

DONEGAL GROUP INC  
Form DEF 14A  
March 16, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

**(Amendment No. \_\_)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**Donegal Group Inc.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
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NOTICE OF THE ANNUAL MEETING OF STOCKHOLDERS

WE WILL HOLD ON APRIL 16, 2015

To the Stockholders of

DONEGAL GROUP INC.:

We will hold our 2015 annual meeting of stockholders (our 2015 Annual Meeting ) at 10:00 a.m., local time, on Thursday, April 16, 2015, at the Heritage Hotel Lancaster, 500 Centerville Road, Lancaster, Pennsylvania 17601. At our 2015 Annual Meeting, our stockholders will act on the following items of stockholder business:

The election of four nominees to serve as Class B directors, each for a term of three years and until their respective successors take office;

The approval of our 2015 equity incentive plan for employees so that we will have sufficient shares available under our equity incentive plans to continue this incentive compensation plan for our employees;

The approval of our 2015 equity incentive plan for directors so that we will have sufficient shares available under our equity incentive plans to continue this incentive compensation plan for our directors; and

The ratification of the appointment by our audit committee of KPMG LLP to serve as our independent registered public accounting firm for our fiscal year ending December 31, 2015.

Our advance notice By-laws require that our stockholders submit to us, not later than 90 days prior to the first anniversary of the date on which we first mailed our proxy statement to stockholders for our prior year's annual meeting of stockholders, detailed information regarding any nomination by a stockholder of a candidate for election as a director or any proposal by a stockholder of any other item of stockholder business a stockholder wishes our stockholders to consider at our next forthcoming annual meeting of stockholders. That date was December 17, 2014 with respect to our 2015 Annual Meeting and is December 16, 2015 with respect to our 2016 annual meeting of stockholders. No stockholder made a proposal with respect to our 2015 Annual Meeting.

Therefore, under applicable law and our By-laws, at our 2015 Annual Meeting:

no stockholder may validly present a nomination of a candidate for election as a Class B director or validly propose any other item of stockholder business; and

we will not conduct a vote of our stockholders on any item of stockholder business other than those items of stockholder business we describe above and in our accompanying proxy statement.

Our board of directors has established the close of business on March 2, 2015 as the record date for the determination of the holders of our Class A common stock and for the determination of the holders of our Class B common stock entitled to notice of, and to vote at, our 2015 Annual Meeting. Our certificate of incorporation does not authorize cumulative voting in the election of our directors.

We include our 2014 Annual Report to stockholders with this notice of our 2015 Annual Meeting and our proxy statement relating to our 2015 Annual Meeting. We also enclose a proxy card for you to sign, date and return in the accompanying postage-prepaid envelope that you may use to vote by proxy at our 2015 Annual Meeting.

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Please return your completed and duly signed proxy card, whether or not you expect to attend our 2015 Annual Meeting in person, by mail, or vote by telephone or via the Internet as we describe on the accompanying proxy card.

By order of our board of directors,

Donald H. Nikolaus,

*President and Chairman of the Board*

March 16, 2015

Marietta, Pennsylvania

Kevin G. Burke,

*Executive Vice President, Chief Operating*

*Officer and Acting Chief Executive Officer*

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**Important Notice Regarding the Availability of Our Proxy Materials for**

**Our 2015 Annual Meeting We Will Hold on April 16, 2015**

This document includes our proxy statement for our 2015 Annual Meeting and our 2014 Annual Report to stockholders as well as our notice of our 2015 Annual Meeting. You may also view each of these documents on the Internet at [www.proxyvote.com](http://www.proxyvote.com). No information on our website other than this proxy statement for our 2015 Annual Meeting and our 2014 Annual Report to stockholders constitutes a part of our proxy solicitation materials for our 2015 Annual Meeting or part of our 2014 Annual Report to our stockholders.

**Table of Contents****DONEGAL GROUP INC.****PROXY STATEMENT*****Introduction***

This proxy statement contains information relating to our 2015 Annual Meeting. We will hold our 2015 Annual Meeting on Thursday, April 16, 2015, at 10:00 a.m., local time, at the Heritage Hotel Lancaster, 500 Centerville Road, Lancaster, Pennsylvania 17601.

On March 16, 2015, we mailed to our stockholders of record at the close of business on March 2, 2015 this proxy statement, an accompanying form of proxy card and return envelope as well as our 2014 Annual Report to stockholders (our 2014 Annual Report). Our mailing also included a postage-prepaid envelope for your convenience in returning your proxy card to our transfer agent, unless you prefer to vote in person, by telephone or via the Internet. We ask stockholders to return their completed proxy cards to us whether or not they expect to attend our 2015 Annual Meeting in person.

We will pay the costs of preparing and mailing our proxy materials to our stockholders for our 2015 Annual Meeting and making those materials available for our stockholders to view on the Internet. We will, upon request, reimburse brokers, nominees, fiduciaries, custodians and other record holders for their reasonable expenses in forwarding our proxy solicitation materials for our 2015 Annual Meeting to the beneficial owners of our Class A common stock and to the beneficial owners of our Class B common stock for whom such persons serve as record holders. We may also solicit proxies from some stockholders in person, by mail, e-mail, telephone or other means of communication through our directors, officers and regular employees whom we do not employ specifically for proxy solicitation purposes and none of whom will receive any additional compensation for performing such services.

