

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 March 31, 2024
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
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

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: 27,816,654 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 May 1, 2024.

DONEGAL GROUP INC.
INDEX TO FORM 10-Q REPORT

	Page
PART I	FINANCIAL INFORMATION
Item 1.	Financial Statements 1
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations 20
Item 3.	Quantitative and Qualitative Disclosures About Market Risk 29
Item 4.	Controls and Procedures 29
PART II	OTHER INFORMATION
Item 1.	Legal Proceedings 30
Item 1A.	Risk Factors 30
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds 30
Item 3.	Defaults upon Senior Securities 30
Item 4.	Mine Safety Disclosure 30
Item 5.	Other Information 30
Item 6.	Exhibits 31
	Signatures 32

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Donegal Group Inc. and Subsidiaries Consolidated Balance Sheets

	March 31, 2024 (Unaudited)	December 31, 2023
Assets		
Investments		
Fixed maturities		
Held to maturity, at amortized cost (net of allowance for expected credit losses of \$ 1,329,099 and \$1,325,847)	\$ 683,398,852	\$ 679,497,038
Available for sale, at fair value	600,761,425	589,348,243
Equity securities, at fair value	28,883,318	25,902,956
Short-term investments, at cost, which approximates fair value	18,860,030	32,305,408
Total investments	1,331,903,625	1,327,053,645
Cash	19,805,040	23,792,273
Accrued investment income	10,497,341	9,945,714
Premiums receivable	193,160,160	179,591,821
Reinsurance receivable (net of allowance for expected credit losses of \$ 1,026,016 and \$1,394,074)	435,505,126	441,431,334
Deferred policy acquisition costs	78,857,108	75,043,404
Deferred tax asset, net	19,483,755	19,532,525
Prepaid reinsurance premiums	179,757,762	168,724,465
Property and equipment, net	2,594,056	2,633,405
Accounts receivable - securities	32,162	1,501,079
Federal income taxes recoverable	7,271,415	8,102,321
Due from affiliate	8,841,178	1,907,527
Goodwill	5,625,354	5,625,354
Other intangible assets	958,010	958,010
Other	15,961	451,011
Total assets	<u>\$2,294,308,053</u>	<u>\$2,266,293,888</u>
Liabilities and Stockholders' Equity		
Liabilities		
Losses and loss expenses	\$1,124,452,191	\$1,126,156,838
Unearned premiums	634,136,621	599,411,468
Accrued expenses	3,685,534	3,946,974
Reinsurance balances payable	4,016,080	8,758,976
Borrowings under lines of credit	35,000,000	35,000,000
Cash dividends declared to stockholders	—	5,569,992
Other	7,931,153	7,704,286
Total liabilities	<u>1,809,221,579</u>	<u>1,786,548,534</u>
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 30,819,242 and 30,764,555 shares and outstanding 27,816,654 and 27,761,967 shares	308,193	307,646
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	336,817,945	335,694,478
Accumulated other comprehensive loss	(34,483,112)	(32,881,822)
Retained earnings	223,613,313	217,794,917
Treasury stock, at cost	(41,226,357)	(41,226,357)
Total stockholders' equity	<u>485,086,474</u>	<u>479,745,354</u>
Total liabilities and stockholders' equity	<u>\$2,294,308,053</u>	<u>\$2,266,293,888</u>

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2024	2023
Revenues:		
Net premiums earned	\$ 227,748,679	\$ 215,233,160
Investment income, net of investment expenses	10,972,327	9,449,078
Net investment gains (losses) (includes (\$ 77,051) and (\$2,199,673) accumulated other comprehensive income reclassifications)	2,113,378	(331,189)
Lease income	81,823	89,347
Installment payment fees	224,662	305,375
Total revenues	<u>241,140,869</u>	<u>224,745,771</u>
Expenses:		
Net losses and loss expenses	150,896,415	138,105,889
Amortization of deferred policy acquisition costs	39,602,000	37,798,000
Other underwriting expenses	41,739,868	40,611,437
Policyholder dividends	1,054,659	1,343,340
Interest	154,597	152,957
Other expenses, net	444,934	437,715
Total expenses	<u>233,892,473</u>	<u>218,449,338</u>
Income before income tax expense	7,248,396	6,296,433
Income tax expense (includes \$16,181 and \$461,931 income tax benefit from reclassification items)	1,292,845	1,092,837
Net income	<u>\$ 5,955,551</u>	<u>\$ 5,203,596</u>
Net income per share:		
Class A common stock - basic and diluted	<u>\$ 0.18</u>	<u>\$ 0.16</u>
Class B common stock - basic and diluted	<u>\$ 0.16</u>	<u>\$ 0.15</u>

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

	Three Months Ended March 31,	
	2024	2023
Net income	\$ 5,955,551	\$ 5,203,596
Other comprehensive (loss) income, net of tax		
Unrealized (loss) income on securities:		
Unrealized holding (loss) income during the period, net of income tax (benefit) expense of (\$ 441,850) and \$603,390	(1,662,160)	2,269,896
Reclassification adjustment for losses included in net income, net of income tax benefit of \$16,181 and \$461,931	60,870	1,737,742
Other comprehensive (loss) income	<u>(1,601,290)</u>	<u>4,007,638</u>
Comprehensive income	<u>\$ 4,354,261</u>	<u>\$ 9,211,234</u>

See accompanying notes to consolidated financial statements.

