

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**FORM 8-K**

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**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of  
The Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported) **July 22, 2014**

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**Donegal Group Inc.**

(Exact name of registrant as specified in its charter)

**DE**  
(State or other jurisdiction  
of incorporation)

**0-15341**  
(Commission File Number)

**23-2424711**  
(IRS Employer Identification No.)

**1195 RIVER RD MARIETTA, PA**  
(Address of principal executive offices)

**17547**  
(Zip Code)

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

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

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Item 2.02. Results of Operations and Financial Condition.**

On July 22, 2014 the Registrant issued a press release, a copy of which is attached hereto as Exhibit 99.1 and is incorporated herein by reference.

**Item 9.01. Financial Statements and Exhibits.**

Exhibit 99.1. Press release dated July 22, 2014

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**SIGNATURE**

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

**Donegal Group Inc.**

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(Registrant)

/s/ **JEFFREY D. MILLER**

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**July 22, 2014**

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(Date)

Jeffrey D. Miller

*Executive Vice President & Chief Financial Officer*

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**Exhibit Index**

99.1 Press release dated July 22, 2014

## Donegal Group Inc. Announces Second Quarter 2014 Results

MARIETTA, Pa., July 22, 2014 (GLOBE NEWSWIRE) -- Donegal Group Inc. (Nasdaq:DGICA) and (Nasdaq:DGICB) today reported its financial results for the second quarter and first half of 2014. Significant developments include:

- Net income of \$1.9 million for second quarter of 2014, compared to \$2.6 million for second quarter of 2013
- Statutory combined ratio<sup>1</sup> of 102.1% for second quarter of 2014 increased from 100.6% for second quarter of 2013, as the total weather-related loss ratio rose 1.1 percentage points and an increase in large fire losses added 2.4 percentage points
- 7.7% increase in net premiums written to \$151.4 million, reflecting continuing organic growth in commercial lines and the impact of premium rate increases, offset by higher reinsurance reinstatement premiums
- Book value per share of \$15.25 at June 30, 2014, compared to \$15.02 at year-end 2013

|  | Three Months Ended June 30, |      |          | Six Months Ended June 30, |      |          |
|--|-----------------------------|------|----------|---------------------------|------|----------|
|  | 2014                        | 2013 | % Change | 2014                      | 2013 | % Change |

(dollars in thousands, except per share amounts)

### Income Statement Data

|                               |            |            |       |            |            |       |
|-------------------------------|------------|------------|-------|------------|------------|-------|
| Net premiums earned           | \$ 136,589 | \$ 126,963 | 7.6%  | \$ 270,137 | \$ 251,665 | 7.3%  |
| Investment income, net        | 4,614      | 4,671      | -1.2  | 9,230      | 9,486      | -2.7  |
| Realized gains                | 2,034      | 1,254      | 62.2  | 1,946      | 2,595      | -25.0 |
| Total revenues                | 145,482    | 135,508    | 7.4   | 285,821    | 269,380    | 6.1   |
| Net income                    | 1,939      | 2,629      | -26.2 | 1,304      | 9,104      | -85.7 |
| Operating income <sup>1</sup> | 596        | 1,801      | -66.9 | 20         | 7,392      | -99.7 |

### Per Share Data

|                                      |         |         |        |         |         |        |
|--------------------------------------|---------|---------|--------|---------|---------|--------|
| Net income – Class A (diluted)       | \$ 0.07 | \$ 0.10 | -30.0% | \$ 0.05 | \$ 0.35 | -85.7% |
| Net income – Class B                 | 0.07    | 0.09    | -22.2  | 0.04    | 0.32    | -87.5  |
| Operating income – Class A (diluted) | 0.02    | 0.07    | -71.4  | --      | 0.28    | -100.0 |
| Operating income – Class B           | 0.02    | 0.07    | -71.4  | --      | 0.26    | -100.0 |
| Book value                           | 15.25   | 14.84   | 2.8    | 15.25   | 14.84   | 2.8    |

<sup>1</sup>The "Definitions of Non-GAAP and Operating Measures" section of this release defines and reconciles data that the Company has prepared on an accounting basis other than U.S. generally accepted accounting principles ("GAAP").