***Summary of Our 2014 Performance***

For 2014, our total revenues increased 7.2%, and our net income and net income per diluted Class A share decreased 44.8% and 46.1%, respectively, compared to 2013. The following table depicts our total revenues, net income, net income per diluted Class A share and net income per Class B share for the years ended December 31, 2014, 2013 and 2012. For further information, we refer you to the financial statements included in our 2014 Annual Report, which we have mailed to you simultaneously with the mailing of this proxy statement.

	<b>Year Ended December 31</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Total revenues	\$586.5 million	\$547.1 million	\$515.0 million
Net income	\$14.5 million	\$26.3 million	\$23.1 million
Net income per diluted Class A share	\$0.55	\$1.02	\$0.91
Net income per Class B share	\$0.49	\$0.94	\$0.83

We use the following defined terms relating to us, our subsidiaries and our affiliates in this proxy statement:

Annual Meeting or 2015 Annual Meeting means our annual meeting of stockholders that we will hold on April 16, 2015;

Annual Report or 2014 Annual Report means our Annual Report to stockholders for 2014;

Atlantic States means Atlantic States Insurance Company;

DFSC means Donegal Financial Services Corporation;

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DGI, we, us or our means Donegal Group Inc.;

DGICA means our Class A common stock;

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DGICB means our Class B common stock;

Donegal Mutual means Donegal Mutual Insurance Company;

Le Mars means Le Mars Insurance Company;

MICO means Michigan Insurance Company;

Peninsula means the Peninsula Insurance Group;

SEC means the Securities and Exchange Commission;

Sheboygan means Sheboygan Falls Insurance Company;

Southern means Southern Insurance Company of Virginia; and

UCB means Union Community Bank.

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Unless we otherwise expressly indicate, all of the financial information we include or incorporate by reference in this proxy statement for our 2015 Annual Meeting relates to our 2014 fiscal year. Our 2014 fiscal year began on January 1, 2014 and ended on December 31, 2014.

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**OUR 2015 ANNUAL MEETING**

In accordance with this proxy statement, our board of directors solicits proxies from our stockholders for use in connection with our 2015 Annual Meeting and any adjournment or postponement of our 2015 Annual Meeting. We will hold our 2015 Annual Meeting at 10:00 a.m., local time, on April 16, 2015 at the Heritage Hotel Lancaster, 500 Centerville Road, Lancaster, Pennsylvania 17601.

***What is the agenda for our 2015 Annual Meeting?***

At our 2015 Annual Meeting, our stockholders will consider and act upon the following four items of stockholder business:

our proposal to elect our four nominees to serve as Class B directors for a term of three years and until their respective successors take office;

our proposal to approve our 2015 equity incentive plan for employees;

our proposal to approve our 2015 equity incentive plan for directors; and

our proposal to ratify the appointment by our audit committee of KPMG LLP to serve as our independent registered public accounting firm for 2015.

***What is the effect of our advance notice By-laws?***

Our advance notice By-laws require that a stockholder provide us with a specified period of prior notice of that stockholder's intention to nominate any candidate for election as a Class B director at our 2015 Annual Meeting or to propose any other item of stockholder business for stockholder consideration at our 2015 Annual Meeting.

Our advance notice By-laws establish a date by which a stockholder must submit a stockholder proposal with respect to our next forthcoming annual meeting of stockholders. That date in general is 90 days prior to the first anniversary of the mailing date of our proxy solicitation for our prior year's annual meeting of stockholders. After that date, a stockholder may no longer propose any candidate for election as a director at our next forthcoming annual meeting of stockholders and may no longer propose any other item of stockholder business for consideration and a vote by our stockholders at our next forthcoming annual meeting of stockholders. For our 2015 Annual Meeting, that date was December 17, 2014. For our 2016 annual meeting of stockholders, that date is December 16, 2015. The purpose of our advance notice By-laws is to ensure that we can include in our annual proxy statements, for the information of all of our stockholders, all of the actions we or others propose to present for consideration by our stockholders at our annual meetings of stockholders.

No stockholder has nominated a candidate for election as a Class B director at our 2015 Annual Meeting or proposed the transaction of any other item of stockholder business at our 2015 Annual Meeting. Accordingly, no item of stockholder business other than the four items of stockholder business we describe in our notice of our 2015 Annual Meeting, as well as in this proxy statement, may properly come before our 2015 Annual Meeting or any adjournment or postponement of our 2015 Annual Meeting. As a result, we will not submit any other item of stockholder business, other than procedural matters related to the conduct of our 2015 Annual Meeting, to a vote of our stockholders at our 2015 Annual Meeting.

We are a Delaware corporation. Therefore, the Delaware General Corporation Law, or the DGCL, our amended and restated certificate of incorporation and our By-laws as currently in effect govern the conduct of business at our annual meetings of stockholders, our relationships with our stockholders and the relative rights, powers, duties and obligations of us and our stockholders, directors, nominees for directors, officers and employees.

