

Effective Consolidator of “Main Street” Property and Casualty Insurers

Investor Presentation



Forward-Looking Statements

The Company bases all statements made in this presentation that are not historic facts on its 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: the Company's ability to maintain profitable operations, the adequacy of the loss and loss expense reserves of the Company's insurance subsidiaries, business and economic conditions in the areas in which the Company operates, 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, the Company's ability to integrate and manage successfully the companies it may acquire from time to time and other risks the Company describes from time to time in the periodic reports it files with the Securities and Exchange Commission. You should not place undue reliance on any such forward-looking statements. The Company disclaims any obligation to update such statements or to announce publicly the results of any revisions that it may make to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

Reconciliations of non-GAAP data are available in the Investors section of the Company's website at www.donegalgroup.com in the Company's news releases regarding quarterly financial results.

Snapshot: NASDAQ:DGICA/DGICB

- Insurance holding company with controlling mutual affiliate
 - Class A dividend yield of 3.5%
 - Class A shares have 1/10 vote; Class B shares have one vote
- Regional standard market property and casualty insurance group
 - 22 Mid-Atlantic, Midwestern, New England and Southern states
 - Distribution force of approximately 2,500 independent agencies
 - \$454 million in 2011 net written premiums, up 16% from 2010
(\$629 million in agency direct written premiums for insurance group)*
 - Completed ten M&A transactions since 1988
- Rated A (Excellent) by A.M. Best
 - Debt-to-capital of approximately 19%
 - Premium-to-surplus ratio of approximately 1.3-to-1

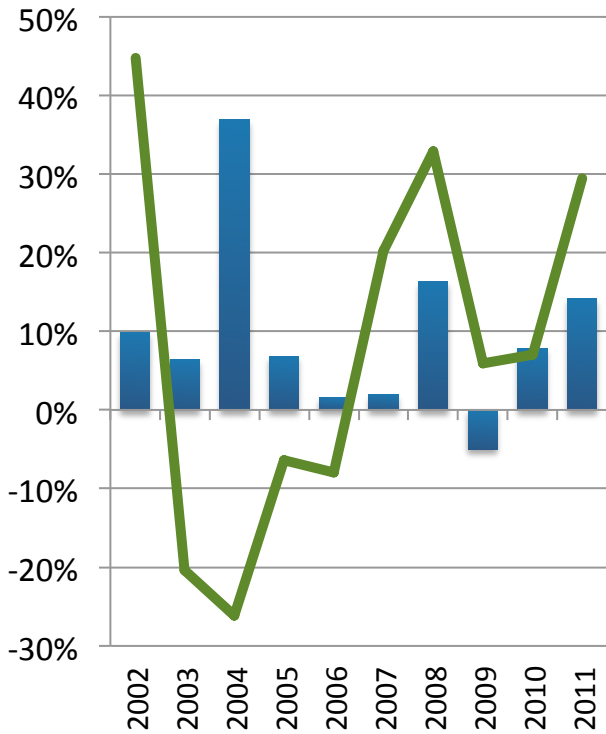
* Includes Donegal Mutual Insurance Company and Southern Mutual Insurance Company

Objective: Outperform Industry

Service, Profitability and Book Value Growth

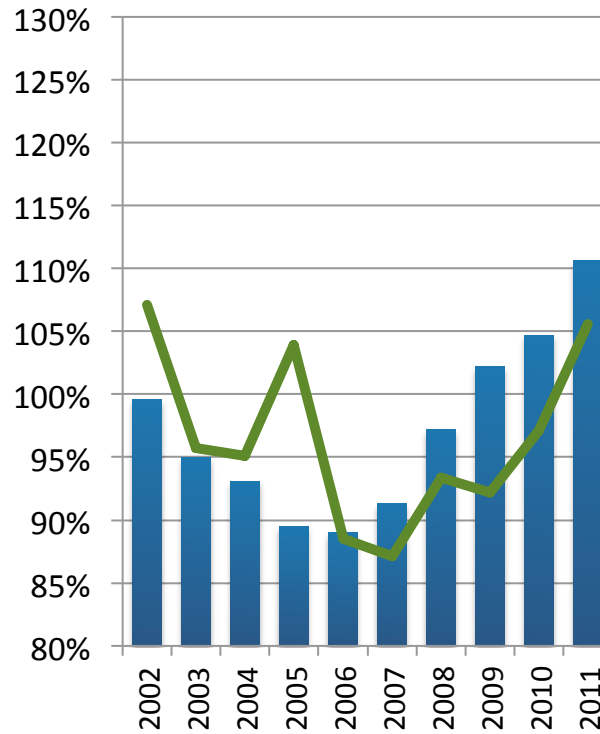
Change in Net Written Premiums

DGI CAGR: 9.9% Index CAGR: 1.9%



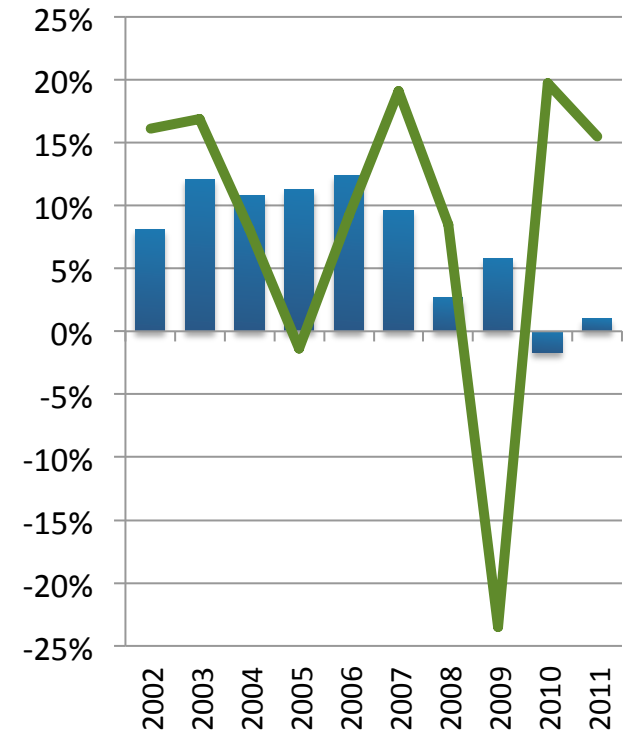
GAAP Combined Ratio

DGI Avg: 97.2% Index Avg: 101.8%



Change in Book Value

DGI CAGR: 7.0% Index CAGR: 6.5%



■ Donegal Group — SNL Small Cap U.S. Insurance Index (average)

1H 2012: Strong Growth and Improved Operating EPS* of 30¢ vs. 10¢ Loss in 1H 2011

- 9.7% increase in net written premiums
 - 7.4% from organic growth, including 12.0% commercial lines expansion with continued signs of improving pricing environment
 - 2.3% from change in external quota-share agreement for Michigan Insurance Company subsidiary
- 92.0% commercial lines and 105.0% personal lines statutory combined ratios
 - 100.2% overall statutory combined ratio, improved from 103.9% in 1H 2011
 - 102.5% overall GAAP combined ratio, improved from 108.1% in 1H 2011
 - Primary factors impacting 1H 2012 were elevated weather losses, increase in fire losses and modest strengthening of prior-year reserves
 - Concentrating on initiatives to drive sustained underwriting profitability
- Decline in investment income due to lower yields
- Book value per share at \$15.36 vs. \$15.01 at year-end 2011