Donegal Group Inc. and Subsidiaries
Consolidated Statement of Stockholders' Equity
(Unaudited)
Three Months Ended March 31, 2024

	Class A Shares	Class B Shares	Class A Amount	Class B Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2023	30,764,555	5,649,240	\$307,646	\$56,492	\$335,694,478	\$ (32,881,822)	\$217,794,917	\$(41,226,357)	\$479,745,354
Issuance of common stock (stock compensation plans)	38,287	—	383	—	472,740	—	—	—	473,123
Share-based compensation	16,400	—	164	—	522,460	—	—	—	522,624
Net income	—	—	—	—	—	—	5,955,551	—	5,955,551
Cash dividends declared	—	—	—	—	—	—	(8,888)	—	(8,888)
Grant of stock options	—	—	—	—	128,267	—	(128,267)	—	—
Other comprehensive loss	—	—	—	—	—	(1,601,290)	—	—	(1,601,290)
Balance, March 31, 2024	<u>30,819,242</u>	<u>5,649,240</u>	<u>\$308,193</u>	<u>\$56,492</u>	<u>\$336,817,945</u>	<u>\$ (34,483,112)</u>	<u>\$223,613,313</u>	<u>\$(41,226,357)</u>	<u>\$485,086,474</u>

Three Months Ended March 31, 2023

	Class A Shares	Class B Shares	Class A Amount	Class B Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2022	30,120,263	5,649,240	\$301,203	\$56,492	\$325,601,647	\$ (41,703,747)	\$240,563,774	\$(41,226,357)	\$483,593,012
Issuance of common stock (stock compensation plans)	35,045	—	350	—	440,746	—	—	—	441,096
Share-based compensation	143,004	—	1,431	—	2,218,355	—	—	—	2,219,786
Net income	—	—	—	—	—	—	5,203,596	—	5,203,596
Cash dividends declared	—	—	—	—	—	—	(7,057)	—	(7,057)
Grant of stock options	—	—	—	—	114,724	—	(114,724)	—	—
Cumulative effect of adoption of updated guidance for credit losses at January 1, 2023	—	—	—	—	—	—	(1,895,902)	—	(1,895,902)
Other comprehensive income	—	—	—	—	—	4,007,638	—	—	4,007,638
Balance, March 31, 2023	<u>30,298,312</u>	<u>5,649,240</u>	<u>\$302,984</u>	<u>\$56,492</u>	<u>\$328,375,472</u>	<u>\$ (37,696,109)</u>	<u>\$243,749,687</u>	<u>\$(41,226,357)</u>	<u>\$493,562,169</u>

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2024	2023
Cash Flows from Operating Activities:		
Net income	\$ 5,955,551	\$ 5,203,596
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, amortization and other non-cash items	966,911	1,122,609
Net investment (gains) losses	(2,113,378)	331,189
Changes in assets and liabilities:		
Losses and loss expenses	(1,704,647)	2,488,926
Unearned premiums	34,725,153	32,031,102
Premiums receivable	(13,568,339)	(15,699,109)
Deferred acquisition costs	(3,813,704)	(4,019,366)
Deferred income taxes	474,439	355,524
Reinsurance receivable	5,926,208	(5,291,035)
Prepaid reinsurance premiums	(11,033,297)	(9,960,021)
Accrued investment income	(551,627)	(1,322,590)
Due from affiliate	(6,933,651)	(7,651,293)
Reinsurance balances payable	(4,742,896)	(220,377)
Current income taxes	830,906	749,813
Accrued expenses	(261,440)	465,988
Other, net	661,955	734,310
Net adjustments	(1,137,407)	(5,884,330)
Net cash provided by (used in) operating activities	4,818,144	(680,734)
Cash Flows from Investing Activities:		
Purchases of fixed maturities, held to maturity	(11,911,672)	(12,092,863)
Purchases of fixed maturities, available for sale	(46,490,362)	(34,354,601)
Purchases of equity securities, available for sale	(786,680)	(3,590,015)
Maturity of fixed maturities:		
Held to maturity	8,008,034	6,127,883
Available for sale	30,922,241	12,365,403
Sales of fixed maturities:		
Available for sale	2,995,648	748,250
Sales of equity securities, available for sale	—	3,066,129
Net purchases of property and equipment	—	(44,700)
Net sales of short-term investments	13,445,378	29,183,513
Net cash (used in) provided by investing activities	(3,817,413)	1,408,999
Cash Flows from Financing Activities:		
Cash dividends paid	(5,578,880)	(5,304,047)
Issuance of common stock	590,916	2,288,494
Net cash used in financing activities	(4,987,964)	(3,015,553)
Net decrease in cash	(3,987,233)	(2,287,288)
Cash at beginning of period	23,792,273	25,123,332
Cash at end of period	\$ 19,805,040	\$ 22,836,044
Cash paid during period - Interest	\$ 156,292	\$ 156,346
Net cash paid during period - Taxes	\$ —	\$ —

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 are Atlantic States Insurance Company ("Atlantic States"), Michigan Insurance Company ("MICO"), the Peninsula Insurance Group ("Peninsula"), which consists of The Peninsula Insurance Company and its wholly owned subsidiary Peninsula Indemnity Company, and Southern Insurance Company of Virginia ("Southern"). Our insurance subsidiaries and their affiliates write commercial and personal 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 March 31, 2024, 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 March 31, 2024, Donegal Mutual held approximately 44% 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 (the "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 100% quota-share reinsurance agreements with Mountain States Commercial Insurance Company, Mountain States Indemnity Company and Southern Mutual Insurance Company. Donegal Mutual places its assumed business from these companies 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 three months ended March 31, 2024 are not necessarily indicative of the results of operations we expect for the year ending December 31, 2024.

