Executive on a non-confidential basis from a source other than the Employer, provided that such source is not known by Executive to be bound by a confidentiality agreement with, or other obligations of confidentiality in favor of, the Employer, or (iv) was or is independently developed by Executive without use of or reference to any Confidential Information.

(b) Executive agrees to deliver or return to the Employer, at the Employer's written request, at any time or upon termination of his employment (regardless of the reason): (i) all documents, computer tapes and disks, records, lists, data, drawings, prints, notes and written information (and all copies thereof) furnished by or on behalf of or for the benefit of the Employer or prepared by Executive in connection with, and during the term of, his employment by the Employer, regardless of whether Confidential Information is contained therein, and (ii) all physical property of the Employer which Executive received in connection with Executive's employment with the Employer including, without limitation, credit cards, passes, door and file keys, and computer hardware and software existing in tangible form.

(c) The Defend Trade Secrets Act of 2016 (the "Act") provides that: An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that: (A) is made – (i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. The Act further provides that an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual: (A) files any document containing the trade secret under seal; and (B) does not disclose the trade secret, except pursuant to court order.

(d) Executive represents and warrants to the Employer that, to the best of his knowledge, Executive took nothing with him which belonged to any former employer when Executive left his prior position and that Executive has nothing that contains any information which belongs to any former employer. If at any time Executive discovers this is incorrect, Executive shall promptly return any such materials to Executive's former employer. The Employer does not want any such materials, and Executive shall not be permitted to use or refer to any such materials in the performance of Executive's duties hereunder.

6. Work Product and Intellectual Property, Inventions and Patents.

(a) For purposes of this Agreement:

(i) "Work Product" shall include (A) all works, materials, ideas, innovations, inventions, discoveries, techniques, methods, processes, formulae, compositions, developments, improvements, technology, know-how, algorithms, data and data files, computer process systems, computer code, software, databases, hardware configuration information, research and development projects, experiments, trials, assays, lab books, test results, specifications, formats, designs, drawings, blueprints, sketches, artwork, graphics, documents, records, writings, reports, machinery, prototypes, models, sequences, and components; (B) all tangible and intangible embodiments of the foregoing, of any kind or format whatsoever, including in printed and electronic media; and (C) all Intellectual Property Rights (as defined below) associated with or related to the foregoing;

(ii) "Employer's Work Product" shall include all Work Product that Executive partially or completely creates, makes, develops, discovers, derives, conceives, reduces to practice, authors, or fixes in a tangible medium of expression, whether solely or jointly with others and whether on or off the Employer's premises, in connection with the Employer's business, (A) while employed by the Employer, or (B) with the use of the time, materials, or facilities of the Employer, or (C) relating to any product, service, or activity of the Employer of which Executive has knowledge, or (D) suggested by or resulting from any work performed by Executive for the Employer; and

(iii) "Intellectual Property Rights" means any and all worldwide rights, title, or interest existing now or in the future under patent law, trademark law, copyright law, industrial rights design law, moral rights law, trade secret law, and any and all similar proprietary rights, however denominated, and any and all continuations, continuations-in-part, divisions, renewals, reissue, reexaminations, extensions and/or restorations thereof, now or hereafter in force and effect, including without limitation all patents, patent applications, industrial rights, mask works rights, trademarks, trademark applications, trade names, slogans, logos, service marks and other marks, copyrightable material, copyrights, copyright applications, moral rights, trade secrets, and trade dress.

(b) Executive acknowledges and agrees that all Employer's Work Product is and shall belong to the Employer. Executive shall and hereby does irrevocably assign and transfer to the Employer all of Executive's right, title, and interest in and to all Employer's Work Product, which assignment shall be effective as of the moment of creation of such Employer's Work Product without requiring any additional actions of the parties.

(c) All copyrightable material included in Employer's Work Product that qualifies as a "work made for hire" under the U.S. Copyright Act is deemed a "work made for hire" created for and owned exclusively by the Employer, and the Employer shall be deemed the owner of the copyright and all other Intellectual Property Rights associated therewith.