** Reconciliations and definitions of non-GAAP data are available on the Investors area of our website*

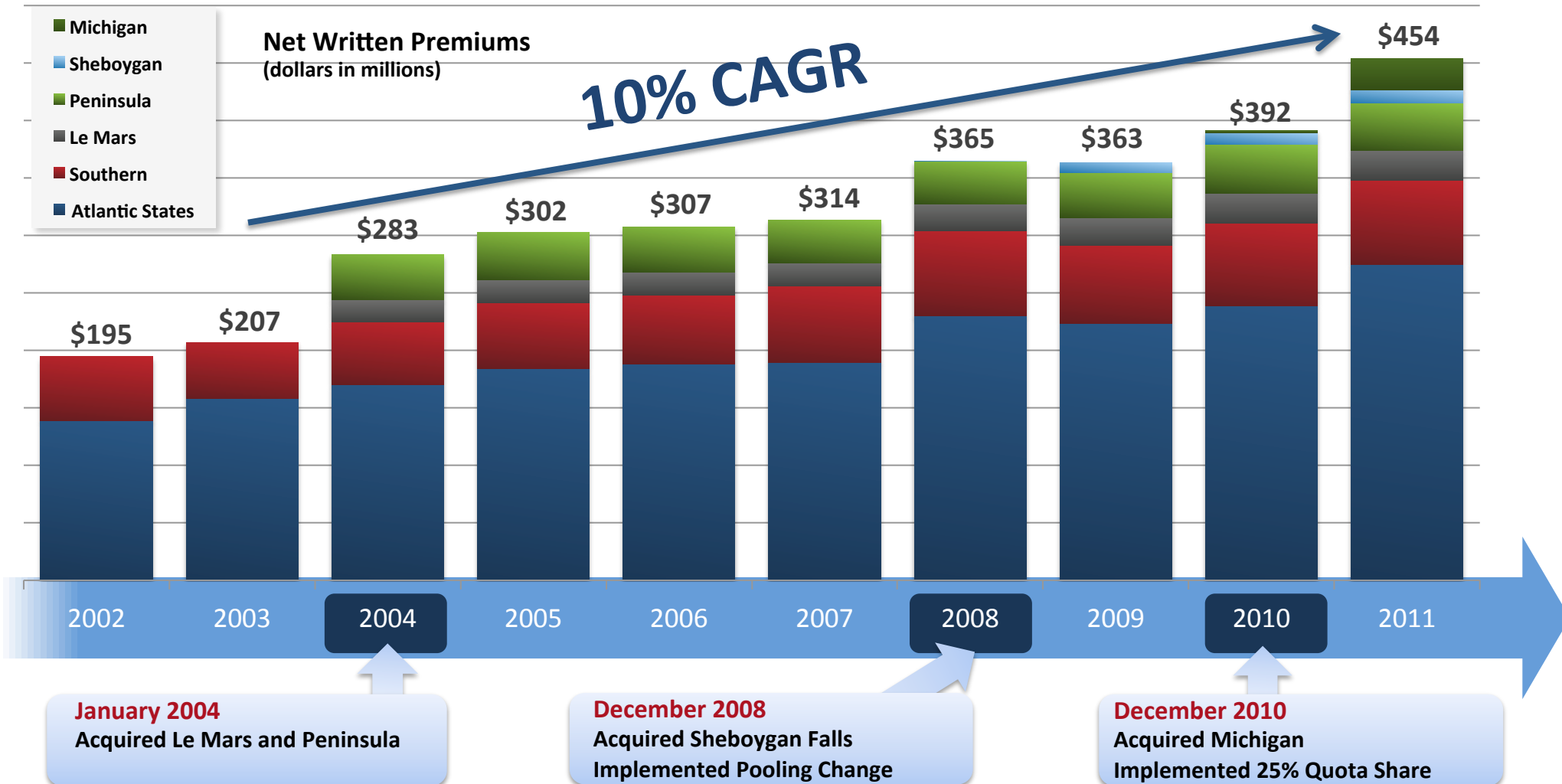
Achieve Objectives By Implementing Plan

Continue to pursue consolidation opportunities

Complement with organic growth and diversification

Translate into book value growth

Acquisitions Have Made Meaningful Contribution to Long-term Growth



Acquisition Strategy Drives Geographic Expansion

- 10 M&A transactions since 1988

- Experienced consolidation team

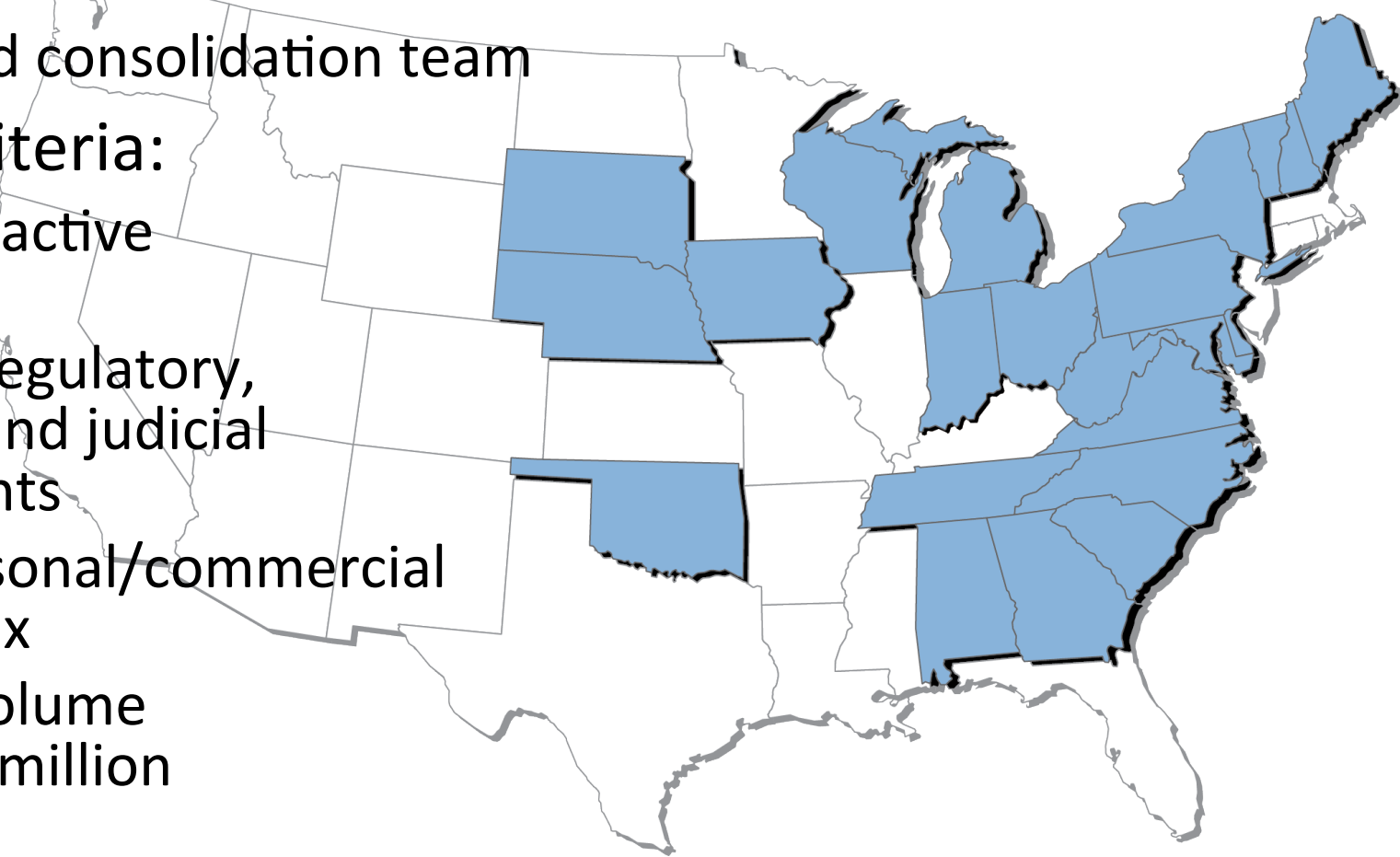
- Acquisition criteria:

- Serving attractive geography

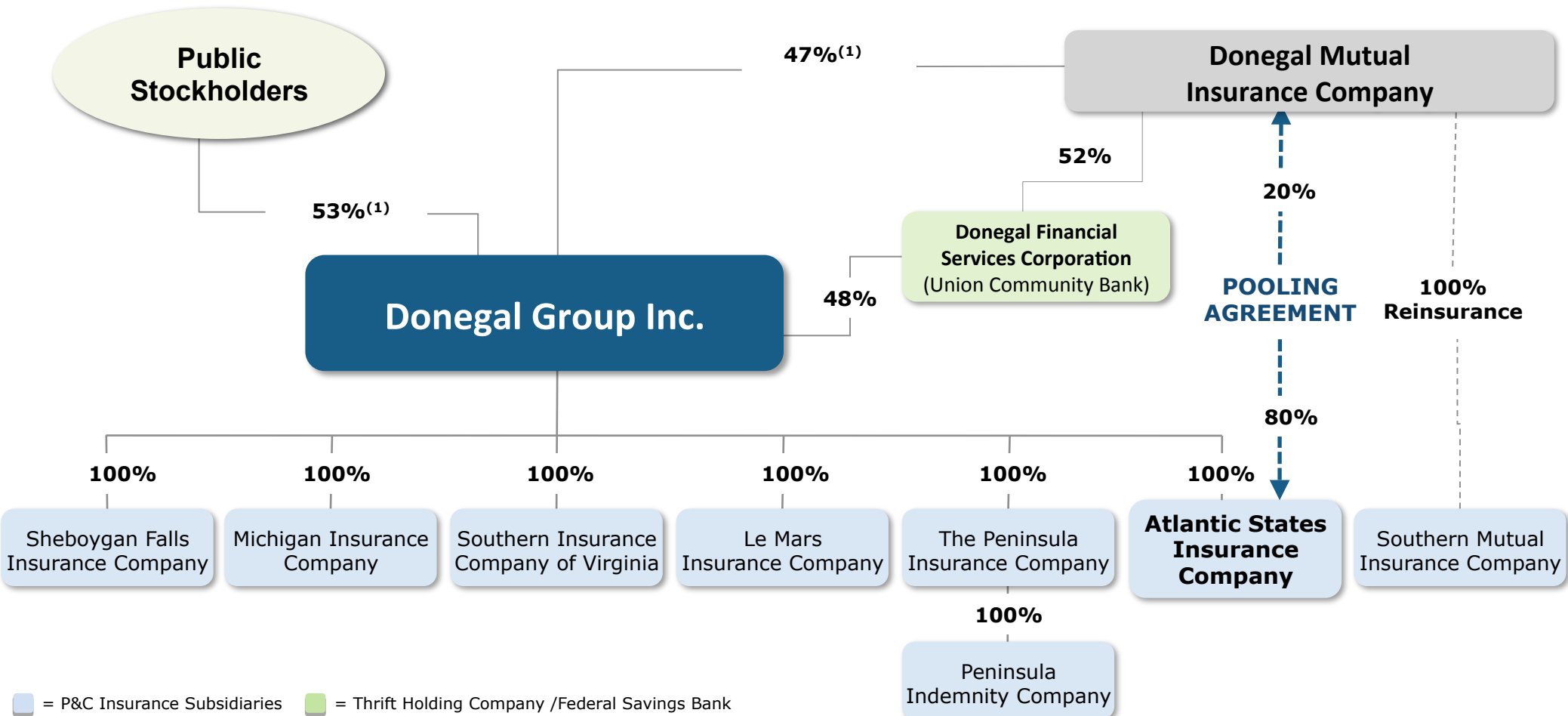
- Favorable regulatory, legislative and judicial environments

- Similar personal/commercial business mix

- Premium volume up to \$100 million



Structure Provides Flexibility and Capacity



(1) Because of the different relative voting power of Class A common stock and Class B common stock, public stockholders hold approximately 34% of the aggregate voting power of the combined classes, and Donegal Mutual holds approximately 66% of the aggregate voting power of the combined classes.

Southern Mutual Insurance Company

Affiliation with Donegal Mutual – 2009

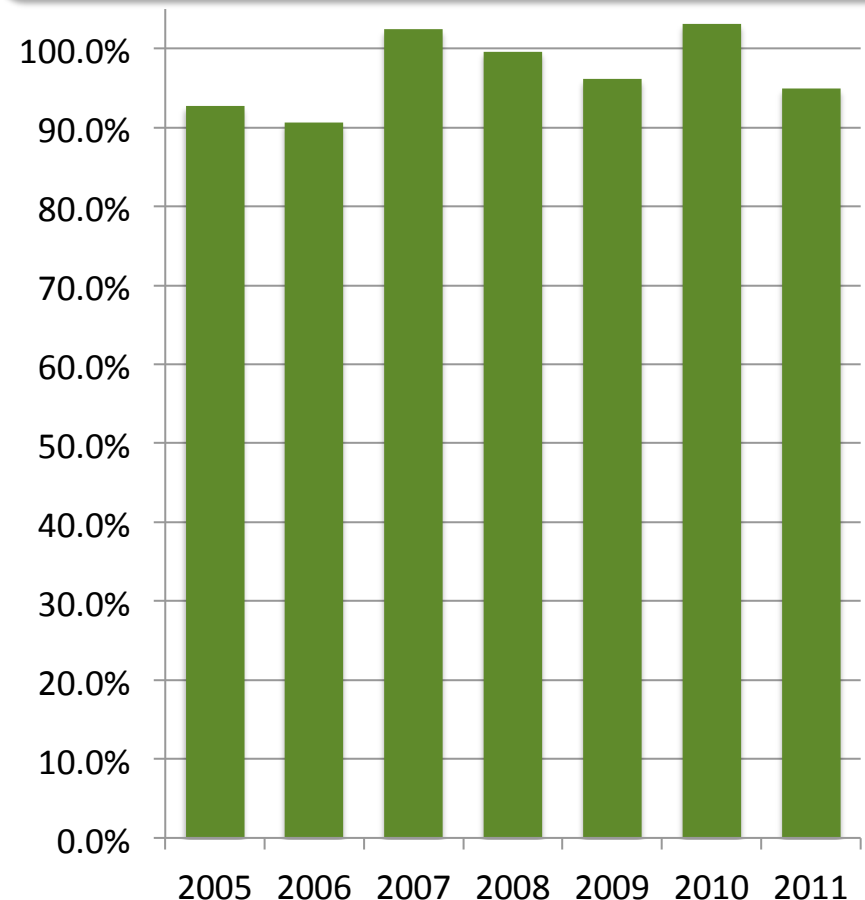
- Donegal Mutual surplus note investment of \$2.5 million
- \$13.9 million in 2011 direct written premiums
- 100% quota share reinsurance with Donegal Mutual
 - SMIC cedes underwriting results to Donegal Mutual
 - Donegal Mutual includes business in pooling agreement with Atlantic States (80% of SMIC business to Donegal Group)
- Expanded market presence in Georgia and South Carolina
- Serves as model for mutual-to-mutual affiliations

Michigan Insurance: Attractive Franchise

Acquired December 2010

- Purchase price of \$42 million = 1.22x GAAP book value
- Track record of profitability
- Provided entry into new state as part of Midwest expansion strategy
 - Capable management team
 - Quality agency distribution system
 - Diversified mix of business

Michigan Insurance Company
Combined Ratio (stat)



Michigan Insurance: Potential for Increased Premium Contribution

- Option to continue to increase retention of Michigan Insurance business
- Michigan Insurance has successfully navigated state's economy
 - Michigan is 8th largest state based on number of households
- 2012 focus on completing system and product conversion

	2010 (under prior owner)	2011	2012
Direct written premiums	\$105 million	\$108 million	\$110 million**
Retained by MICO	25%	25%	35%
Ceded to Donegal Mutual*	N/A	25%	25%
External quota share	75%	50%	40%