Donald H. Nikolaus, President and Chief Executive Officer of Donegal Group Inc., noted, "In reviewing the first half of 2014, we made progress on our long-term initiatives, particularly in the execution of our plans to grow our commercial lines business segment. We have continued to expand our product offerings, leverage existing agency relationships and appoint additional commercially focused agents. Nonetheless, we must acknowledge that the first half of the year also presented challenges from unusually severe weather and other claim activity.

Mr. Nikolaus continued, "During the second quarter of 2014, we experienced several severe wind and hail storms in the Mid-Atlantic and Midwest regions that resulted in large volumes of claims from our customers. In fact, an unusually severe May hail storm in eastern Pennsylvania and surrounding areas resulted in the largest financial impact, prior to reinsurance, for the Donegal Insurance Group of any weather event in our 125-year history. We express our sincere appreciation to our agents and claim professionals who expended substantial efforts to provide timely claims service to the many individuals and businesses that the severe weather affected.

"The limited impact of these events on the net quarterly financial results of Donegal Group clearly demonstrates the benefits our reinsurance arrangements with Donegal Mutual Insurance Company and third-party reinsurers provide. These reinsurance agreements reduce the effects of a single large loss, or an accumulation of smaller losses arising from one event, to levels that are appropriate for the size, underwriting profile and surplus position of Donegal Group's insurance subsidiaries. After accounting for reinsurance recoveries, we incurred approximately \$3.9 million in net losses incurred and approximately \$2.4 million in reinsurance reinstatement premiums with respect to four PCS-designated catastrophe events during the second quarter of 2014," Mr. Nikolaus noted.

Mr. Nikolaus added, "Our organizational structure provides significant stability and allows us to continue to maintain a long-term perspective. As such, we can continue to focus our efforts on serving the needs of our independent agents and our policyholders. Our marketing efforts in 2014 are again yielding positive results, evidenced by healthy premium growth and further expansion of our independent agency force. So far in 2014, we have appointed 93 new independent agencies. In our personal lines business segment, Donegal Group continues to benefit from our disciplined underwriting approach and premium rate increases we have implemented over the past several years.

"The steady growth of our insurance business and other positive underlying business trends give us confidence that we will achieve measurable progress toward our established corporate goals of increasing profits, building our financial strength and enhancing the value of our stockholders' investment. Our independent agents reaffirm daily that substantial opportunity exists for a well-capitalized regional insurance group with a solid business strategy. In April 2014, our board of directors expressed their confidence in Donegal Group's future prospects when they increased the quarterly Class A common stock dividend rate by 3.1 percent to an annualized payout of \$.526 cents per share," Mr. Nikolaus concluded.

At June 30, 2014, the Company's book value per share was \$15.25, compared to \$15.02 at December 31, 2013, and \$14.84 at June 30, 2013. The increase in book value at June 30, 2014 reflected an increase in net unrealized gains in the fair value of the Company's available-for-sale fixed-income securities portfolio due to lower market interest rates.

## Insurance Operations

*Donegal Group is an insurance holding company whose insurance subsidiaries offer personal and commercial property and casualty lines of insurance in four Mid-Atlantic states (Delaware, Maryland, New York and Pennsylvania), three New England states (Maine, New Hampshire and Vermont), seven Southeastern states (Alabama, Georgia, North Carolina, South Carolina, Tennessee, Virginia and West Virginia) and eight Midwestern states (Indiana, Iowa, Michigan, Nebraska, Ohio, Oklahoma, South Dakota and Wisconsin). The insurance subsidiaries of Donegal Group conduct business together with Donegal Mutual Insurance Company as the Donegal Insurance Group.*

| <u>Three Months Ended June 30,</u> |             |                 | <u>Six Months Ended June 30,</u> |             |                 |
|------------------------------------|-------------|-----------------|----------------------------------|-------------|-----------------|
| <u>2014</u>                        | <u>2013</u> | <u>% Change</u> | <u>2014</u>                      | <u>2013</u> | <u>% Change</u> |