(d) To the extent any of the rights, title, and interest in and to Employer's Work Product cannot be assigned by Executive to the Employer, Executive hereby grants to the Employer a perpetual, exclusive, royalty-free, transferable, assignable, irrevocable, worldwide license (with rights to sublicense through multiple tiers of sublicensees) to practice such non-assignable rights, title, and interest. To the extent any of the rights, title, and interest in and to Employer's Work Product can neither be assigned nor licensed by Executive to the Employer, Executive hereby irrevocably waives and agrees never to assert such non-assignable and non-licensable rights, title, and interest against the Employer, or its directors, managers, officers, agents, employees, contractors, successors, or assigns. For the avoidance of doubt, this Section 6(d) shall not apply to any Work Product that (i) does not relate, at the time of creation, making, development, discovery, derivation, conception, reduction to practice, authoring, or fixation in a tangible medium of expression of such Work Product, to the Employer's business or actual or demonstrably anticipated research, development or business; (ii) was developed entirely on Executive's own time; (iii) was developed without use of any of the Employer's equipment, supplies, facilities, or trade secret information; and (iv) did not result from any work Executive performed for the Employer.

(e) Executive agrees, during and after Executive's employment, to perform and to assist the Employer and its successors, assigns, delegates, nominees, and legal representatives with all acts that the Employer deems necessary or desirable to permit and assist the Employer in applying for, obtaining, perfecting, protecting, and enforcing the full benefits, enjoyment, rights, and title throughout the world of the Employer in and to all Employer's Work Product, which acts and assistance may include, without limitation, the signing and execution of documents and assistance or cooperation in the filing, prosecution, registration, and memorialization of assignment of any applicable Intellectual Property Rights; acts pertaining to the enforcement of any applicable Intellectual Property Rights; and acts pertaining to other legal proceedings related to Employer's Work Product. If the Employer is unable for any reason to secure Executive's signature to any document that the Employer deems necessary or desirable to permit and assist the Employer in applying for, obtaining, perfecting, protecting, and enforcing the full benefits, enjoyment, rights and title throughout the world of the Employer in and to all Employer's Work Product, Executive hereby irrevocably designates and appoints the Employer, its officers, and managers as Executive's attorney in fact to sign and execute such documents in Executive's name, all with the same legal force and effect as if executed by Executive. This designation of power of attorney is a power coupled with an interest and is irrevocable. Executive will not retain any proprietary interest in any Employer's Work Product and shall not register, file, seek to obtain, or obtain any Intellectual Property Rights covering any Employer's Work Product in his own name.

(f) Upon the written request of the Employer, Executive agrees to disclose and describe to the Employer promptly and in writing to the Employer all Employer's Work Product to which the Employer is entitled as provided above. Executive shall deliver all Employer's Work Product in Executive's possession whenever the Employer so requests in writing, and, in any event, upon the written request of the Employer, prior to or upon Executive's termination of employment. After the Employer confirms receipt of Employer's Work Product, Executive shall delete or destroy all Employer's Work Product in Executive's possession whenever the Employer so requests in writing and at the Employer's reasonable direction, without retaining any copies thereof, and, in any event, prior to or upon Executive's termination of employment.

(g) Consistent with Executive's obligations under Section 5, Executive shall hold in the strictest confidence, and will not disclose, furnish or make accessible to any person or entity (directly or indirectly) Employer's Work Product, except as required in accordance with Executive's duties as an employee of the Employer.

(h) Upon the written request of the Employer, Executive agrees to disclose promptly in writing to the Employer's all Work Product created, made, developed, discovered, derived, conceived, reduced to practice, authored, or fixed in a tangible medium of expression by Executive for six (6) months after the termination of employment with the Employer, whether or not Executive believes such Work Product is subject to this Agreement, to permit a determination by the Employer as to whether or not the Work Product is or should be the property of the Employer. Executive recognizes that Work Product or Confidential Information relating to Executive's activities while working for the Employer and created, made, developed, discovered, derived, conceived, reduced to practice, authored, or fixed in a tangible medium of expression by Executive, alone or with others, within six (6) months after termination of Executive's employment with the Employer, may have been so created, made, developed, discovered, derived, conceived, reduced to practice, authored, or fixed in a tangible medium of expression by Executive in significant part while employed by the Employer. Accordingly, Executive agrees that such Work Product and Confidential Information shall be presumed to have been created, made, developed, discovered, derived, conceived, reduced to practice, authored, or fixed in a tangible medium of expression during Executive's employment with the Employer and are to be promptly disclosed and assigned to the Employer unless and until Executive establishes the contrary by written evidence satisfying a clear and convincing evidence standard of proof.