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, 2023 that we filed with the Securities and Exchange Commission ("SEC") on March 6, 2024.

3 - Net Income 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 net income per share. The two-class method is an earnings allocation formula that determines net income per share separately for each class of common stock based on dividends we have declared and an allocation of our remaining undistributed net income using a participation percentage that reflects the dividend rights of each class. The table below presents for the periods indicated a reconciliation of the numerators and denominators we used to compute basic and diluted net income per share for our Class A common stock and our Class B common stock:

	Three Months Ended March 31,			
	2024		2023	
	Class A	Class B	Class A	Class B
	(in thousands, except per share data)			
Basic net income per share:				
Numerator:				
Allocation of net income	\$ 5,039	\$ 917	\$ 4,387	\$ 817
Denominator:				
Weighted-average shares outstanding	27,811	5,577	27,193	5,577
Basic net income per share	\$ 0.18	\$ 0.16	\$ 0.16	\$ 0.15
Diluted net income per share:				
Numerator:				
Allocation of net income	\$ 5,039	\$ 917	\$ 4,387	\$ 817
Denominator:				
Number of shares used in basic computation	27,811	5,577	27,193	5,577
Weighted-average shares effect of dilutive securities:				
Director and employee stock options	35	—	173	—
Number of shares used in diluted computation	27,846	5,577	27,366	5,577
Diluted net income per share	\$ 0.18	\$ 0.16	\$ 0.16	\$ 0.15

We did not include outstanding options to purchase the following number of shares of Class A common stock in our computation of diluted net income 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 March 31,	
	2024	2023
Number of options to purchase Class A shares excluded	1,693,904	2,307,435

4 - Reinsurance

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

Our insurance subsidiaries and Donegal Mutual 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 2024:

- excess of loss reinsurance, under which Donegal Mutual and our insurance subsidiaries recover losses over a set retention of \$ 3.0 million for all losses other than property and a set retention of \$4.0 million for property losses; 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 \$25.0 million up to aggregate losses of \$175.0 million per occurrence.

For property insurance, our insurance subsidiaries have excess of loss reinsurance that provides coverage of \$36.0 million per loss over a set retention of \$4.0 million. For liability insurance, our insurance subsidiaries have excess of loss reinsurance that provides coverage of \$72.0 million per occurrence over a set retention of \$3.0 million. For workers' compensation insurance, our insurance subsidiaries have excess of loss reinsurance that provides coverage of \$17.0 million on any one life over a set retention of \$ 3.0 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 \$3.0 million up to aggregate losses of \$ 22.0 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 \$6.0 million. The purpose of the agreement is to lessen the effects of an accumulation of losses arising from one event to levels that are appropriate given each subsidiary's size, underwriting profile and surplus.

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, Atlantic States, MICO and Peninsula are required to be members of the Michigan Catastrophic Claims Association ("MCCA"). The MCCA provides reinsurance to Atlantic States, MICO and Peninsula for personal automobile and commercial automobile personal injury claims in the state of Michigan over a set retention.

We report reinsurance receivable net of an allowance for expected credit losses. We base the allowance upon our ongoing review of amounts outstanding, historical loss data, changes in reinsurer credit standing and other relevant factors. We use a probability-of-default methodology, which reflects current and forecasted economic conditions, to estimate the allowance for expected credit losses.

5 - Investments

The amortized cost and estimated fair values of our fixed maturities at March 31, 2024 were as follows:

	<u>Carrying Value</u>	<u>Allowance for Credit Losses</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
	(in thousands)					
Held to Maturity						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 91,551	\$ 55	\$ 91,606	\$ —	\$ 9,550	\$ 82,056
Obligations of states and political subdivisions	376,569	266	376,835	1,057	50,664	327,228
Corporate securities	202,093	1,001	203,094	246	15,565	187,775
Mortgage-backed securities	13,186	7	13,193	9	447	12,755
Totals	<u>\$ 683,399</u>	<u>\$ 1,329</u>	<u>\$ 684,728</u>	<u>\$ 1,312</u>	<u>\$ 76,226</u>	<u>\$ 609,814</u>

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
	(in thousands)			
Available for Sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 91,561	\$ 79	\$ 4,585	\$ 87,055
Obligations of states and political subdivisions	41,893	10	4,164	37,739
Corporate securities	208,888	74	13,792	195,170
Mortgage-backed securities	300,874	377	20,454	280,797
Totals	\$ 643,216	\$ 540	\$ 42,995	\$ 600,761

At March 31, 2024, our holdings of obligations of states and political subdivisions included general obligation bonds with an aggregate fair value of \$241.5 million and an amortized cost of \$ 277.9 million. Our holdings at March 31, 2024 also included special revenue bonds with an aggregate fair value of \$123.5 million and an amortized cost of \$140.8 million. With respect to both categories of those bonds at March 31, 2024, 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 36%, respectively, of our total investments in special revenue bonds based on the carrying values of these investments at March 31, 2024. Many of the issuers of the special revenue bonds we held at March 31, 2024 have the authority to impose ad valorem taxes. In that respect, many of the special revenue bonds we held are similar to general obligation bonds.