* Premiums ceded to Donegal Mutual are included in pooling agreement with Atlantic States (80% to DGI)

** Projected based on six-month 2012 growth rate

History of Contributing Transactions

Company	Le Mars	Peninsula	Sheboygan	Southern Mutual	Michigan
Year Acquired	2004	2004	2008	2009	2010
Company Type	Mutual	Stock	Mutual	Mutual	Stock
Primary Product Line	Personal	Niche	Personal	Personal	Pers./Comm.
Geographic Focus	Midwest	Mid-Atlantic	Wisconsin	Georgia/ South Carolina	Michigan
Transaction Type	Demutualization	Purchase	Demutualization	Affiliation	Purchase
Net Premiums Acquired	\$20 million	\$34 million	\$8 million	\$11 million	\$27 million*
Acquisition Price	\$4 million	\$24 million	\$4 million	N/A	\$42 million
Avg. Growth Rate**	4%	2%	11%	N/A	N/A
Avg. Combined Ratio**	92%	92%	107%	107%	95%

* Michigan's direct premiums written were \$105 million in 2010

** Since acquisition

Achieve Objectives By Implementing Plan

Continue to pursue consolidation opportunities

**Complement with organic growth and
diversification**

Translate into book value growth

Organic Growth Initiatives Emphasize Agent Relationships

- Achieve top three ranking within appointed agencies in “lines of business we serve”
 - Best-in-class customer service and technology
 - High-quality products
 - Consistent claims handling
 - Attractive compensation package
 - Semi-annual agency reviews
 - Maintain personal relationships as agencies grow and consolidate
- Selectively appoint quality agencies to expand distribution in key geographies
 - 2012 focus on strengthening relationships with agencies appointed in 2009-2011
 - Approximately 23% of new business in 2011 from those agencies
 - Targeting 135 appointments in 2012

Build On Solid Technological Capabilities

Personal Lines

- Donegal offers “National Company” quoting and underwriting capabilities



**Service
Center**

Commercial Lines

- Donegal introducing web-based underwriting system with automated rating and underwriting

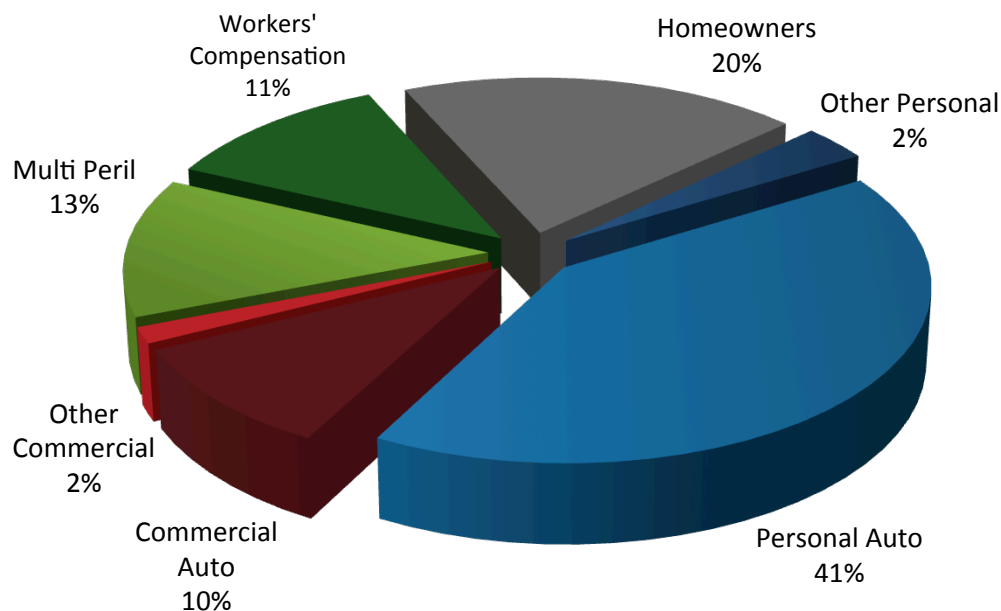


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**Call
Center**

Remain Focused on Underwriting to Best Leverage Rate Increases

Net Written Premiums by Line of Business (December 31, 2011)

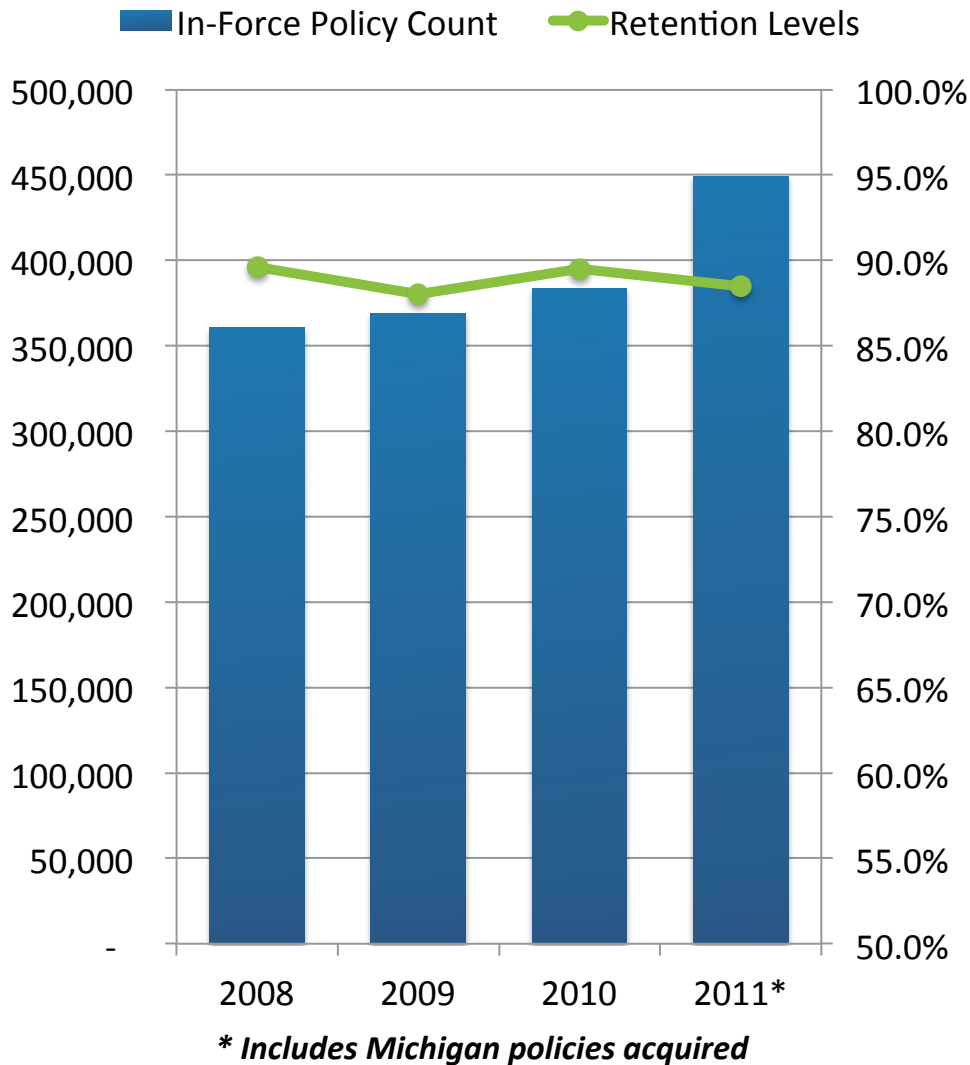


- Personal lines currently 64% of NWP
 - Multiple rate increases implemented in 2011 will increase premium in 2012
 - Minimal exposure growth other than MICO acquisition
- Commercial lines currently 36% of NWP
 - Commercial lines rates up approximately 3-8% in 1H 2012
 - Most of 1H 2012 increase due to exposure growth