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### ***What is the quorum requirement for the conduct of business at our 2015 Annual Meeting?***

Our By-laws provide that the presence, in person or by proxy, of not less than a majority of the aggregate voting power of our outstanding shares of Class A common stock and our outstanding shares of Class B common stock as of the record date for our 2015 Annual Meeting constitutes a quorum at our 2015 Annual Meeting. Because Donegal Mutual owns approximately 65% of the aggregate voting power of our Class A common stock and our Class B common stock outstanding on the record date and because all of the shares of our Class A common stock and all of the shares of our Class B common stock Donegal Mutual owns will be present in person at our 2015 Annual Meeting, the presence in person of the shares Donegal Mutual owns at our 2015 Annual Meeting will constitute the presence of a quorum at our 2015 Annual Meeting. Because a quorum will be present at our 2015 Annual Meeting, our stockholders will have the legal power and authority to conduct the items of stockholder business at our 2015 Annual Meeting that we describe in our notice of our 2015 Annual Meeting and in this proxy statement.

### ***What is the order of business at our 2015 Annual Meeting?***

Our By-laws and applicable provisions of the DGCL govern the organization, conduct of business at and the adjournment of our 2015 Annual Meeting. Our board of directors has designated Donald H. Nikolaus, our chairman of the board and president, as the presiding officer of our 2015 Annual Meeting. The presiding officer will call our 2015 Annual Meeting to order and will conduct the business of our 2015 Annual Meeting, including voting upon the four items of stockholder business upon which our stockholders will vote at our 2015 Annual Meeting. No other item of stockholder business may properly come before our 2015 Annual Meeting. The presiding officer of our 2015 Annual Meeting will determine, in his discretion, the order of the items of stockholder business we will conduct at our 2015 Annual Meeting and the procedural manner in which we will conduct the business of our 2015 Annual Meeting.

We have historically conducted the voting on the items of stockholder business we submit for a stockholder vote at our annual meetings of stockholders as the first item of business following the calling of our 2015 Annual Meeting to order and the determination of a quorum by the presiding officer of our Annual Meeting. We currently intend to follow a substantially similar procedure at our 2015 Annual Meeting. After our stockholders have voted on the four items of stockholder business we describe in this proxy statement, and the inspectors of election our board of directors has appointed have tallied the voting on those four items of stockholder business, Kevin G. Burke, our executive vice president, chief operating officer and acting chief executive officer, and Jeffrey D. Miller, our executive vice president and chief financial officer, will then discuss our results of operations for 2014 compared to 2013 and our outlook for 2015. After those remarks, the inspectors of election will announce the results of the voting on the four items of stockholder business. Then Mr. Nikolaus, our chairman of the board and president, and Mr. Burke, our executive vice president, chief operating officer and acting chief executive officer, will, in their discretion, recognize stockholders who wish to ask pertinent questions or make comments as Messrs. Nikolaus and Burke deem appropriate under then prevailing circumstances.

### ***Who is entitled to notice of, and who may vote at, our 2015 Annual Meeting?***

Our board of directors established the close of business on March 2, 2015 as the record date for the determination of the holders of our Class A common stock and the holders of our Class B common stock who are entitled to notice of, and to vote at, our 2015 Annual Meeting. We refer to those eligible stockholders as stockholders of record in this proxy statement. Stockholders of record, including persons whom a stockholder of record duly and validly appoints as the proxy of such stockholder of record, may attend, and vote at, our 2015 Annual Meeting.

Each share of our Class A common stock held of record for our 2015 Annual Meeting has the right to cast one-tenth of a vote per Class A share for each nominee for election as a Class B director at our 2015 Annual Meeting and each of the other items of stockholder business we submit to a vote of our stockholders at our 2015 Annual Meeting.

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Each share of our Class B common stock held of record for our 2015 Annual Meeting has the right to cast one vote per Class B share for each nominee for election as a Class B director at our 2015 Annual Meeting and each of the other items of stockholder business we submit to a vote of our stockholders at our 2015 Annual Meeting.

We reserve the right to request photographic identification, such as a currently valid driver's license, before we permit a stockholder of record, or a proxy for a stockholder of record, to attend our 2015 Annual Meeting in person. Even if you currently plan to attend our 2015 Annual Meeting and vote in person, we recommend that you vote by proxy using one of the methods we describe in this proxy statement under "How do you vote the DGI shares you own that are registered in your name?" By voting in one of those ways, we can then recognize your votes even if you later do not, or cannot for any reason, attend our 2015 Annual Meeting and vote in person.

Our independent transfer agent, Computershare Trust Company, N.A. ( "Computershare" ), has prepared and certified a list of all holders of our Class A common stock and all holders of our Class B common stock outstanding as of the close of business on March 2, 2015, the record date for our 2015 Annual Meeting. If your name appears on that certified list of stockholders Computershare prepared for our use in connection with our 2015 Annual Meeting, you are a stockholder of record entitled to vote in person or by proxy at our 2015 Annual Meeting. For example, you are a stockholder of record if you received this proxy statement and the related materials for our 2015 Annual Meeting directly from us through our transfer agent and not indirectly from another person who is the record holder of the shares you own beneficially, such as a bank, a brokerage firm or other fiduciary or representative.