The amortized cost and estimated fair values of our fixed maturities at December 31, 2023 were as follows:

	<u>Carrying Value</u>	<u>Allowance for Credit Losses</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
	(in thousands)					
Held to Maturity						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 91,518	\$ 54	\$ 91,572	\$ —	\$ 8,885	\$ 82,687
Obligations of states and political subdivisions	376,898	266	377,164	1,449	46,845	331,768
Corporate securities	201,847	1,000	202,847	207	14,805	188,249
Mortgage-backed securities	9,234	6	9,240	—	418	8,822
Totals	<u>\$ 679,497</u>	<u>\$ 1,326</u>	<u>\$ 680,823</u>	<u>\$ 1,656</u>	<u>\$ 70,953</u>	<u>\$ 611,526</u>

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
	(in thousands)			
Available for Sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 89,367	\$ 199	\$ 4,147	\$ 85,419
Obligations of states and political subdivisions	41,958	12	3,854	38,116
Corporate securities	211,882	100	15,189	196,793
Mortgage-backed securities	286,520	594	18,094	269,020
Totals	\$ 629,727	\$ 905	\$ 41,284	\$ 589,348

At December 31, 2023, our holdings of obligations of states and political subdivisions included general obligation bonds with an aggregate fair value of \$245.1 million and an amortized cost of \$ 278.3 million. Our holdings also included special revenue bonds with an aggregate fair value of \$ 124.8 million and an amortized cost of \$140.8 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, 2023. Education bonds and water and sewer utility bonds represented 47% and 35%, respectively, of our total investments in special revenue bonds based on their carrying values at December 31, 2023. Many of the issuers of the special revenue bonds we held at December 31, 2023 have the authority to impose ad valorem taxes. In that respect, many of the special revenue bonds we held are similar to general obligation bonds.

We have segregated within accumulated other comprehensive loss 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 48,577 and \$77,032 in other comprehensive (loss) income during the three months ended March 31, 2024 and 2023, respectively. At March 31, 2024 and December 31, 2023, net unrealized losses of \$1.2 million and \$1.3 million, respectively, remained within accumulated other comprehensive loss.

We show below the amortized cost and estimated fair value of our fixed maturities at March 31, 2024 by contractual maturity. Expected maturities may differ from contractual maturities because issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
	(in thousands)	
Held to maturity		
Due in one year or less	\$ 42,228	\$ 41,549
Due after one year through five years	130,205	121,873
Due after five years through ten years	237,241	216,118
Due after ten years	261,861	217,519
Mortgage-backed securities	13,193	12,755
Total held to maturity	<u>\$ 684,728</u>	<u>\$ 609,814</u>
Available for sale		
Due in one year or less	\$ 62,925	\$ 61,761
Due after one year through five years	170,058	160,071
Due after five years through ten years	86,138	77,937
Due after ten years	23,221	20,195
Mortgage-backed securities	300,874	280,797
Total available for sale	<u>\$ 643,216</u>	<u>\$ 600,761</u>

The cost and estimated fair values of our equity securities at March 31, 2024 were as follows:

	<u>Cost</u>	<u>Gross Gains</u>	<u>Gross Losses</u>	<u>Estimated Fair Value</u>
		(in thousands)		
Equity securities	\$ 19,631	\$ 9,315	\$ 63	\$ 28,883

The cost and estimated fair values of our equity securities at December 31, 2023 were as follows:

	<u>Cost</u>	<u>Gross Gains</u>	<u>Gross Losses</u>	<u>Estimated Fair Value</u>
		(in thousands)		
Equity securities	\$ 18,844	\$ 7,059	\$ —	\$ 25,903

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 March 31,	
	2024	2023
	(in thousands)	
Gross realized gains:		
Fixed maturities	\$ 4	\$ 22
Equity securities	—	285
	<u>4</u>	<u>307</u>
Gross realized losses:		
Fixed maturities	81	2,222
Equity securities	—	46
	<u>81</u>	<u>2,268</u>
Net realized losses	(77)	(1,961)
Gross unrealized gains on equity securities	2,256	2,202
Gross unrealized losses on equity securities	(63)	(485)
Fixed maturities - credit impairment charges	(3)	(87)
Net investment gains (losses)	<u>\$ 2,113</u>	<u>\$ (331)</u>

We held fixed maturities with unrealized losses representing declines that we considered temporary at March 31, 2024 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	\$ 37,188	\$ 299	\$ 125,533	\$ 13,836
Obligations of states and political subdivisions	29,747	251	304,139	54,577
Corporate securities	18,034	431	343,673	28,926
Mortgage-backed securities	58,891	656	187,697	20,245
Totals	<u>\$ 143,860</u>	<u>\$ 1,637</u>	<u>\$ 961,042</u>	<u>\$ 117,584</u>

We held fixed maturities with unrealized losses representing declines that we considered temporary at December 31, 2023 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	\$ 32,224	\$ 217	\$ 116,538	\$ 12,815
Obligations of states and political subdivisions	13,097	68	307,429	50,631
Corporate securities	13,066	324	353,863	29,670
Mortgage-backed securities	46,964	221	178,113	18,291
Totals	<u>\$ 105,351</u>	<u>\$ 830</u>	<u>\$ 955,943</u>	<u>\$ 111,407</u>