Employ Sophisticated Actuarial Tools

- Predictive modeling tools enhance our ability to appropriately price our products
 - Sophisticated predictive modeling algorithms for pricing/tiering risks
 - Territorial segmentation and analysis of environmental factors that affect loss experience
 - Exploring tools that allow consideration of vehicle-specific data in pricing
- External information sources allow us to gather competitor pricing information and to develop price optimization strategies
- Formal schedule of regular rate adequacy reviews for all lines of business, including GLM analysis on claim costs and agency performance
- Currently evaluating usage-based insurance tools

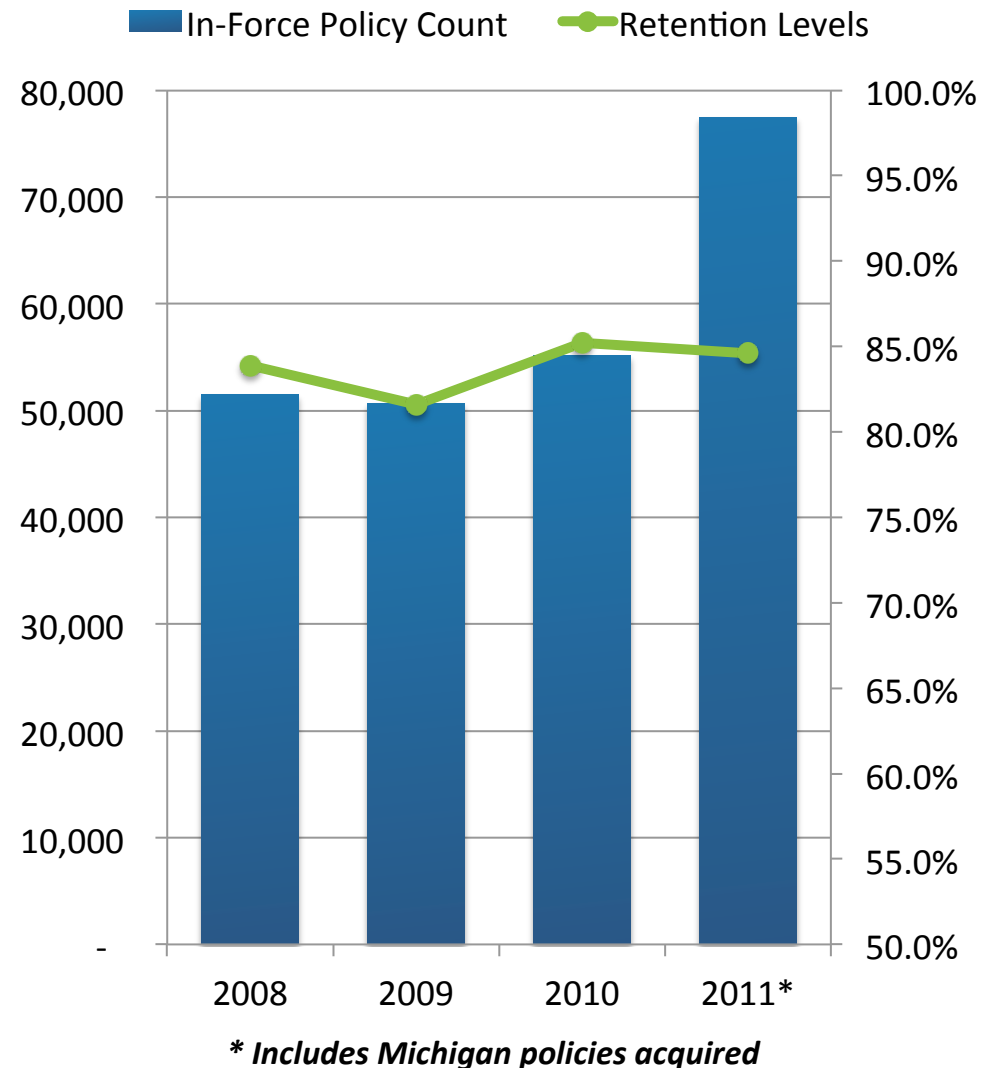
Leverage Personal Lines



- Acquired companies weighted to personal lines
- Focus on the preferred and superior risk markets
- Rate increases in virtually every jurisdiction
- New and renewal inspection and renewal re-tiering
- Seek geographic spread of risk
- Balance portfolio (auto/home)

Build Commercial Lines

- Introduce core Donegal products in new regions
- Growth focus on accounts with premiums in \$10,000 to \$75,000 range
- Expand appetite within classes and lines already written
- Apply underwriting controls
 - Production underwriters
 - Large account reviews
 - Loss control processes
 - Coastal controls



Achieve Objectives By Implementing Plan

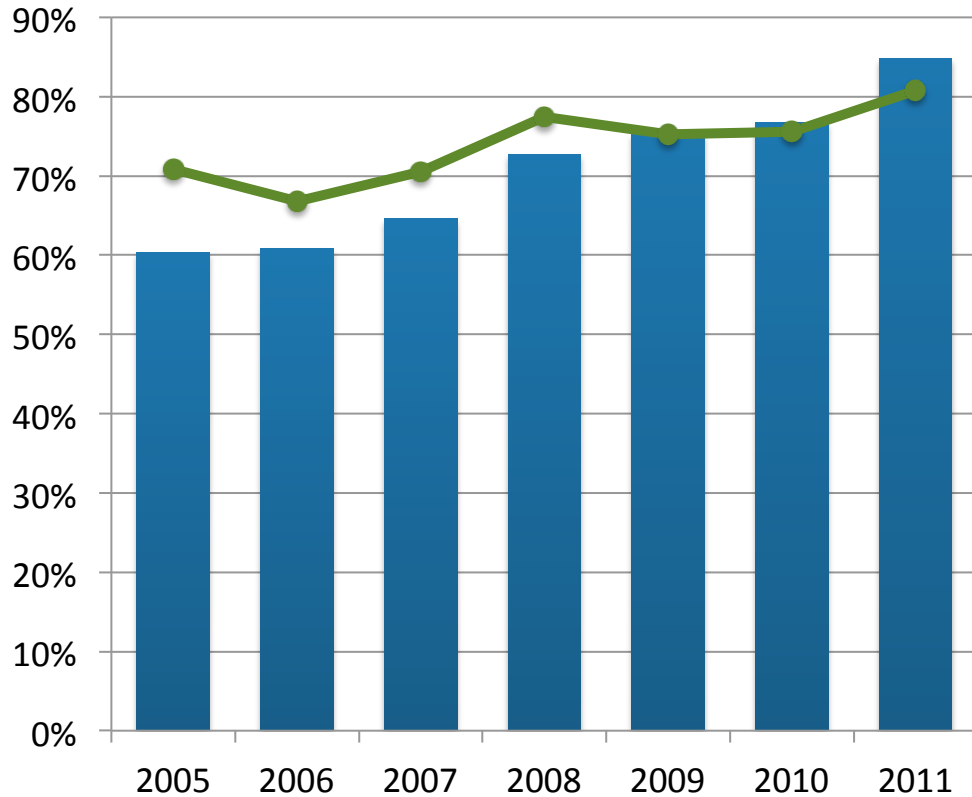
Continue to pursue consolidation opportunities