(dollars in thousands)

### Net Premiums Written

#### Personal lines:

|                             |               |               |            |                |                |            |
|-----------------------------|---------------|---------------|------------|----------------|----------------|------------|
| Automobile                  | \$ 51,966     | \$ 50,242     | 3.4%       | \$ 102,522     | \$ 98,864      | 3.7%       |
| Homeowners                  | 31,170        | 29,089        | 7.2        | 54,085         | 50,944         | 6.2        |
| Other                       | 4,613         | 4,263         | 8.2        | 8,383          | 7,633          | 9.8        |
| <b>Total personal lines</b> | <b>87,749</b> | <b>83,594</b> | <b>5.0</b> | <b>164,990</b> | <b>157,441</b> | <b>4.8</b> |

#### Commercial lines:

|                                   |                   |                   |             |                   |                   |             |
|-----------------------------------|-------------------|-------------------|-------------|-------------------|-------------------|-------------|
| Automobile                        | 17,510            | 15,726            | 11.3        | 34,770            | 31,189            | 11.5        |
| Workers' compensation             | 22,345            | 19,707            | 13.4        | 48,923            | 42,918            | 14.0        |
| Commercial multi-peril            | 21,713            | 19,963            | 8.8         | 43,791            | 39,657            | 10.4        |
| Other                             | 2,118             | 1,575             | 34.5        | 3,543             | 1,826             | 94.0        |
| <b>Total commercial lines</b>     | <b>63,686</b>     | <b>56,971</b>     | <b>11.8</b> | <b>131,027</b>    | <b>115,590</b>    | <b>13.4</b> |
| <b>Total net premiums written</b> | <b>\$ 151,435</b> | <b>\$ 140,565</b> | <b>7.7%</b> | <b>\$ 296,017</b> | <b>\$ 273,031</b> | <b>8.4%</b> |

The Company's net premiums written increased 7.7% for the second quarter of 2014 compared to the second quarter of 2013. This increase represented the combination of 11.8% growth in commercial lines writings and 5.0% growth in personal lines writings. The \$10.9 million growth in net premiums written for the second quarter of 2014 compared to the second quarter of 2013 included:

- \$2.6 million, or 1.9% of total net premiums written, related to a change in the Michigan Insurance Company ("MICO") quota-share reinsurance agreement that continues to reduce the amount of business MICO cedes to external reinsurers. The Company acquired MICO in 2010.
- \$5.3 million in commercial lines premiums, excluding the MICO quota-share reinsurance change, that the Company attributes primarily to premium rate increases and new commercial accounts the Company's insurance subsidiaries have written throughout their operating regions.
- \$3.0 million in personal lines premiums, excluding the MICO quota-share reinsurance change. The modest increase reflects the premium rate increases and underwriting initiatives the Company has implemented over the past four quarters, offset by reinsurance reinstatement premiums that were \$1.6 million higher than the prior-year quarter.

The Company's net premiums written increased 8.4% in the first half of 2014. The increase included \$5.4 million related to a reduction in the percentage of the premiums MICO ceded under its quota-share reinsurance agreement with external reinsurers in the first half of 2014 compared to 2013. Excluding the quota-share reinsurance change, commercial lines premiums rose \$12.3 million and personal lines premiums rose \$5.3 million for the first six months of 2014 compared to the first six months of 2013. Reinsurance reinstatement premiums for the first six months of 2014 were \$3.6 million higher than in the prior year period.

| <u>Three Months Ended</u> |             | <u>Six Months Ended</u> |             |
|---------------------------|-------------|-------------------------|-------------|
| <u>June 30,</u>           |             | <u>June 30,</u>         |             |
| <u>2014</u>               | <u>2013</u> | <u>2014</u>             | <u>2013</u> |