We make estimates concerning the valuation of our investments and, as applicable, the recognition of 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 an available-for-sale 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 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 establish an allowance for credit loss. We then recognize the amount of the allowance in our results of operations, and we recognize the remaining portion of the impairment loss in our other comprehensive income, net of applicable taxes. We regularly review the allowance for credit losses and recognize changes in the allowance in our results of operations. 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. For held-to-maturity debt securities, we make estimates concerning expected credit losses at an aggregated level rather than monitoring individual debt securities for credit losses. We establish an allowance for expected credit losses based on an ongoing review of securities held, historical loss data, changes in issuer credit standing and other relevant factors. We utilize a probability-of-default methodology, which reflects current and forecasted economic conditions, to estimate the allowance for expected credit losses and recognize changes to the allowance in our results of operations. We held 893 debt securities that were in an unrealized loss position at March 31, 2024. 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 months ended March 31, 2024 and 2023 is as follows:

	Three Months Ended March 31,	
	2024	2023
	(in thousands)	
Revenues:		
Premiums earned:		
Commercial lines	\$ 132,092	\$ 133,187
Personal lines	95,657	82,046
GAAP premiums earned	227,749	215,233
Net investment income	10,972	9,449
Investment gains (losses)	2,113	(331)
Other	307	395
Total revenues	<u>\$ 241,141</u>	<u>\$ 224,746</u>
Income before income tax expense:		
Underwriting (loss) gain:		
Commercial lines	\$ (10,371)	\$ (7,912)
Personal lines	(532)	879
SAP underwriting loss	(10,903)	(7,033)
GAAP adjustments	5,359	4,407
GAAP underwriting loss	(5,544)	(2,626)
Net investment income	10,972	9,449
Investment gains (losses)	2,113	(331)
Other	(293)	(196)
Income before income tax expense	<u>\$ 7,248</u>	<u>\$ 6,296</u>

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 March 31, 2024, we had no outstanding borrowings from M&T and had the ability to borrow up to \$20.0 million at an interest rate equal to the then-current Term SOFR rate plus 2.11%.

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 March 31, 2024. The cash advance carries a fixed interest rate of 1.74% and is due in August 2024. 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 March 31, 2024.

FHLB of Pittsburgh stock purchased and owned	\$ 1,591,800
Collateral pledged, at par (carrying value \$ 41,087,980)	44,459,589
Borrowing capacity currently available	3,579,560

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 \$ 286,001 and \$251,773 for the three months ended March 31, 2024 and 2023, respectively, with a corresponding income tax benefit of \$60,060 and \$52,872, respectively. At March 31, 2024, we had \$ 1.6 million of unrecognized compensation expense related to nonvested share-based compensation granted under our stock compensation plans that we expect to recognize over a weighted average period of approximately 1.8 years.

We received cash from option exercises under all stock compensation plans during the three months ended March 31, 2024 and 2023 of \$ 236,624 and \$2.0 million, respectively. We realized actual tax benefits for the tax deductions related to those option exercises of \$ 1,719 and \$46,188 for the three months ended March 31, 2024 and 2023, 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 March 31, 2024, 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 March 31, 2024, 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 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 March 31, 2024:

	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	\$ 87,055	\$ —	\$ 87,055	\$ —
Obligations of states and political subdivisions	37,739	—	37,739	—
Corporate securities	195,170	—	195,170	—
Mortgage-backed securities	280,797	—	280,797	—
Equity securities	28,883	26,891	1,992	—
Total investments in the fair value hierarchy	<u>\$ 629,644</u>	<u>\$ 26,891</u>	<u>\$ 602,753</u>	<u>\$ —</u>

The following table presents our fair value measurements for our investments in available-for-sale fixed maturity and equity securities at December 31, 2023:

	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	\$ 85,419	\$ —	\$ 85,419	\$ —
Obligations of states and political subdivisions	38,116	—	38,116	—
Corporate securities	196,793	—	196,793	—
Mortgage-backed securities	269,020	—	269,020	—
Equity securities	25,903	23,911	1,992	—
Totals	<u>\$ 615,251</u>	<u>\$ 23,911</u>	<u>\$ 591,340</u>	<u>\$ —</u>

10 - Income Taxes

At March 31, 2024 and December 31, 2023, respectively, we had no material unrecognized tax benefits or accrued interest and penalties. In 2019, the Internal Revenue Service ("IRS") began a federal income tax audit of our consolidated tax returns for tax years 2016 to 2018. No material issues have been raised and no adjustments have been proposed as a result of this ongoing audit. 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 \$8.1 million for our net state operating loss carryforward, which will expire between 2024 and 2043. We have determined that we are not required to establish a valuation allowance for our other deferred tax assets of \$39.4 million and \$38.4 million at March 31, 2024 and December 31, 2023, 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. 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. 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:

	Three Months Ended March 31,	
	2024	2023
	(in thousands)	
Balance at January 1	\$ 1,126,157	\$ 1,121,046
Less reinsurance recoverable	(437,014)	(451,184)
Cumulative effect of adoption of updated accounting guidance for credit losses at January 1	—	1,132
Net balance at January 1	689,143	670,994
Incurred related to:		
Current year	159,289	146,413
Prior years	(8,393)	(8,307)
Total incurred	150,896	138,106
Paid related to:		
Current year	47,886	41,205
Prior years	98,197	98,820
Total paid	146,083	140,025
Net balance at end of period	693,956	669,075
Plus reinsurance recoverable	430,496	454,460
Balance at end of period	\$ 1,124,452	\$ 1,123,535

Our insurance subsidiaries recognized a decrease in their liabilities for losses and loss expenses of prior years of \$ 8.4 million and \$8.3 million for the three months ended March 31, 2024 and 2023, 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 2024 development represented 1.2% of the December 31, 2023 net carried reserves and resulted from lower-than-expected loss emergence or severity primarily in the commercial multi-peril, commercial automobile and homeowners lines of business. The majority of the 2024 development related to decreases in the liabilities for losses and loss expenses of prior years for Atlantic States and MICO. The 2023 development represented 1.2% of the December 31, 2022 net carried reserves and resulted primarily from lower-than-expected loss emergence or severity primarily in the commercial automobile, workers' compensation and commercial multi-peril lines of business. The majority of the 2023 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 three months ended March 31, 2024.