Complement with organic growth and diversification

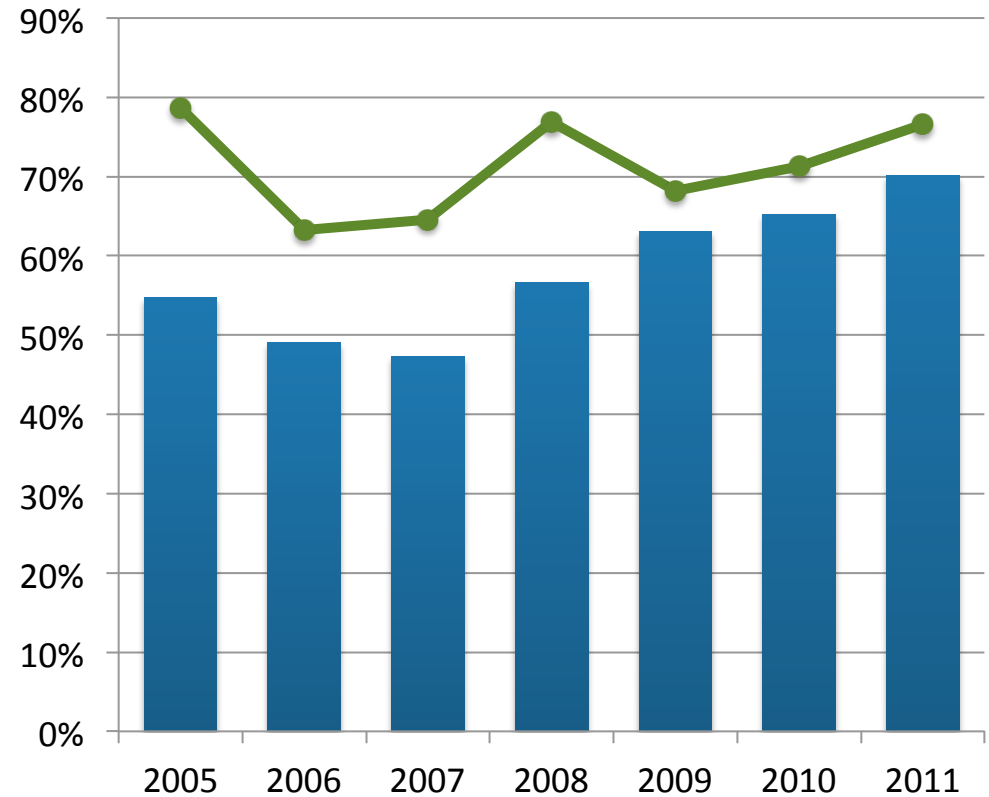
Translate into book value growth

Build on Healthy Insurance Operations

Personal Lines Loss Ratio



Commercial Lines Loss Ratio



Donegal Insurance Group (SNL P&C Group)

SNL P&C Industry (Aggregate)

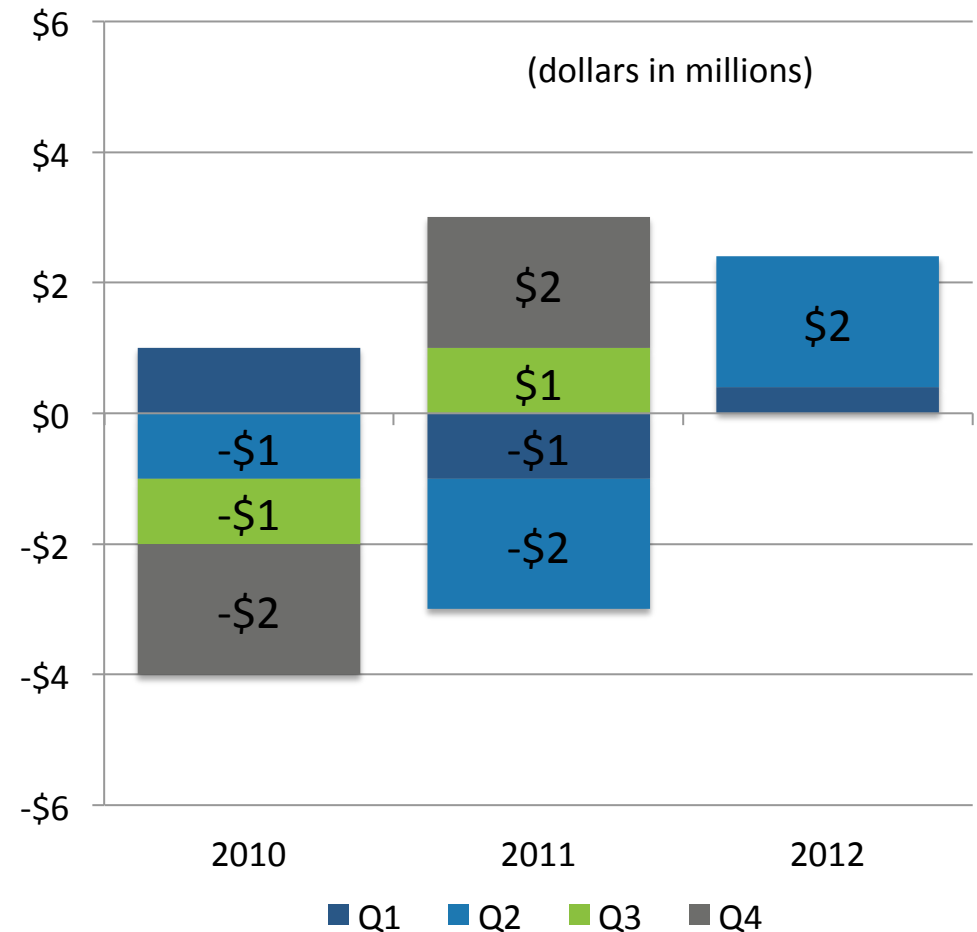
Sustain Pricing Discipline and Conservative Underwriting

- Manage exposure to catastrophe/unusual weather events
 - Purchase reinsurance coverage in excess of a one-in-200 year event
- Link employee compensation directly to underwriting performance
- Focus on rate adequacy and pricing sophistication
- Leverage centralized oversight of regional underwriting
- Emphasize IT-based programs such as automated decision trees and predictive modeling
- Address HO results:
 - Higher deductibles
 - Re-inspection programs
 - Managing concentrations

Maintain Reserve Adequacy

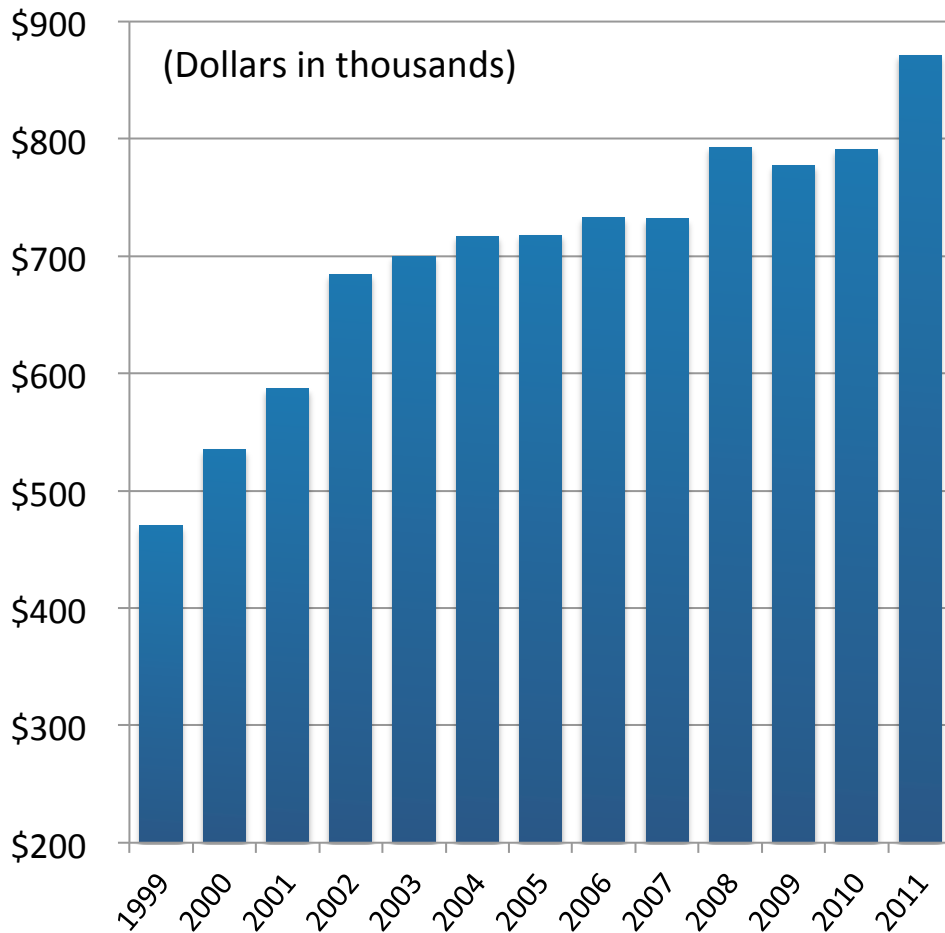
- Reserves at \$243 million at year-end 2011 (net of reinsurance)
 - Midpoint of actuarial range
 - Reported redundant reserves in seven out of past 10 years
 - Conservative reinsurance program limits volatility
- Emphasis on faster claims settlements leading to higher paid losses but reduced longer-term exposures