### Statutory Combined Ratios

#### Personal Lines:

|                        |        |        |        |        |
|------------------------|--------|--------|--------|--------|
| Automobile             | 103.3% | 100.2% | 100.6% | 102.2% |
| Homeowners             | 90.9   | 101.6  | 100.3  | 95.3   |
| Other                  | 105.9  | 88.3   | 113.4  | 85.6   |
| Total personal lines   | 99.5   | 100.2  | 101.1  | 99.2   |
| Commercial Lines:      |        |        |        |        |
| Automobile             | 128.4  | 99.8   | 114.5  | 101.2  |
| Workers' compensation  | 90.6   | 108.1  | 94.1   | 104.9  |
| Commercial multi-peril | 109.7  | 103.1  | 114.4  | 100.8  |
| Total commercial lines | 105.8  | 101.4  | 105.1  | 99.9   |
| Total lines            | 102.1% | 100.6% | 102.7% | 99.3%  |

#### GAAP Combined Ratios (Total Lines)

|                              |        |        |        |        |
|------------------------------|--------|--------|--------|--------|
| Loss ratio (non-weather)     | 63.2%  | 63.1%  | 62.4%  | 63.6%  |
| Loss ratio (weather-related) | 8.5    | 7.4    | 10.0   | 6.0    |
| Expense ratio                | 31.9   | 32.3   | 31.6   | 31.5   |
| Dividend ratio               | 0.4    | 0.3    | 0.3    | 0.3    |
| Combined ratio               | 104.0% | 103.1% | 104.3% | 101.4% |

For the second quarter of 2014, the Company's statutory loss ratio increased to 72.0%, compared to 70.8% for the second quarter of 2013. For the first six months of 2014, the Company's statutory loss ratio increased to 72.8% from 69.9% for the first six months of 2013.

Kevin G. Burke, Executive Vice President and Chief Operating Officer, noted, "The nature of the second-quarter loss events resulted in unusual results in several of our lines of business. For example, our policyholders reported substantial physical damage to automobiles from the hail storm in May and similar storms during the quarter, leading to higher combined ratios for both our personal and commercial automobile lines of business. Due largely to our emphasis on increasing rates in recent years, the homeowners line of business showed profitability despite the weather-related claim activity, achieving a 90.9% combined ratio for the quarter."

Mr. Burke continued, "The commercial multi-peril combined ratio for the quarter was above targeted levels due to an increased impact of large fire losses. The elevated commercial auto combined ratio reflected the aforementioned weather-related losses, as well as reserve development related to our receipt of new information during the quarter on a handful of automobile bodily injury liability claims from prior accident years. On the other hand, our workers' compensation line of business performed very well during the quarter, generating a favorable 90.6% combined ratio."

Weather-related losses were \$11.6 million for the second quarter of 2014, representing 8.5 percentage points of the Company's loss ratio, compared to the \$9.4 million in weather-related losses, or 7.4 percentage points of the Company's loss ratio, that the Company incurred for the second quarter of 2013. The increase in weather-related losses was directly attributable to an increase in PCS-designated catastrophe losses, primarily related to wind and hail events.

Large fire losses totaled \$9.3 million in the second quarter of 2014, or 6.8 percentage points of the Company's loss ratio, increasing from the \$5.7 million, or 4.4 percentage points of the Company's loss ratio, that the Company experienced during the second quarter of 2013. The increase in large fire losses reflected increased claim activity in the commercial multi-peril line of business. Development of reserves for losses incurred in prior accident years added 4.4 percentage points to the Company's loss ratios for the second quarter of 2014, compared to 3.7 percentage points for the second quarter of 2013.

The Company's statutory expense ratio<sup>1</sup> of 29.6% for the second quarter of 2014 was comparable to the 29.5% statutory expense ratio for the second quarter of 2013.