(i) For the avoidance of doubt, Executive shall not be entitled to any additional or special compensation or reimbursement in fulfilling his obligations under this Section 6, except that the Employer, shall reimburse Executive for any reasonable out of pocket expenses which Executive may incur on behalf of the Employer.

7. Non-Solicitation; Non-Disparagement.

(a) For the purposes of this Agreement, the term "Competitive Enterprise" shall mean any insurance company, insurance holding company or any such entities in the process of organization or application for state regulatory approval and shall also include other entities that offer services or products competitive with the services or products which the Employer or its subsidiaries or affiliates currently offer or may in the future offer.

(b) During the Employment Period and for a period of two (2) years (the "Restricted Period") immediately following Executive's separation of employment under this Agreement for any reason, Executive shall not in any way, directly or indirectly, solicit, divert or contact any existing or potential customer of the Employer or any of its subsidiaries or affiliates that Executive solicited, became aware of, transacted business with, or performed services for during the Employer's employment of Executive for the purpose of selling any services or products that compete with the services or products the Employer or its subsidiaries and affiliates currently offer or in the future, may offer, or solicit or assist in the employment of any employee of the Employer or its subsidiaries or affiliates for the purpose of becoming an employee of or otherwise provide services for any Competitive Enterprise.

(c) During the Employment Period and thereafter, Executive shall not make any negative or disparaging statements or communications regarding the Employer, its personnel or operations.

(d) If, at the time of enforcement of Sections 5, 6 or 7 of this Agreement, a court shall hold that the duration, scope or geographical area restrictions stated herein are unreasonable under circumstances then existing, the parties hereto agree that the maximum duration, scope or geographical area reasonable under such circumstances shall be substituted for the stated duration, scope or area and that the court shall be allowed to revise the restrictions contained herein to cover the maximum period, scope and area permitted by law.

(e) Executive acknowledges that Executive's compliance with Sections 5, 6 and 7 of this Agreement is necessary to protect the goodwill, customer relations, trade secrets, confidential information and other proprietary and legitimate business interests of the Employer. Executive acknowledges that any breach of any of these covenants will result in irreparable and continuing damage to the Employer's business for which there will be no adequate remedy at law and Executive agrees that, in the event of any such breach of the aforesaid covenants, the Employer and its successors and assigns shall be entitled to seek injunctive relief and to such other and further relief as may be available at law or in equity. Accordingly, Executive expressly agrees that upon any breach, or threatened breach, of the terms of this Agreement, the Employer shall be entitled, as a matter of right, in any court of competent jurisdiction in equity or otherwise to enforce the specific performance of Executive's obligations under this Agreement, to obtain temporary and permanent injunctive relief without the necessity of proving actual damage to the Employer or the inadequacy of a legal remedy. In the event a court orders the Employer to post a bond in order to obtain such injunctive relief for a claim under this Agreement, Executive agrees that the Employer will be required to post only a nominal bond. The rights conferred upon the Employer in this paragraph shall not be exclusive of any other rights or remedies that the Employer may have at law, in equity or otherwise.

(f) In the event that Executive materially violates any of the covenants in this Agreement and the Employer commences legal action for injunctive or other relief, then the Employer shall have the benefit of the full period of the covenants such that the covenants shall have the duration of two (2) years computed from the date Executive ceased violation of the covenants, either by order of the court or otherwise.