Quarterly Reserve Development



Drive Increased Efficiency with Automation

Direct Premiums per Employee



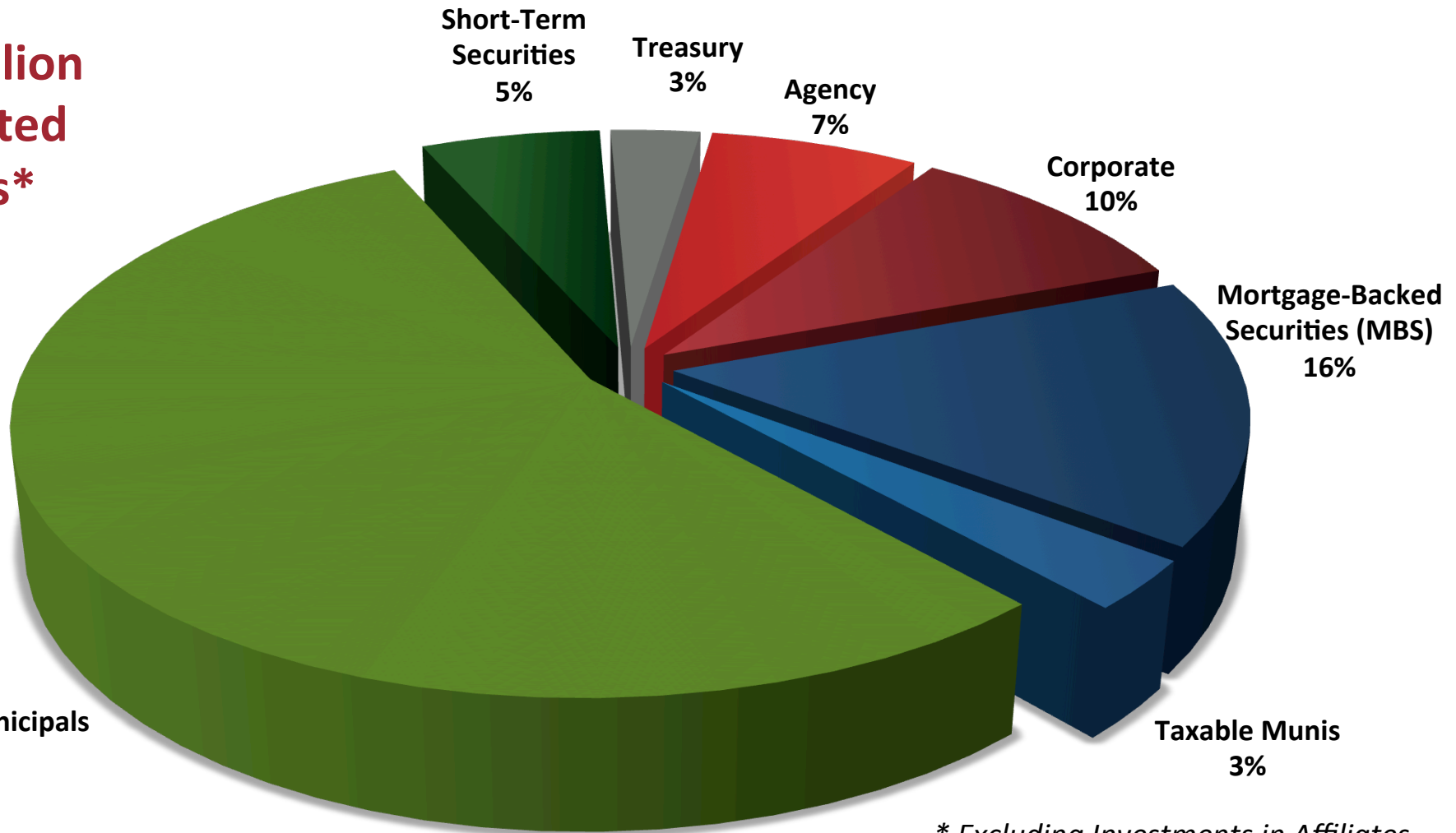
- Current infrastructure can support premium growth
- Premiums per employee rising due to underwriting systems
- Claims system allows more rapid and efficient claims handling
- Mutual structure provides opportunities for operational and expense synergies
- Expense ratio of 31.4% for 2011 vs. 32% for 2010 due to lower underwriting-based incentives

Conservative Investment Approach

- \$794 million in invested assets at June 30, 2012
 - 90% of portfolio invested in fixed maturities
 - 55% tax-exempt securities
 - 45% taxable securities
- Emphasis on quality
 - 86% AA-rated or better
 - 98% A-rated or better
- No exposure to euro debt, sub-prime, CDO or Alt-A
- Effective duration = 4.6 years
- Tax equivalent yield = 3.5%
- Liquidity managed through laddering

Maintain Conservative Investment Mix

**\$759 Million
in Invested
Assets***



** Excluding Investments in Affiliates
(as of June 30, 2012)*

Bank Investment = 4% of Invested Assets

- Union Community Bank
 - Lancaster County (Donegal headquarters) bank
- Expanded to 13 branches via acquisition in May 2011
 - Added scale to banking operation
 - Enhanced value of historic bank investment
 - Increased potential for bottom-line contribution
- DGI owns approximately 48% of bank holding company
 - 52% owned by Donegal Mutual

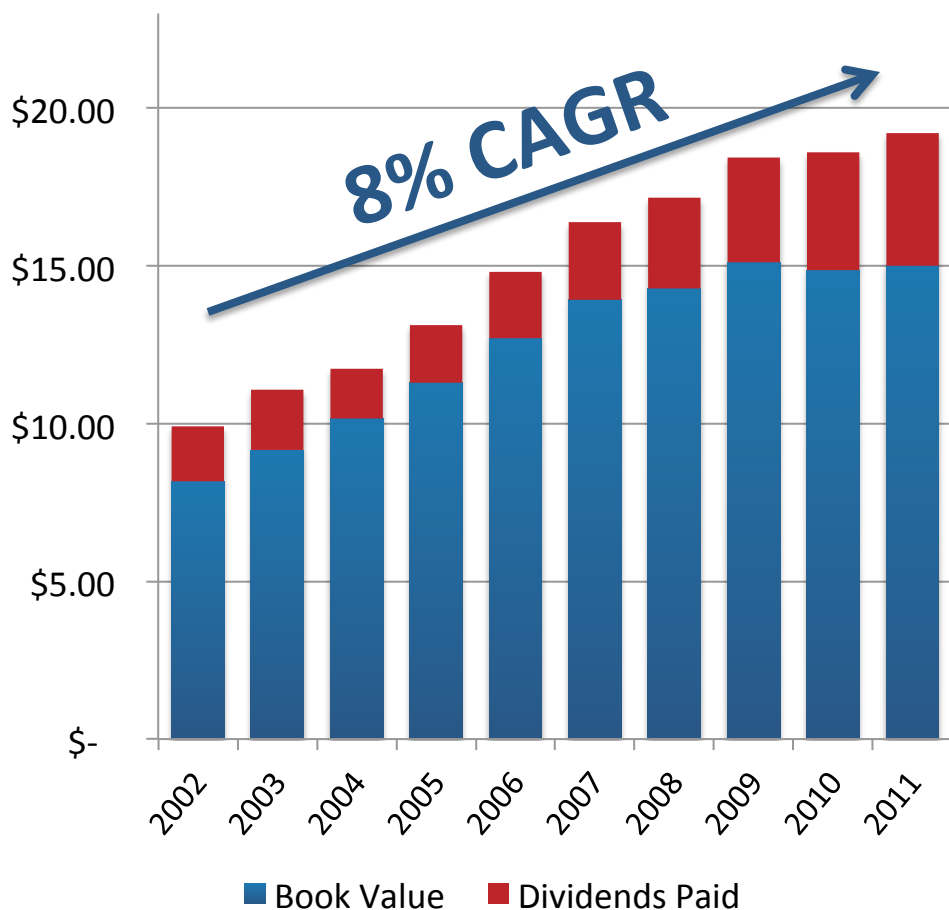
Union Community Bank is Financially Strong and Profitable