#### Investment Operations

*Donegal Group's investment strategy is to generate an appropriate amount of after-tax income on its invested assets while minimizing credit risk through investment in high-quality securities. As a result, the Company had invested 88.4% of its consolidated investment portfolio in diversified, highly rated and marketable fixed-maturity securities at June 30, 2014.*

|   | June 30, 2014          |      | December 31, 2013 |      |
|---|------------------------|------|-------------------|------|
|   | Amount                 | %    | Amount            | %    |
|   | (dollars in thousands) |      |                   |      |
| Fixed maturities, at carrying value:  |                        |      |                   |      |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$ 68,173              | 8.3% | \$ 62,279         | 7.9% |
| Obligations of states and political subdivisions                                      | 364,173                | 44.5 | 385,982           | 48.7 |
| Corporate securities  | 114,364                | 14.0 | 55,547            | 7.0  |
| Mortgage-backed securities  | 176,897                | 21.6 | 140,214           | 17.7 |
| Total fixed maturities  | 723,607                | 88.4 | 644,022           | 81.3 |
| Equity securities, at fair value  | 26,840                 | 3.3  | 12,423            | 1.6  |

|   |                   |               |                   |               |
|---|-------------------|---------------|-------------------|---------------|
| Investments in affiliates               | 38,353            | 4.7           | 35,685            | 4.5           |
| Short-term investments, at cost         | 30,465            | 3.6           | 99,678            | 12.6          |
| Total investments                       | <u>\$ 819,265</u> | <u>100.0%</u> | <u>\$ 791,808</u> | <u>100.0%</u> |
| Average investment yield                | 2.3%              |               | 2.4%              |               |
| Average tax-equivalent investment yield | 3.1%              |               | 3.3%              |               |
| Average fixed-maturity duration (years) | 4.7               |               | 4.5               |               |

A 1.2% decrease in net investment income for the second quarter of 2014 primarily reflected the impact of the lower average investment yield on the Company's fixed-maturity securities portfolio, offset partially by an increase in average invested assets, compared to the second quarter of 2013. Net realized investment gains were \$2.0 million for the second quarter of 2014, compared to \$1.3 million for the second quarter of 2013. The Company had no impairments in its investment portfolio that it considered to be other than temporary during the second quarter of 2014 or 2013.

Jeffrey D. Miller, Executive Vice President and Chief Financial Officer of Donegal Group Inc., in commenting on the Company's investment operations, noted, "Average yields on the portfolio have remained very steady since the beginning of the year, and we have seen a modest increase in portfolio valuations as rates have remained in a fairly tight range. We have reinvested funds from municipal bond sales and maturities into U.S. government agency fixed-maturity securities, and, to a lesser extent, dividend-paying equity securities, to provide future investment income, but we are continuing to maintain a relatively short average portfolio duration so we are positioned to take advantage of future increases in interest rates."

The Company owns 48.2% of the outstanding stock of Donegal Financial Services Corporation ("DFSC"), which owns all of the outstanding capital stock of Union Community Bank. The Company accounts for its investment in DFSC using the equity method of accounting. The Company's equity in the earnings of DFSC was \$348,625 for the second quarter of 2014, compared to \$675,568 million for the second quarter of 2013. Donegal Mutual Insurance Company owns the remaining 51.8% of the outstanding stock of DFSC.

## Definitions of Non-GAAP and Operating Measures

The Company prepares its consolidated financial statements on the basis of GAAP. The Company's insurance subsidiaries also prepare financial statements based on statutory accounting principles state insurance regulators prescribe or permit ("SAP"). In addition to using GAAP-based performance measurements, the Company also utilizes certain non-GAAP financial measures that it believes provide value in managing its business and for comparison to the financial results of its peers. These non-GAAP measures are operating income and statutory combined ratio.

Operating income is a non-GAAP financial measure investors in insurance companies commonly use. The Company defines operating income as net income excluding after-tax net realized investment gains or losses. Because the Company's calculation of operating income may differ from similar measures other companies use, investors should exercise caution when comparing the Company's measure of operating income to that of other companies.