Our By-laws, in accordance with the DGCL, provide a stockholder of record an opportunity, subject to that stockholder of record's prior compliance with certain conditions we describe in this proxy statement, during the ten calendar days preceding the date of our 2015 Annual Meeting, to examine, at our principal executive offices in Marietta, Pennsylvania, an alphabetical list of the holders of record for our 2015 Annual Meeting of our Class A common stock and an alphabetical list of the holders of record for our 2015 Annual Meeting of our Class B common stock. We will grant a stockholder of record's request to make such an examination if:

the stockholder of record makes a written request to make such an examination at our principal executive offices during such 10-day period addressed to Jeffrey D. Miller, our executive vice president and chief financial officer; and

we determine, in our discretion, that the stockholder of record's request to examine our stockholder list is proper and legally relevant to the items of stockholder business we will conduct at our 2015 Annual Meeting.

If a stockholder of record does not make such a written request to inspect our list of stockholders within the ten-day period we describe above or if we make a determination, in our discretion, that the stockholder of record's request for inspection of our list of stockholders is not proper or not legally relevant to the items of stockholder business we will conduct at our 2015 Annual Meeting, we will not permit that stockholder of record to examine the list of the record holders of our Class A common stock and the record holders of our Class B common stock.

If you are the beneficial owner of shares of our Class A common stock or the beneficial owner of shares of our Class B common stock registered in the name of a bank, broker or other fiduciary or representative, also known as shares held in "street name," we consider you the beneficial owner of the shares your bank, broker or other fiduciary or representative holds for you, and we consider your bank, your broker or your other fiduciary or representative the stockholder of record of your shares. Your bank, your broker or your other fiduciary or representative will send you separately, as the beneficial owner, information describing the procedure for you to vote your shares. You should follow the instructions your bank, your broker or your other fiduciary or representative provides to you on how to vote your shares.

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We will transact four items of stockholder business at our 2015 Annual Meeting. We consider these items routine or non-routine as we indicate in the table below:

<b>Item of Business</b>	<b>Routine</b>	<b>Non-Routine</b>
Election of Class B directors		X
Approval of our 2015 equity incentive plan for employees		X
Approval of our 2015 equity incentive plan for directors		X
Ratification of the appointment by our audit committee of KPMG LLP to serve as our independent registered public accounting firm for 2015	X	
Under applicable SEC rules, a broker or other non-beneficial record owner may not vote on non-routine matters without voting instructions from the beneficial owner.		

***What percentage of the aggregate voting power of our outstanding shares of Class A common stock and our outstanding shares of Class B common stock is necessary to approve the items of stockholder business on which our stockholders will consider and vote at our 2015 Annual Meeting?******Election of Our Class B Directors***

The four nominees our board of directors nominated for election as Class B directors are the only nominees eligible for election as Class B directors at our 2015 Annual Meeting and any adjournment or postponement of our 2015 Annual Meeting. Our certificate of incorporation and our By-laws do not authorize cumulative voting in the election of our directors. As the DGCL permits and our By-laws provide, we utilize a plurality of the votes cast standard, and not a majority of the outstanding votes cast standard, in determining the election of directors by our stockholders. Our certificate of incorporation provides that our shares of Class A common stock and our shares of Class B common stock vote together as a single class in the election of our directors. At our 2015 Annual Meeting, our stockholders will elect as Class B directors the four nominees for election as Class B directors who receive the highest number of stockholder votes at our 2015 Annual Meeting. The four persons elected as Class B directors will serve for a term of three years and until their respective successors take office.

If you properly submit your proxy and mark ***Withhold Authority*** for the election of some or all of the nominees for election as Class B directors, the proxies we have named will not vote your shares with respect to the nominee or nominees for election as Class B director as to whom you have withheld authority. We will count the shares for which you have withheld authority to vote for the election of directors as present at our 2015 Annual Meeting for the purposes of determining whether a quorum is present at our 2015 Annual Meeting. Because Donegal Mutual will vote all of its DGI shares for the election of the four nominees for Class B director we name in this proxy statement and the Donegal Mutual-owned shares constitute a majority of the votes entitled to be cast at our 2015 Annual Meeting, those Class B nominees will be elected to serve as Class B directors for a term of three years and until their successors take office.

***Approval of Our 2015 Equity Incentive Plan for Employees***

Approval of our 2015 equity incentive plan for employees requires the affirmative vote of the holders of record of a majority of the voting power of our outstanding shares of Class A common stock and our outstanding shares of Class B common stock, voting together as a single class, present in person or by proxy and entitled to vote at our 2015 Annual Meeting. Because Donegal Mutual will vote all of its DGI shares for approval of our 2015 equity incentive plan for employees and the Donegal Mutual-owned shares constitute a majority of the votes entitled to be cast at our 2015 Annual Meeting, our stockholders will approve our 2015 equity incentive plan for employees.