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 - Allowance for Expected Credit Losses

We make estimates with respect to the potential impairment of financial instruments and recognize expected credit losses as an allowance rather than impairments as credit losses are incurred. We have established allowances for expected credit losses with respect to held-to-maturity debt securities and reinsurance recoverable.

Held-to-Maturity Fixed-Maturity Securities

For held-to-maturity debt securities, we make estimates concerning expected credit losses at an aggregated level rather than monitoring individual debt securities for credit losses. We establish an allowance for expected credit losses based on an ongoing review of securities held, historical loss data, changes in issuer credit standing and other relevant factors. We utilize a probability-of-default methodology, which reflects current and forecasted economic conditions, to estimate the allowance for expected credit losses and recognize changes to the allowance in our results of operations.

The following table presents the balances for fixed maturities classified as held-to-maturity, net of the allowance for expected credit losses, at March 31, 2024 and 2023 and changes in the allowance for expected credit losses for the three months ended March 31, 2024 and 2023.

	At and For the Three Months Ended March 31, 2024		At and For the Three Months Ended March 31, 2023	
	Held-to-Maturity, Net of Allowance for Expected Credit Losses	Allowance for Expected Credit Losses	Held-to-Maturity, Net of Allowance for Expected Credit Losses	Allowance for Expected Credit Losses
	(in thousands)			
Balance at beginning of period	\$ 679,497	\$ 1,326	\$ 668,439	\$ —
Cumulative effect of adoption of updated accounting guidance for credit losses		—		1,268
Current period change for expected credit losses		3		87
Balance at end of period	\$ 683,399	\$ 1,329	\$ 693,779	\$ 1,355

Reinsurance Receivable

For reinsurance receivable, we establish an allowance for expected credit losses based upon our ongoing review of amounts outstanding, historical loss data, changes in reinsurer credit standing and other relevant factors. We utilize a probability-of-default methodology, which reflects current and forecasted economic conditions, to estimate the allowance for expected credit losses and recognize changes to the allowance in our results of operations.

The following table presents the balances for reinsurance receivable, net of the allowance for expected credit losses, at March 31, 2024 and 2023, and the changes in the allowance for expected credit losses for the three months ended March 31, 2024 and 2023.

	At and For the Three Months Ended March 31, 2024		At and For the Three Months Ended March 31, 2023	
	Reinsurance Receivable, Net of Allowance for Expected Credit Losses	Allowance for Expected Credit Losses	Reinsurance Receivable, Net of Allowance for Expected Credit Losses	Allowance for Expected Credit Losses
	(in thousands)			
Balance at beginning of period	\$ 441,431	\$ 1,394	\$ 456,522	\$ —
Cumulative effect of adoption of updated accounting guidance for credit losses		—		1,132
Current period change for expected credit losses		(368)		335
Balance at end of period	\$ 435,505	\$ 1,026	\$ 460,681	\$ 1,467

13 - Impact of New Accounting Standards

In September 2016, the FASB issued guidance that amended 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 delayed 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, 2023 from December 15, 2019. We were a smaller reporting company at the time this guidance was issued, and our adoption of this guidance on January 1, 2023 resulted in an after-tax decrease in retained earnings of \$1.9 million. The adoption of this guidance did not have a significant impact on our results of operations or cash flows.

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

We recommend that you read the following information in conjunction with the historical financial information and the footnotes to that financial information we include in this Quarterly Report on Form 10-Q. We also recommend you read Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2023.

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 United States generally accepted accounting principles ("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 subsequent years 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 March 31, 2024. At March 31, 2024, 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 \$6.9 million.

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

Excluding the impact of severe weather events 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 March 31, 2024 and December 31, 2023 consisted of the following:

	March 31, 2024	December 31, 2023
	(in thousands)	
Commercial lines:		
Automobile	\$ 172,290	\$ 168,749
Workers' compensation	124,432	122,473
Commercial multi-peril	218,756	217,292
Other	27,845	27,167
Total commercial lines	<u>543,323</u>	<u>535,681</u>
Personal lines:		
Automobile	110,287	112,509
Homeowners	28,075	28,001
Other	12,271	12,952
Total personal lines	<u>150,633</u>	<u>153,462</u>
Total commercial and personal lines	693,956	689,143
Plus reinsurance recoverable	430,496	437,014
Total liabilities for losses and loss expenses	<u>\$ 1,124,452</u>	<u>\$ 1,126,157</u>