The following table provides a reconciliation of net income to operating income:

|   | <u>Three Months Ended June 30,</u>               |                 |                 | <u>Six Months Ended June 30,</u> |                 |                 |
|---|--|-----------------|-----------------|----------------------------------|-----------------|-----------------|
|   | <u>2014</u>                                      | <u>2013</u>     | <u>% Change</u> | <u>2014</u>                      | <u>2013</u>     | <u>% Change</u> |
|   | (dollars in thousands, except per share amounts) |                 |                 |                                  |                 |                 |
| <b>Reconciliation of Net Income to Operating Income</b>           |  |                 |                 |                                  |                 |                 |
| Net income  | \$ 1,939   | \$ 2,629        | -26.2%          | \$ 1,304                         | \$ 9,104        | -85.7%          |
| Realized gains (after tax)  | <u>(1,343)</u>                                   | <u>(828)</u>    | <u>62.2</u>     | <u>(1,284)</u>                   | <u>(1,712)</u>  | <u>-25.0</u>    |
| Operating income  | <u>\$ 596</u>                                    | <u>\$ 1,801</u> | <u>-66.9%</u>   | <u>\$ 20</u>                     | <u>\$ 7,392</u> | <u>-99.7%</u>   |
| <b>Per Share Reconciliation of Net Income to Operating Income</b> |  |                 |                 |                                  |                 |                 |
| Net income – Class A (diluted)                                    | \$ 0.07  | \$ 0.10         | -30.0%          | \$ 0.05                          | \$ 0.35         | -85.7%          |
| Realized gains (after tax)  | <u>(0.05)</u>                                    | <u>(0.03)</u>   | <u>66.7</u>     | <u>(0.05)</u>                    | <u>(0.07)</u>   | <u>-28.6</u>    |
| Operating income – Class A  | <u>\$ 0.02</u>                                   | <u>\$ 0.07</u>  | <u>-71.4%</u>   | <u>\$ --</u>                     | <u>\$ 0.28</u>  | <u>-100.0%</u>  |
| Net income – Class B  | \$ 0.07  | \$ 0.09         | -22.2%          | \$ 0.04                          | \$ 0.32         | -87.5%          |
| Realized gains (after tax)  | <u>(0.05)</u>                                    | <u>(0.02)</u>   | <u>150.0</u>    | <u>(0.04)</u>                    | <u>(0.06)</u>   | <u>-33.3</u>    |
| Operating income – Class B  | <u>\$ 0.02</u>                                   | <u>\$ 0.07</u>  | <u>-71.4%</u>   | <u>\$ --</u>                     | <u>\$ 0.26</u>  | <u>-100.0%</u>  |

Statutory combined ratio is a non-GAAP standard measurement of underwriting profitability that is based upon amounts determined under SAP. The statutory combined ratio is the sum of:

- the statutory loss ratio, which is the ratio of calendar-year incurred losses and loss expenses to premiums earned;



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

The statutory combined ratio does not reflect investment income, federal income taxes or other non-operating income or expense. A statutory combined ratio of less than 100% generally indicates underwriting profitability.

## Conference Call and Webcast

The Company will hold a conference call and webcast on Tuesday, July 22, 2014, beginning at 11:00 A.M. Eastern Time. You may listen via the Internet by accessing the webcast link on the Company's web site at <http://investors.donegalgroup.com>. A replay of the conference call will also be available via the Company's web site.

## About the Company

Donegal Group is an insurance holding company. The Company's Class A common stock and Class B common stock trade on the NASDAQ Global Select Market under the symbols DGICA and DGICB, respectively. As an effective acquirer of small to medium-sized "main street" property and casualty insurers, Donegal Group has grown profitably since its formation in 1986. The Company continues to seek opportunities for growth while striving to achieve its longstanding goal of outperforming the industry in terms of service, profitability and growth in book value.

As Forbes reported, Donegal Group Inc. was named to a list of the Most Trustworthy Financial Companies for 2014, ranking the company among firms that have consistently demonstrated transparent and conservative accounting practices and solid corporate governance and management. A reprint of the Forbes article is available as a "Featured Report" on the Company's web site.

## Safe Harbor

We base all statements contained in this release that are not historic facts on our current expectations. These statements are forward-looking in nature (as defined in the Private Securities Litigation Reform Act of 1995) and involve a number of risks and uncertainties. Actual results could vary materially. Factors that could cause actual results to vary materially include: our ability to maintain profitable operations, the adequacy of the loss and loss expense reserves of our insurance subsidiaries, business and economic conditions in the areas in which we operate, interest rates, competition from various insurance and other financial businesses, terrorism, the availability and cost of reinsurance, adverse and catastrophic weather events, legal and judicial developments, changes in regulatory requirements, our ability to integrate and manage successfully the companies we may acquire from time to time and other risks we describe from time to time in the periodic reports we file with the Securities and Exchange Commission. You should not place undue reliance on any such forward-looking statements. 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.