(g) Executive acknowledges and agrees that the restrictive covenants contained herein: (i) are necessary for the reasonable and proper protection of the goodwill of the Employer and its trade secrets, proprietary data and confidential information; (ii) are reasonable with respect to length of time, scope and geographic area; and (iii) will not prohibit Executive from engaging in other businesses or employment for the purpose of earning a livelihood following the termination of his relationship with the Employer.

(h) If Executive materially breaches the general release provided for in Section 4(c) or any provision of Sections 5, 6 and 7 hereunder: (i) the Employer shall no longer be obligated to make any payments or provide any other benefits pursuant to Section 4; and (ii) as applicable, Executive shall forfeit all of the Severance Benefits previously provided to Executive and/or the Employer shall be entitled to reimbursement of any Severance Benefits made to Executive.

8. Executive's Representations. Executive hereby represents and warrants to the Employer that to the best of his knowledge: (a) the execution, delivery and performance of this Agreement by Executive do not and shall not conflict with, breach, violate or cause a default under any contract, agreement, instrument, order, judgment or decree to which Executive is a party or by which he is bound; (b) Executive is not a party to or bound by any employment agreement, non-compete agreement or confidentiality agreement with any other person or entity; (c) upon the execution and delivery of this Agreement by the Employer, this Agreement shall be the valid and binding obligation of Executive, enforceable in accordance with its terms; and (d) Executive is authorized to work in the United States without restriction. Executive hereby acknowledges and represents that he has consulted with independent legal counsel regarding his rights and obligations under this Agreement and that he fully understands the terms and conditions contained herein.

9. Survival. Sections 4 through 21, inclusive, shall survive and continue in full force in accordance with their terms notwithstanding the termination of the Employment Period.

10. Notices. Any notice provided for in this Agreement shall be in writing and shall be either personally delivered, sent by reputable overnight courier service or mailed by first class mail, return receipt requested, to the recipient at the address below indicated:

Notices to Executive:

Home address as most currently appears in the records of the Employer with a copy by email to DaveSponic@donegalgroup.com

Notices to the Employer:

Donegal Mutual Insurance Company
Attention: Vice President, Human Resources
1195 River Road, P.O. Box 302
Marietta, PA 17547

or such other address or to the attention of such other person as the recipient party shall have specified by prior written notice to the sending party. Any notice under this Agreement shall be deemed to have been given when so delivered, sent or mailed.

11. Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement or any action in any other jurisdiction, but this Agreement shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

12. Complete Agreement. This Agreement, those documents expressly referred to herein and other documents of even date herewith embody the complete agreement and understanding among the parties and supersede and preempt any prior understandings, agreements or representations by or among the parties, written or oral, which may have related to the subject matter hereof in any way (including, but not limited to, superseding and preempting the Executive's prior employment agreements, if any, with Employer).

13. No Strict Construction. The language used in this Agreement shall be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction shall be applied against any party.

14. Counterparts. This Agreement may be executed in separate counterparts (including by means of telecopied signature pages or electronic transmission in portable document format (.pdf)), each of which is deemed to be an original and all of which taken together constitute one and the same agreement.

15. Successors and Assigns. This Agreement, including, but not limited to, the terms and conditions in Sections 5, 6 and 7, shall inure to the benefit of, and be binding upon, the heirs, executors, administrators, successors and assigns of the respective parties hereto, but in no event may Executive assign or delegate to any other party Executive's rights, duties or obligations under this Agreement. Executive further hereby consents and agrees that the Employer may assign this Agreement (including, but not limited to, Sections 5, 6 and 7) and any of the rights or obligations hereunder to any third party in connection with the sale, merger, consolidation, reorganization, liquidation or transfer, in whole or in part, of the Employer's control and/or ownership of its assets or business. In such event, Executive agrees to continue to be bound by the terms of this Agreement, subject to its terms.

16. Choice of Law/Choice of Forum. All issues and questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by, and construed in accordance with, the laws of the Commonwealth of Pennsylvania, without giving effect to any choice of law or conflict of law rules or provisions (whether of the Commonwealth of Pennsylvania or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than Commonwealth of Pennsylvania.