- \$516 million in assets at June 30, 2012
- \$4.8 million in 2011 net income
- \$5.0 million in first half 2012 net income
- Excellent capital ratios at June 30, 2012:
 - Tier 1 capital to average total assets 13.89%
 - Tier 1 capital to risk-weighted assets 19.14%
 - Risk-based capital to risk-weighted assets 20.93%

Outperform Industry in Service, Profitability and Book Value Growth

Strong Capital + Solid Plan to Drive Results

Book Value Plus Cumulative Dividends



- Rated A (Excellent) by A.M. Best
 - Debt-to-capital of approximately 19%
 - Premium-to-surplus of approximately 1.3-to-1
- Dividend yield of 3.5% for Class A shares
- Repurchase authorization of 300,000 Class A shares
 - 46,000 purchased in 2012
 - 118,000 remaining

Effective Consolidator of “Main Street” Property and Casualty Insurers

- Continue to pursue consolidation opportunities
 - 10% CAGR in net written premiums since 2001 driven by contribution from transactions
- Complement with organic growth and diversification
 - Strong agency relationships set stage for expansion of commercial lines book
- Translate into book value growth
 - Leveraging strong capital position and solid plan

Effective Consolidator of “Main Street” Property and Casualty Insurers

Appendix



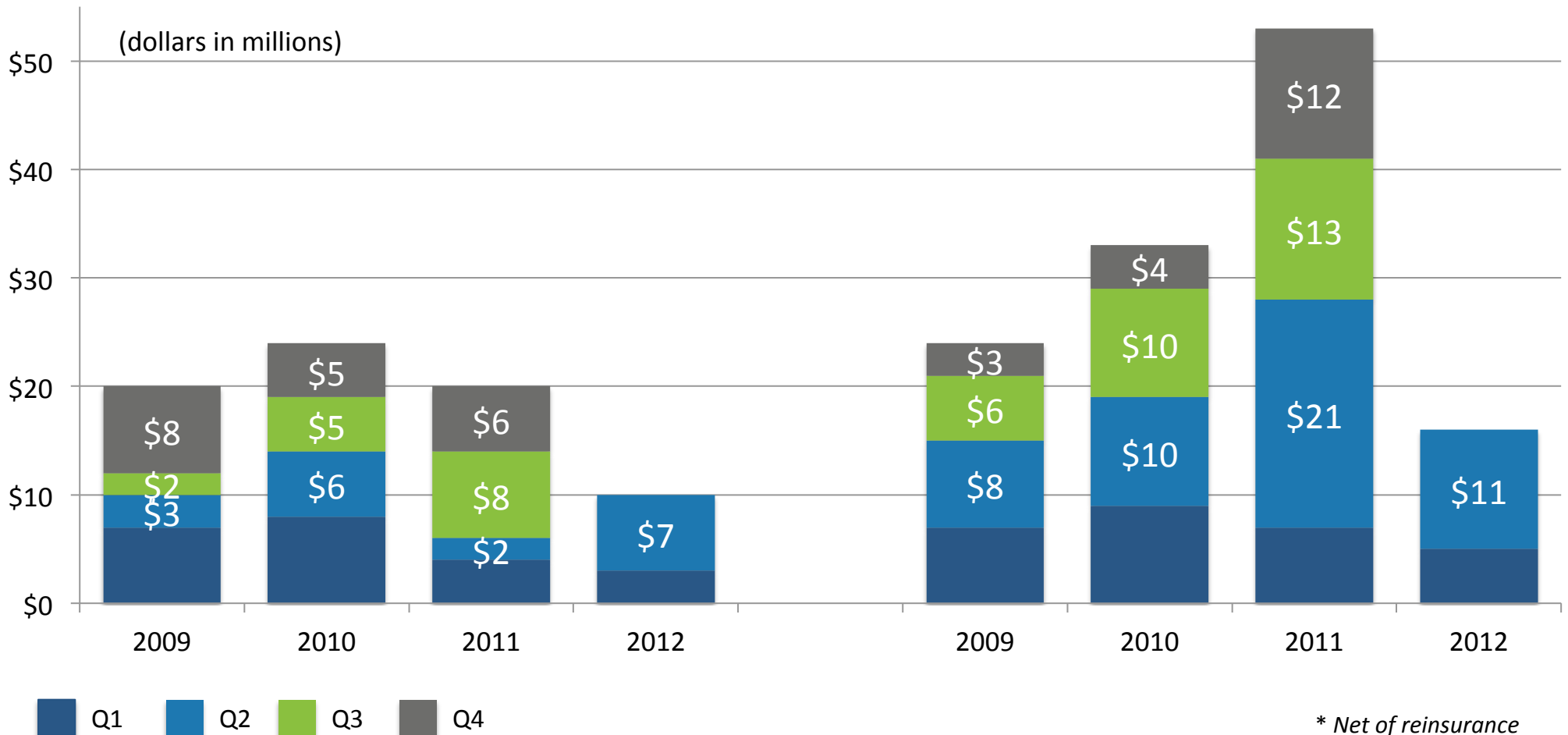
Net Premiums Written by Line of Business

(Dollars in millions)	Q212	Q112	Q411	Q311	Q211	Q111	Q410	Q310	Q210
Personal lines:									
Automobile	\$50.2	\$48.0	\$44.6	\$49.5	\$47.7	\$46.3	\$41.9	\$45.0	\$43.4
Homeowners	27.0	20.2	22.3	24.4	23.4	19.4	20.5	23.8	22.4
Other	4.2	3.7	3.8	3.9	3.9	3.4	3.4	3.5	3.5
Total personal lines	81.4	71.9	70.7	77.8	75.0	69.1	65.8	72.3	69.3
Commercial lines:									
Automobile	14.0	12.9	10.6	10.9	11.8	11.3	8.6	8.9	10.0
Workers' compensation	16.3	18.6	11.0	12.4	13.6	15.0	7.8	8.2	9.1
Commercial multi-peril	17.4	16.4	13.4	13.6	15.7	15.2	11.1	11.5	12.9
Other	2.0	1.5	2.0	1.5	1.8	1.5	1.0	1.0	1.0
Total commercial lines	49.7	49.4	37.0	38.4	42.9	43.1	28.5	29.6	33.0
Total net premiums written	\$131.1	\$121.3	\$107.7	\$116.2	\$117.9	\$112.2	\$94.3	\$101.9	\$102.3

Quarterly Loss Activity Detail

Quarterly Fire Losses

Quarterly Weather Losses*



Effective Consolidator of “Main Street” Property and Casualty Insurers

For Further Information:

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

Phone: (717) 426-1931 Fax: (717) 426-7031

E-mail: jeffmiller@donegalgroup.com

www.DonegalGroup.com