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

|  | <u>Quarter Ended June 30,</u> |                |
|--|-------------------------------|----------------|
|  | <u>2014</u>                   | <u>2013</u>    |
| Net premiums earned                        | \$ 136,589                    | \$ 126,963     |
| Investment income, net of expenses         | 4,614                         | 4,671          |
| Net realized investment gains              | 2,034                         | 1,254          |
| Lease income                               | 214                           | 210            |
| Installment payment fees                   | 1,682                         | 1,734          |
| Equity in earnings of DFSC                 | <u>349</u>                    | <u>676</u>     |
| Total revenues                             | <u>145,482</u>                | <u>135,508</u> |
| Net losses and loss expenses               | 97,887                        | 89,519         |
| Amortization of deferred acquisition costs | 22,025                        | 19,910         |
| Other underwriting expenses                | 21,547                        | 21,129         |
| Policyholder dividends                     | 607                           | 341            |
| Interest                                   | 443                           | 334            |
| Other expenses                             | <u>653</u>                    | <u>1,413</u>   |
| Total expenses                             | <u>143,162</u>                | <u>132,646</u> |
| Income before income tax expense           | 2,320                         | 2,862          |
| Income tax expense                         | <u>381</u>                    | <u>233</u>     |

|                              |                 |                 |
|------------------------------|-----------------|-----------------|
| Net income                   | <u>\$ 1,939</u> | <u>\$ 2,629</u> |
| Net income per common share: |                 |                 |
| Class A - basic              | <u>\$ 0.08</u>  | <u>\$ 0.10</u>  |
| Class A - diluted            | <u>\$ 0.07</u>  | <u>\$ 0.10</u>  |
| Class B - basic and diluted  | <u>\$ 0.07</u>  | <u>\$ 0.09</u>  |

Supplementary Financial Analysts' Data

|  |                   |                   |
|--|-------------------|-------------------|
| Weighted-average number of shares outstanding: |                   |                   |
| Class A - basic                                | <u>20,961,526</u> | <u>20,285,949</u> |
| Class A - diluted                              | <u>21,350,364</u> | <u>20,686,586</u> |
| Class B - basic and diluted                    | <u>5,576,775</u>  | <u>5,576,775</u>  |
| Net written premiums                           | <u>\$ 151,435</u> | <u>\$ 140,565</u> |
| Book value per common share at end of period   | <u>\$ 15.25</u>   | <u>\$ 14.84</u>   |
| Annualized return on average equity            | <u>1.9%</u>       | <u>2.7%</u>       |

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

|  | <u>Six Months Ended June 30,</u> |                 |
|--|----------------------------------|-----------------|
|  | <u>2014</u>                      | <u>2013</u>     |
| Net premiums earned                        | \$ 270,137                       | \$ 251,665      |
| Investment income, net of expenses         | 9,230                            | 9,486           |
| Net realized investment gains              | 1,946                            | 2,595           |
| Lease income                               | 427                              | 426             |
| Installment payment fees                   | 3,323                            | 3,444           |
| Equity in earnings of DFSC                 | <u>758</u>                       | <u>1,764</u>    |
| Total revenues                             | <u>285,821</u>                   | <u>269,380</u>  |
| Net losses and loss expenses               | 195,520                          | 175,052         |
| Amortization of deferred acquisition costs | 43,344                           | 39,470          |
| Other underwriting expenses                | 42,005                           | 39,881          |
| Policyholder dividends                     | 1,002                            | 816             |
| Interest                                   | 809                              | 821             |
| Other expenses                             | <u>1,615</u>                     | <u>2,395</u>    |
| Total expenses                             | <u>284,295</u>                   | <u>258,435</u>  |
| Income before income tax expense           | 1,526                            | 10,945          |
| Income tax expense                         | <u>222</u>                       | <u>1,841</u>    |
| Net income                                 | <u>\$ 1,304</u>                  | <u>\$ 9,104</u> |
| Net income per common share:               |                                  |                 |
| Class A - basic and diluted                | <u>\$ 0.05</u>                   | <u>\$ 0.35</u>  |
| Class B - basic and diluted                | <u>\$ 0.04</u>                   | <u>\$ 0.32</u>  |