17. Mitigation. Executive shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in this Agreement be reduced by any compensation Executive earns as the result of employment by another employer or by retirement benefits payable after the termination of this Agreement, except that the Employer shall not be required to provide Executive and Executive's eligible dependents with medical insurance coverage as long as Executive and Executive's eligible dependents are receiving comparable medical insurance coverage from another employer.

18. Amendment and Waiver. The provisions of this Agreement may be amended or waived only with the prior written consent of the Employer and Executive, and no course of conduct or course of dealing or failure or delay by any party hereto in enforcing or exercising any of the provisions of this Agreement (including, without limitation, the Employer's right to terminate the Employment Period with or without Cause) shall affect the validity, binding effect or enforceability of this Agreement or be deemed to be an implied waiver of any provision of this Agreement.

19. Waiver of Jury Trial. As a specifically bargained for inducement for each of the parties hereto to enter into this Agreement (AFTER HAVING THE OPPORTUNITY TO CONSULT WITH COUNSEL), EACH PARTY HERETO EXPRESSLY WAIVES THE RIGHT TO TRIAL BY JURY IN ANY LAWSUIT OR PROCEEDING RELATING TO OR ARISING IN ANY WAY FROM THIS AGREEMENT OR THE MATTERS CONTEMPLATED HEREBY.

20. Executive's Cooperation. During the Employment Period and thereafter, Executive shall reasonably cooperate with the Employer in any internal investigation or administrative, regulatory or judicial proceeding as reasonably requested by the Employer (including, without limitation, Executive's being reasonably available to the Employer upon reasonable notice for interviews and factual investigations, appearing at the Employer's reasonable request to give testimony without requiring service of a subpoena or other legal process, volunteering to the Employer all pertinent information and turning over to the Employer all relevant documents which are or may come into Executive's possession, all at times and on schedules that are reasonably consistent with Executive's other permitted activities and commitments) at reasonable times. In the event the Employer requires Executive's cooperation in accordance with this Section 20 after termination of his employment with the Employer (regardless of the reason) and to the extent Executive is no longer entitled to any payments under this Agreement, including, but not limited to Severance Payments, the Employer shall compensate Executive on an hourly basis for his time spent on the foregoing (including, but not limited to, any travel time) calculated based off of Executive's Base Salary immediately prior to the termination of his employment with the Employer divided by two thousand eighty (2,080), and reimburse Executive for reasonable travel and other expenses (including, but not limited to, lodging and meals, upon submission of receipts). Nothing about the foregoing shall interfere with Executive's obligation to testifying truthfully in any forum or from providing truthful information, including, but not limited to, Confidential Information, to any government agency or commission.

21. 409A Compliance.

(a) The Employer and Executive intend that this Agreement be drafted and administered in compliance with Section 409A of the Code, including, but not limited to, any future amendments thereto, and any other IRS or other governmental rulings or interpretations (together, "Section 409A") issued pursuant to Section 409A so as not to subject Executive to payment of interest or any additional tax under Section 409A. The Employer and Executive intend for any payments under this Agreement to satisfy either the requirements of Section 409A or to be exempt from the application of Section 409A, and the Employer and Executive shall construe and interpret this Agreement accordingly. In furtherance of such intent, if payment or provision of any amount or benefit under this Agreement that is subject to Section 409A at the time specified in this Agreement would subject such amount or benefit to any additional tax under Section 409A, the Employer shall postpone payment or provision of such amount or benefit to the earliest commencement date on which the Employer can make such payment or provision of such amount or benefit without incurring such additional tax. In addition, to the extent that any IRS guidance issued under Section 409A would result in Executive being subject to the payment of interest or any additional tax under Section 409A, the Employer and Executive agree, to the extent reasonably possible, to amend this Agreement in order to avoid the imposition of any such interest or additional tax under Section 409A. Any such amendment shall have the minimum economic effect necessary and be determined reasonably and in good faith by the Employer and Executive.