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 March 31, 2024	Percentage Change in Stockholders' Equity at March 31, 2024(1)	Adjusted Loss and Loss Expense Reserves Net of Reinsurance at December 31, 2023	Percentage Change in Stockholders' Equity at December 31, 2023(1)
		(dollars in thousands)		
(10.0)%	\$ 624,560	11.3%	\$ 620,229	11.3%
(7.5)	641,909	8.5	637,457	8.5
(5.0)	659,258	5.7	654,686	5.7
(2.5)	676,607	2.8	671,914	2.8
Base	693,956	—	689,143	—
2.5	711,305	(2.8)	706,372	(2.8)
5.0	728,654	(5.7)	723,600	(5.7)
7.5	746,003	(8.5)	740,829	(8.5)
10.0	763,352	(11.3)	758,057	(11.3)

(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 months ended March 31, 2024 and 2023:

	Three Months Ended March 31,	
	2024	2023
	(in thousands)	
Net premiums earned	\$ 227,749	\$ 215,233
Change in net unearned premiums	23,693	22,071
Net premiums written	<u>\$ 251,442</u>	<u>\$ 237,304</u>

Statutory Combined Ratio

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

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

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

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

Combined Ratios

The following table presents comparative details with respect to our GAAP and statutory combined ratios for the three months ended March 31, 2024 and 2023:

	Three Months Ended March 31,	
	2024	2023
GAAP Combined Ratios (Total Lines)		
Loss ratio - core losses	58.7%	56.5%
Loss ratio - weather-related losses	4.7	6.5
Loss ratio - large fire losses	6.6	5.1
Loss ratio - net prior-year reserve development	(3.7)	(3.9)
Loss ratio	66.3	64.2
Expense ratio	35.7	36.4
Dividend ratio	0.4	0.6
Combined ratio	102.4%	101.2%
Statutory Combined Ratios		
Commercial lines:		
Automobile	99.6%	96.2%
Workers' compensation	111.2	86.2
Commercial multi-peril	102.7	114.8
Other	82.2	79.7
Total commercial lines	101.6	99.8
Personal lines:		
Automobile	99.8	103.9
Homeowners	102.9	100.6
Other	85.2	49.3
Total personal lines	100.3	98.9
Total commercial and personal lines	101.2	99.6

Results of Operations - Three Months Ended March 31, 2024 Compared to Three Months Ended March 31, 2023

Net Premiums Earned. Our insurance subsidiaries' net premiums earned for the first quarter of 2024 were \$227.7 million, an increase of \$12.5 million, or 5.8%, compared to \$215.2 million for the first quarter of 2023, primarily reflecting solid premium retention and renewal premium increases.

Net Premiums Written. Our insurance subsidiaries' net premiums written for the first quarter of 2024 were \$251.4 million, an increase of \$14.1 million, or 6.0%, from the \$237.3 million of net premiums written for the first quarter of 2023. Commercial lines net premiums written decreased \$0.9 million, or 0.5%, for the first quarter of 2024 compared to the first quarter of 2023. Personal lines net premiums written increased \$15.0 million, or 18.5%, for the first quarter of 2024 compared to the first quarter of 2023. We attribute the decrease in commercial lines net premiums written primarily to planned attrition in states we are exiting or have targeted for profit improvement, offset partially by higher new business writings and a continuation of renewal premium increases in lines other than workers' compensation. We attribute the increase in personal lines net premiums written primarily to renewal premium increases and strong policy retention.

Investment Income. Our net investment income was \$11.0 million for the first quarter of 2024, an increase of \$1.6 million, or 16.1%, compared to \$9.4 million for the first quarter of 2023. We attribute the increase primarily to an increase in the average investment yield relative to the first quarter of 2023.

Net Investment Gains (Losses). Net investment gains for the first quarter of 2024 were \$2.1 million, compared to net investment losses of \$331,189 for the first quarter of 2023. The net investment gains for the first quarter of 2024 resulted primarily from the net change in unrealized gains and losses within our equity securities portfolio at March 31, 2024. We did not recognize any impairment losses for individual securities in our investment portfolio during the first quarter of 2024 or 2023.

Losses and Loss Expenses. Our insurance subsidiaries' loss ratio, which is the ratio of incurred losses and loss expenses to premiums earned, was 66.3% for the first quarter of 2024, an increase from our insurance subsidiaries' loss ratio of 64.2% for the first quarter of 2023. We attribute this increase primarily to increased core losses and large fire losses, which we define as individual fire losses in excess of \$50,000, offset partially by decreased weather-related losses. The core loss ratio, which excludes weather-related losses, large fire losses and net favorable development of reserves for losses incurred in prior accident years, was 58.7% for the first quarter of 2024, compared to 56.5% for the first quarter of 2023. For the commercial lines segment, the core loss ratio of 59.0% for the first quarter of 2024 increased modestly from 58.2% for the first quarter of 2023. For the personal lines segment, the core loss ratio of 58.1% for the first quarter of 2024 increased from 53.7% for the first quarter of 2023, due largely to ongoing inflationary impacts on loss costs for that segment. Weather-related losses were \$10.8 million, or 4.7 percentage points of the loss ratio, for the first quarter of 2024, compared to \$14.1 million, or 6.5 percentage points of the loss ratio, for the first quarter of 2023. The impact of weather-related loss activity to the loss ratio for the first quarter of 2024 was in line with our previous five-year average of 4.7 percentage points for first quarter weather-related losses. Large fire losses for the first quarter of 2024 were \$15.0 million, or 6.6 percentage points of the loss ratio, compared to \$10.9 million, or 5.1 percentage points of the loss ratio, for the first quarter of 2023. On a statutory basis, our insurance subsidiaries' commercial lines loss ratio was 66.0% for the first quarter of 2024, compared to 63.2% for the first quarter of 2023, primarily due to increases in the workers' compensation and commercial automobile loss ratios. The personal lines statutory loss ratio of our insurance subsidiaries increased to 68.5% for the first quarter of 2024, compared to 66.4% for the first quarter of 2023. We attribute this increase primarily to an increase in the homeowners loss ratio. Our insurance subsidiaries experienced favorable loss reserve development for the first quarter of 2024 of approximately \$8.4 million that decreased the loss ratio by 3.7 percentage points, compared to \$8.3 million that decreased the loss ratio for the first quarter of 2023 by 3.9 percentage points. Our insurance subsidiaries experienced favorable development primarily in the commercial multi-peril, commercial automobile and homeowners lines of business for the first quarter of 2024, with the majority of the impact relating to reserves for accident years 2020 through 2023.