Supplementary Financial Analysts' Data

|  |                   |                   |
|--|-------------------|-------------------|
| Weighted-average number of shares outstanding: |                   |                   |
| Class A - basic                                | <u>20,917,529</u> | <u>20,176,958</u> |
| Class A - diluted                              | <u>21,302,041</u> | <u>20,522,801</u> |
| Class B - basic and diluted                    | <u>5,576,775</u>  | <u>5,576,775</u>  |
| Net written premiums                           | \$ 296,017        | \$ 273,031        |

|  |                 |                 |
|--|-----------------|-----------------|
| Book value per common share at end of period | <u>\$ 15.25</u> | <u>\$ 14.84</u> |
| Annualized return on average equity          | <u>0.7%</u>     | <u>4.6%</u>     |

Donegal Group Inc.  
Consolidated Balance Sheets  
(in thousands)

|                                     | <u>June 30,</u><br><u>2014</u> | <u>December 31,</u><br><u>2013</u> |
|-------------------------------------|--------------------------------|------------------------------------|
|                                     | (unaudited)                    |                                    |
| <b>ASSETS</b>                       |                                |                                    |
| Investments:                        |                                |                                    |
| Fixed maturities:                   |                                |                                    |
| Held to maturity, at amortized cost | \$ 297,628                     | \$ 240,370                         |
| Available for sale, at fair value   | 425,979                        | 403,652                            |
| Equity securities, at fair value    | 26,840                         | 12,423                             |
| Investments in affiliates           | 38,353                         | 35,685                             |
| Short-term investments, at cost     | <u>30,465</u>                  | <u>99,678</u>                      |
| Total investments                   | 819,265                        | 791,808                            |
| Cash                                | 20,567                         | 27,636                             |
| Premiums receivable                 | 137,198                        | 123,905                            |
| Reinsurance receivable              | 278,563                        | 244,239                            |
| Deferred policy acquisition costs   | 48,132                         | 43,628                             |
| Prepaid reinsurance premiums        | 121,201                        | 112,664                            |
| Other assets                        | <u>37,527</u>                  | <u>41,531</u>                      |
| Total assets                        | <u>\$ 1,462,453</u>            | <u>\$ 1,385,411</u>                |

**LIABILITIES AND STOCKHOLDERS' EQUITY**

|   |                     |                     |
|---|---------------------|---------------------|
| Liabilities:                                  |                     |                     |
| Losses and loss expenses                      | \$ 526,371          | \$ 495,619          |
| Unearned premiums                             | 417,151             | 382,735             |
| Accrued expenses                              | 14,759              | 19,265              |
| Borrowings under line of credit               | 60,000              | 58,000              |
| Subordinated debentures                       | 5,000               | 5,000               |
| Other liabilities                             | <u>33,693</u>       | <u>27,915</u>       |
| Total liabilities                             | <u>1,056,974</u>    | <u>988,534</u>      |
| Stockholders' equity:                         |                     |                     |
| Class A common stock                          | 220                 | 218                 |
| Class B common stock                          | 56                  | 56                  |
| Additional paid-in capital                    | 192,825             | 189,116             |
| Accumulated other comprehensive income (loss) | 4,902               | (2,313)             |
| Retained earnings                             | 220,578             | 222,889             |
| Treasury stock, at cost                       | <u>(13,102)</u>     | <u>(13,089)</u>     |
| Total stockholders' equity                    | <u>405,479</u>      | <u>396,877</u>      |
| Total liabilities and stockholders' equity    | <u>\$ 1,462,453</u> | <u>\$ 1,385,411</u> |

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