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### ***Approval of Our 2015 Equity Incentive Plan for Directors***

Approval of our 2015 equity incentive plan for directors requires the affirmative vote of the holders of record of a majority of the voting power of our outstanding shares of Class A common stock and our outstanding shares of Class B common stock, voting together as a single class, present in person or by proxy and entitled to vote at our 2015 Annual Meeting. Because Donegal Mutual will vote all of its DGI shares for approval of our 2015 equity incentive plan for directors and the Donegal Mutual-owned shares constitute a majority of the votes entitled to be cast at our 2015 Annual Meeting, our stockholders will approve our 2015 equity incentive plan for directors.

### ***Ratification of the Appointment by Our Audit Committee of KPMG LLP to Serve as Our Independent Registered Public Accounting Firm for 2015***

Ratification of the appointment by our audit committee of KPMG LLP to serve as our independent registered public accounting firm for our fiscal year ending December 31, 2015 requires the affirmative vote of the holders of a majority of the aggregate voting power of our outstanding shares of Class A common stock and our outstanding shares of Class B common stock, voting together as a single class, present in person or by proxy and entitled to vote at our 2015 Annual Meeting. Because Donegal Mutual will vote all of its DGI shares for ratification of the appointment by our audit committee of KPMG LLP to serve as our independent registered public accounting firm for 2015 and the Donegal Mutual-owned shares constitute a majority of the votes entitled to be cast at our 2015 Annual Meeting, the ratification of the appointment by our audit committee of KPMG LLP will receive the requisite stockholder approval.

### **Quorum and Broker Non-Votes**

In connection with our 2015 Annual Meeting, we will treat abstentions and broker non-votes as outstanding shares entitled to vote at our 2015 Annual Meeting. The holders present in person or by proxy of a majority of the aggregate voting power of the outstanding shares of our Class A common stock and the outstanding shares of our Class B common stock entitled to vote at our 2015 Annual Meeting will constitute a quorum at our 2015 Annual Meeting. Thus, a quorum will be present at our 2015 Annual Meeting because of the presence at our 2015 Annual Meeting of Donegal Mutual and because Donegal Mutual holds, and will exercise, the majority voting power of all of the outstanding shares of our Class A common stock and the outstanding shares of our Class B common stock.

Broker non-votes are shares brokers or nominees hold of record in their name and that such broker or nominee has not voted because the broker or nominee has not received voting instructions from the beneficial owner of those shares and as to which shares the broker or nominee does not have discretionary voting power. Broker non-votes, if any, will not affect the presence of a quorum at our 2015 Annual Meeting, other than being treated as votes present, or affect the outcome of any matter we submit to a vote of our stockholders at our 2015 Annual Meeting.

### ***What voting rights do our stockholders have?***

At March 2, 2015, we had outstanding:

21,534,176 shares of our Class A common stock, each share of which entitles its holder to cast one-tenth of a vote per share with respect to each matter we submit to a vote of our stockholders at our 2015 Annual Meeting; and

5,576,775 shares of our Class B common stock, each share of which entitles its holder to cast one vote per share with respect to each matter we submit to a vote of our stockholders at our 2015 Annual Meeting.

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In summary:

the holders of record of all of our outstanding shares of Class A common stock have the right to cast a total of 2,153,417 votes on each matter we submit to a vote of our stockholders at our 2015 Annual Meeting;

the holders of record of all of our outstanding shares of Class B common stock have the right to cast a total of 5,576,775 votes on each matter we submit to a vote of our stockholders at our 2015 Annual Meeting; and

the holders of record of all of our outstanding shares of Class A common stock and the holders of record of all of our outstanding shares of Class B common stock voting together as a single class have the right to cast a total of 7,730,192 votes on each matter we submit to a vote of our stockholders at our 2015 Annual Meeting.

At the close of business on March 2, 2015, Donegal Mutual owned of record and beneficially 7,755,953 shares, or 36.0%, of our outstanding Class A common stock, and 4,247,039 shares, or 76.2%, of our outstanding Class B common stock. Donegal Mutual therefore has the right to cast approximately two-thirds of the total number of votes that all of our stockholders may cast at our 2015 Annual Meeting on each matter we submit to a vote of our stockholders at our 2015 Annual Meeting.

Donegal Mutual has advised us that it will vote all of its shares of our Class A common stock and all of its shares of our Class B common stock at our 2015 Annual Meeting as follows:

for the election of Kevin M. Kraft, Sr., Jon M. Mahan, Donald H. Nikolaus and Richard D. Wampler, II to serve as Class B directors for a term of three years and until their respective successors take office;

for the approval of our 2015 equity incentive plan for employees;

for the approval of our 2015 equity incentive plan for directors; and

for the ratification of the appointment by our audit committee of KPMG LLP to serve as our independent registered public accounting firm for our fiscal year ending December 31, 2015.