(b) If a payment under this Agreement does not qualify as a short-term deferral under Section 409A or any similar or successor provisions, and Executive is a Specified Employee as of Executive's Termination Date, the Employer may not make such distributions to Executive before a date that is six (6) months after the date of Executive's Termination Date or, if earlier, the date of Executive's death (the "Six-Month Delay"). The Employer shall accumulate payments to which Executive would otherwise be entitled during the first six (6) months following the Termination Date (the "Six-Month Delay Period") and make such payments on the first day of the seventh month following Executive's Termination Date. Notwithstanding the Six-Month Delay set forth in this Section 21(b):

(i) To the maximum extent Section 409A or any similar or successor provisions permit, during each month of the Six-Month Delay Period, the Employer will pay Executive an amount equal to the lesser of (A) the total monthly Severance Benefits or (B) one-sixth of the lesser of (1) the maximum amount that Section 401(a)(17) permits to be taken into account under a qualified plan for the year in which Executive's Termination Date occurs and (2) the sum of Executive's annualized compensation based upon the annual rate of pay for services provided to the Employer for the taxable year of Executive preceding the taxable year of Executive in which Executive's Termination Date occurs, adjusted for any increase during that year that the parties expected to continue indefinitely if Executive's Termination Date has not occurred; and

(ii) To the maximum extent Section 409A, or any similar or successor provisions, permits within ten days following Executive's Termination Date, the Employer shall pay Executive an amount equal to the applicable dollar amount under Section 402(g)(1)(B) for the year in which Executive's Termination Date occurred.

(iii) For purposes of this Agreement, "Specified Employee" has the meaning given that term in Section 409A or any similar or successor provisions. The Employer's "specified employee identification date" as described in Section 409A will be December 31 of each year, and the Employer's "specified employee effective date" as described in Section 409A will be February 1 of each succeeding year.

(c) A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits upon or following a termination of employment unless such termination is also a "separation from service" within the meaning of Section 409A and, for purposes of any such provision of this Agreement, references to a "termination," "termination of employment" or like terms shall mean "separation from service."

(d) To the extent that reimbursements or other in-kind benefits under this Agreement constitute "nonqualified deferred compensation" for purposes of Section 409A, (i) all such expenses or other reimbursements hereunder shall be made on or prior to the last day of the taxable year following the taxable year in which such expenses were incurred by Executive, (ii) any such right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, and (iii) no such reimbursement, expenses eligible for reimbursement, or in-kind benefits provided in any taxable year shall in any way affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year.

(e) For purposes of Section 409A, Executive's right to receive any installment payments pursuant to this Agreement shall be treated as a right to receive a series of separate and distinct payments.

(f) Notwithstanding any other provision of this Agreement to the contrary, in no event shall any payment under this Agreement that constitutes "nonqualified deferred compensation" for purposes of Section 409A be subject to offset by any other amount unless otherwise permitted by Section 409A.

[*SIGNATURE PAGE FOLLOWS*]

IN WITNESS WHEREOF, the parties hereto have executed this Employment Agreement as of the date first written above.

DONEGAL MUTUAL INSURANCE COMPANY

By:
Its: President and Chief Executive Officer

David W. Sponic

EXHIBIT 31.1

CERTIFICATION

I, Kevin G. Burke, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended September 30, 2022 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: November 4, 2022

/s/ Kevin G. Burke

Kevin G. Burke,
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Jeffrey D. Miller, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended September 30, 2022 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: November 4, 2022

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

EXHIBIT 32.1

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

In connection with the Annual Report of Donegal Group Inc. (the "Company"), on Form 10-Q for the quarter ended September 30, 2022, as filed with the Securities and Exchange Commission (the "Report"), Kevin G. Burke, the President and Chief Executive Officer of the Company, does hereby certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350), that to his knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 4, 2022

/s/ Kevin G. Burke

Kevin G. Burke, President and Chief Executive Officer

EXHIBIT 32.2

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

In connection with the Annual Report of Donegal Group Inc. (the "Company"), on Form 10-Q for the quarter ended September 30, 2022, as filed with the Securities and Exchange Commission (the "Report"), Jeffrey D. Miller, the Executive Vice President and Chief Financial Officer of the Company, does hereby certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350), that to his knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 4, 2022

/s/ Jeffrey D. Miller

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