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 35.7% for the first quarter of 2024, compared to 36.4% for the first quarter of 2023. The decrease in the expense ratio primarily reflected early impacts of expense reduction initiatives, offset partially by higher technology costs related to our ongoing systems modernization initiatives for the first quarter of 2024 compared to the prior-year quarter. We expect the impact from allocated costs from Donegal Mutual to our insurance subsidiaries related to the ongoing systems modernization project will peak at approximately 1.3 percentage points of the expense ratio for the full year of 2024 before beginning to subside gradually in subsequent years.

Combined Ratio. The combined ratio represents the sum of the loss ratio, the expense ratio and the dividend ratio, which is the ratio of policyholder dividends incurred to premiums earned. Our insurance subsidiaries' combined ratios were 102.4% and 101.2% for the first quarter of 2024 and 2023, respectively. We attribute the increase in the combined ratio primarily to an increase in the loss ratio for the first quarter of 2024 compared to the first quarter of 2023.

Income Tax Expense. We recorded income tax expense of \$1.3 million for the first quarter of 2024, representing an effective tax rate of 17.8%. We recorded income tax expense of \$1.1 million for the first quarter of 2023, representing an effective tax rate of 17.4%. The income tax expense for the first quarter of 2024 and 2023 represented estimates based on our projected annual taxable income and effective tax rates.

Net Income and Net Income Per Share. Our net income for the first quarter of 2024 was \$6.0 million, or \$.18 per share of Class A common stock on a diluted basis and \$.16 per share of Class B common stock, compared to \$5.2 million, or \$.16 per share of Class A common stock on a diluted basis and \$.15 per share of Class B common stock, for the first quarter of 2023. We had 27.8 million and 27.3 million Class A shares outstanding at March 31, 2024 and 2023, 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 (used) net cash flows in the first three months of 2024 and 2023 of \$4.8 million and (\$680,734), respectively.

At March 31, 2024, 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 an interest rate equal to the then-current Term SOFR rate plus 2.11%. At March 31, 2024, 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 three months ended March 31, 2024 or 2023. We have purchased a total of 57,658 shares of our Class A common stock under this program from its inception through March 31, 2024.

On April 18, 2024, our board of directors declared quarterly cash dividends of \$.1725 per share of our Class A common stock and \$.155 per share of our Class B common stock, payable on May 22, 2024 to our stockholders of record as of the close of business on May 8, 2024. 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, 2023 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 three months of 2024. Amounts remaining available for distribution to us as dividends from our insurance subsidiaries without prior approval of their domiciliary insurance regulatory authorities in 2024 are \$27.4 million from Atlantic States, \$7.2 million from MICO and \$5.0 million from Peninsula, or a total of approximately \$39.6 million.

At March 31, 2024, 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, 2023 through March 31, 2024.

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 March 31, 2024, our disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information we are required to disclose in the reports that we file or submit under the Exchange Act, and our disclosure controls and procedures were also effective to ensure that information we disclose in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

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

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

We base all statements contained in this Quarterly Report on Form 10-Q that are not historic facts on our current expectations. Such statements are forward-looking in nature (as defined in the Private Securities Litigation Reform Act of 1995) and necessarily involve risks and uncertainties. Forward-looking statements we make may be identified by our use of words such as "will," "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, 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 (including from changing climate conditions), 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 2023 Annual Report on Form 10-K that we filed with the SEC on March 6, 2024. There have been no material changes in the risk factors we disclosed in that Form 10-K Report during the three months ended March 31, 2024.

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

None.

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	Reference
Management Contracts and Compensatory Plans or Arrangements		
10.1	Donegal Group Inc. 2024 Equity Incentive Plan for Employees.	(a)
10.2	Donegal Group Inc. 2024 Equity Incentive Plan for Directors.	(a)
Other Exhibits		
31.1	Certification of Chief Executive Officer.	Filed herewith
31.2	Certification of Chief Financial Officer.	Filed herewith
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
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

(a) We incorporate such exhibit by reference to the like-described exhibit in Registrant's Form S-8 Registration Statement filed on April 25, 2024.

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.

May 3, 2024

DONEGAL GROUP INC.

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

May 3, 2024

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

CERTIFICATION

I, Kevin G. Burke, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended March 31, 2024 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: May 3, 2024

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

CERTIFICATION

I, Jeffrey D. Miller, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended March 31, 2024 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: May 3, 2024

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

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 March 31, 2024, 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: May 3, 2024

/s/ Kevin G. Burke

Kevin G. Burke, President and Chief Executive Officer

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 March 31, 2024, 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: May 3, 2024

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