As a result, based on the information Donegal Mutual furnished to us as to how Donegal Mutual will cast its votes at our 2015 Annual Meeting and because those shares constitute a majority of the votes entitled to be cast at our 2015 Annual Meeting, we anticipate our stockholders will, at our 2015 Annual Meeting:

elect Kevin M. Kraft, Sr., Jon M. Mahan, Donald H. Nikolaus and Richard D. Wampler, II as Class B directors to serve for a term of three years and until their respective successors take office;

approve our 2015 equity incentive plan for employees;

approve our 2015 equity incentive plan for directors; and

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ratify the appointment by our audit committee of KPMG LLP to serve as our independent registered public accounting firm for our fiscal year ending December 31, 2015.

### ***How do you vote the DGI shares you own that are registered in your name?***

If the certified list of the holders of our Class A common stock and the holders of our Class B common stock as of the record date that our independent transfer agent prepared includes your name, you are a stockholder of record and you may attend our 2015 Annual Meeting and vote in person or by proxy on the items of stockholder business we submit to a vote of our stockholders at our 2015 Annual Meeting. If you prefer, you may vote your proxy by telephone or via the Internet by following the instructions we include on the proxy card we sent to you along with this proxy statement and our 2014 Annual Report. The proxies our board of directors has appointed will vote your shares as you direct on any proxy card you return by mail, by telephone or via the Internet. The deadline for stockholders of record to vote at our 2015 Annual Meeting by telephone or via the Internet is 11:59 p.m., local time, on April 15, 2015. The deadline for our receipt of proxies submitted by mail or by express delivery services for voting at our 2015 Annual Meeting is 3:00 p.m., local time, on April 15, 2015.

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You may vote by proxy by using one of the following three methods:

*Vote by telephone* use any touch-tone telephone to vote your proxy 24 hours a day, 7 days a week. Have your proxy card available when you call. When requested, enter the control numbers your proxy card lists and then follow the prompts. The telephone number is 1-800-690-6903.

*Vote by mail* mark, sign and date the proxy card we have mailed to you and return it in the postage-prepaid envelope we mailed to you along with our proxy solicitation materials for our 2015 Annual Meeting and our 2014 Annual Report.

*Vote via the Internet* use the Internet to vote your proxy 24 hours a day, 7 days a week. Have your proxy card available when you access the website. When requested, enter the control numbers your proxy card lists and then create and submit your ballot over the Internet. The website address for voting via the Internet is [www.proxyvote.com](http://www.proxyvote.com).

If a broker, bank or other fiduciary or representative is the holder of record of your shares, see *How do you vote the DGI shares you own that are registered in street name?* below.

### ***How do you vote the DGI shares you own that are registered in street name?***

If you are not a stockholder of record, but you are a beneficial owner of our Class A common stock or our Class B common stock at the close of business on March 2, 2015, which means that our list of our stockholders of record at the close of business on March 2, 2015 prepared by our independent transfer agent does not include your name but instead the name of the bank, broker or other fiduciary or representative who is the holder of record of your shares, you must either direct the holder of record of your shares to vote your shares on your behalf on the items of stockholder business upon which our stockholders will vote at our 2015 Annual Meeting or you must obtain a form of proxy from your holder of record that you may then vote as if you were the holder of record. Your broker does not have the discretion to vote your shares on non-routine matters at our 2015 Annual Meeting. Those matters are the election of four Class B directors, the approval of our 2015 equity incentive plan for employees and the approval of our 2015 equity incentive plan for directors. Your broker, however, does have the discretion to vote your shares on routine matters at our 2015 Annual Meeting. The stockholder ratification of the appointment by our audit committee of KPMG LLP to serve as our independent registered public accounting firm for our fiscal year ending December 31, 2015 is a routine matter as to which your broker may exercise discretionary voting power.

If you are a beneficial owner of our Class A common stock or our Class B common stock and desire to attend our 2015 Annual Meeting or vote your beneficially owned shares at our 2015 Annual Meeting in person, you must obtain a proxy from your holder of record that you may vote as if you were the holder of record and not direct your holder of record how to vote. Your holder of record is generally your broker or bank who holds the shares in its name for you.

### ***How does our board of directors recommend our stockholders vote at our 2015 Annual Meeting?***

Our board of directors unanimously recommends that each of our stockholders complete such stockholder's proxy and vote as follows:

***For*** the election of Kevin M. Kraft, Sr., Jon M. Mahan, Donald H. Nikolaus and Richard D. Wampler, II to serve as Class B directors for a term of three years and until their respective successors take office;

***For*** the approval of our 2015 equity incentive plan for employees;

***For*** the approval of our 2015 equity incentive plan for directors; and

***For*** the ratification of the appointment by our audit committee of KPMG LLP to serve as our independent registered public accounting firm for our fiscal year ending December 31, 2015.



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Unless you mark your proxy card to the contrary, the proxies our board of directors has appointed will vote your shares represented by a duly completed proxy for the election of the four nominees for Class B directors we name in this proxy statement, for the approval of our 2015 equity incentive plan for employees, for the approval of our 2015 equity incentive plan for directors and for the ratification of the appointment by our audit committee of KPMG LLP to serve as our independent registered public accounting firm for our fiscal year ending December 31, 2015.

***May you change your vote after you have voted by proxy but before the commencement of voting at our 2015 Annual Meeting?***

You may revoke your proxy at any time prior to the time when the proxies our board of directors appointed have completed their collection of ballots during our 2015 Annual Meeting. If you are a stockholder of record, you may revoke your proxy by timely:

submitting to our chief financial officer a notice of revocation of your proxy by telephone, via the Internet or by mail;

returning a second proxy dated later than the date of your first proxy by telephone, via the Internet or by mail as we describe in this proxy statement; or

voting in person at our 2015 Annual Meeting.

However, if you attend our 2015 Annual Meeting in person and do not submit a ballot at our 2015 Annual Meeting, our proxies will vote the proxy you most recently submitted to them in accordance with the instructions you provided on that most recent proxy.

If a bank, broker, nominee, other fiduciary or representative or other person is the holder of record of the shares you own, you will need to follow the instructions of the bank, broker, nominee, other fiduciary or representative or other holder of record as to how you may revoke your proxy.

If you have any questions about our 2015 Annual Meeting or voting your shares, please call Jeffrey D. Miller, our executive vice president and chief financial officer, at 1-800-877-0600 or e-mail Mr. Miller at [jeffmiller@donegalgroup.com](mailto:jeffmiller@donegalgroup.com).

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**CERTAIN BENEFICIAL OWNERS OF OUR CLASS A COMMON STOCK  
AND OUR CLASS B COMMON STOCK**

***Beneficial Owners of 5% or More of DGICA or DGICB***

The table below lists each person whom we believe beneficially owned 5% or more of the outstanding shares of our Class A common stock (Nasdaq symbol DGICA) or 5% or more of the outstanding shares of our Class B common stock (Nasdaq symbol DGICB), in each case, as of the close of business on March 2, 2015.

Name and Address of Beneficial Owner	Class A Common Stock		Class B Common Stock	
	Shares Beneficially Owned	Percent Owned	Shares Beneficially Owned	Percent Owned
Donegal Mutual Insurance Company 1195 River Road Marietta, PA 17547 Gregory M. Shepard(1)	7,755,953	36.0%	4,247,039	76.2%
7028 Portmarnock Place Bradenton, FL 34202 Dimensional Fund Advisors LP(2)	3,675,000	17.1%	398,665	7.1%
6300 Bee Cave Road Austin, TX 78746	1,463,735	6.8%		

- (1) Mr. Shepard reported the ownership information shown in the above table in reports he has filed with the SEC through March 2, 2015.
- (2) Dimensional Fund Advisors LP reported the ownership information shown in the above table in a Schedule 13G/A it filed with the SEC on February 5, 2015. Dimensional Fund Advisors LP disclaims beneficial ownership of these shares.

**Table of Contents*****The Ownership by Our Directors and Executive Officers of Our Stock***

The following table shows the amount and the percentage of the outstanding shares of our Class A common stock and the amount and the percentage of the outstanding shares of our Class B common stock that each of our directors, each of our nominees for director, each of our named executive officers and all of our executive officers, our nominees for director and our directors as a group owned beneficially at the close of business on March 2, 2015. The total shares shown for each person includes shares the person owned jointly, in whole or in part, with the person's spouse, or owned individually by the person's spouse and shares purchasable upon the exercise of stock options that were exercisable as of March 2, 2015 or that become exercisable within 60 days after March 2, 2015. The ownership of each director, nominee for director or executive officer is less than 1% unless the table immediately below indicates otherwise.

Name of Individual or Identity of Group	Class A Common Stock		Class B Common Stock	
	Shares		Shares	
	Beneficially Owned	Percent Owned	Beneficially Owned	Percent Owned
<b>Directors and Nominees for Director:</b>				
Donald H. Nikolaus(1)	1,012,244	4.6%	186,375	3.3%
Scott A. Berlucchi	34,822			
Robert S. Bolinger	39,277		1,450	
Patricia A. Gilmartin	28,896			
Philip H. Glatfelter, II	44,022		3,276	
Jack L. Hess	47,663			
Barry C. Huber(2)	10,167			
Kevin M. Kraft, Sr.	38,903			
Jon M. Mahan	36,155			
S. Trezevant Moore, Jr.	34,822		1,000	
Richard D. Wampler, II	37,159			
<b>Executive Officers:</b>				
Kevin G. Burke	180,538			
Cyril J. Greenya	186,026		820	
Jeffrey D. Miller	216,008	1.0	582	
Sanjay Pandey	60,276			
Robert G. Shenk	219,499	1.0		
Daniel J. Wagner	224,990	1.0	166	
All directors and executive officers as a group (17 persons)(3)	2,451,467	10.5%	193,669	3.5%

- (1) Includes 179,037 shares of our Class A common stock and 3,938 shares of our Class B common stock that a family foundation and a family trust, of which both Mr. Nikolaus is trustee, owned at March 2, 2015.
- (2) On January 30, 2015, in accordance with our By-laws, our board of directors appointed Mr. Huber to serve as a Class C member of our board of directors to fill a Class C vacancy on our board of directors until we next elect Class C members of our board of directors at our 2016 annual meeting of stockholders and their respective successors take office.
- (3) Includes currently exercisable stock options to purchase 31,667 shares of Class A common stock that each director we name above beneficially owns with the exception of Mr. Nikolaus, who holds stock options we granted to him as our chairman of the board and president, Mrs. Gilmartin, who holds currently exercisable options to purchase 21,667 shares of our Class A common stock, and Mr. Huber, who holds currently exercisable stock options to purchase 5,800 shares of our Class A common stock we granted to him by reason of his services as a director of UCB. Our executive officers hold currently exercisable stock options to purchase shares of our Class A common stock included in the table above as follows: Mr. Nikolaus, 533,333 shares; Mr. Burke, 180,000 shares; Mr. Greenya, 180,000 shares; Mr. Miller, 185,000 shares; Mr. Pandey, 60,072 shares; Mr. Shenk, 180,000 shares and Mr. Wagner, 170,000 shares.



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### ***Section 16(a) Beneficial Ownership Reporting Compliance***

Section 16(a) of the Securities Exchange Act of 1934, or the Exchange Act, requires that each of our directors, each of our executive officers and any person who owns 10% or more of the outstanding shares of our Class A common stock or 10% or more of the outstanding shares of our Class B common stock, file with the SEC initial reports of their ownership of 10% or more of our Class A common stock and our Class B common stock as well as reports of subsequent changes in that ownership. Such persons must also furnish us with copies of all forms they file with the SEC pursuant to Section 16(a). As a practical matter, we seek to assist our executive officers and directors in completing these filings on a timely basis by monitoring such transactions and completing and filing such SEC reports on behalf of such of those persons who request us to do so.

Based solely upon our review of the Section 16(a) filings our executive officers and directors made with the SEC during 2014 and written representations we receive annually from our directors and executive officers, we believe that during 2014 all of our directors and executive officers filed all required Section 16(a) reports on a timely basis.

Under the caption *Certain Beneficial Owners of Our Class A Common Stock and Our Class B Common Stock* in this proxy statement, we disclose that Gregory M. Shepard, an individual who is not affiliated with the Company, owns more than 10% of the outstanding shares of our Class A common stock. As such, Section 16(a) of the Exchange Act requires that Mr. Shepard file reports of changes in his beneficial ownership of our Class A common stock as well as our Class B common stock within two business days after any change in his beneficial ownership of our Class A common stock or our Class B common stock.

Mr. Shepard filed a change in beneficial ownership report with the SEC on December 29, 2014. Mr. Shepard's December 29, 2014 report disclosed that:

Mr. Shepard purchased 660 shares of our Class B common stock on December 22, 2014; and

Mr. Shepard purchased 595 shares of our Class B common stock on December 23, 2014.

Based upon Mr. Shepard's December 29, 2014 change in beneficial ownership report, we have determined, based on the advice of our outside counsel, that:

Mr. Shepard filed the requisite change in beneficial ownership report with the SEC with respect to his December 22, 2014 purchase on the fourth business day after the date of his December 22, 2014 purchase; thus Mr. Shepard reported that purchase two business days late; and

Mr. Shepard filed the requisite change in beneficial ownership report with the SEC with respect to his December 23, 2014 purchase on the third business day after the date of his December 23, 2014 purchase; thus Mr. Shepard reported that purchase one business day late.

### **THE RELATIONSHIP OF DONEGAL MUTUAL AND DGI**

#### ***Introduction***

A group of local residents and business owners in Lancaster County, Pennsylvania formed Donegal Mutual in 1889 to provide property and casualty insurance. Now, 126 years later, Donegal Mutual had approximately \$393.7 million in total assets and surplus of approximately \$204.4 million at December 31, 2014. In addition, Donegal Mutual owns 36.0% of the outstanding shares of our Class A common stock and 76.2% of the outstanding shares of our Class B common stock. DGI, at December 31, 2014, had total assets of approximately \$1.5 billion and stockholders' equity of approximately \$416.1 million.

Donegal Mutual and DGI's insurance subsidiaries conduct business together as the Donegal Insurance Group in 21 Mid-Atlantic, Midwestern, New England and Southern states. During 2014, A.M. Best Company reported that the Donegal Insurance Group ranked as the 98<sup>th</sup> largest property and casualty insurance group in the United States based on its net premiums written in 2013. A.M. Best Company has assigned its rating of A (Excellent) to the Donegal Insurance Group.



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***The Development of DGI***

In the mid-1980s, Donegal Mutual recognized the desirability, as a mutual insurance company, of developing additional sources of capital and surplus so it could remain competitive and have the surplus to expand its business and ensure its long-term viability. Donegal Mutual determined to implement a downstream holding company structure as one of its business strategies. Accordingly, in 1986, Donegal Mutual formed DGI as a downstream holding company. Initially, Donegal Mutual owned all of our outstanding common stock. After Donegal Mutual formed us, we in turn formed Atlantic States as our wholly owned property and casualty insurance company subsidiary.

In connection with the establishment of Atlantic States and our downstream insurance holding company system, Donegal Mutual and Atlantic States entered into a proportional reinsurance agreement, or pooling agreement, that became effective October 1, 1986. Under the pooling agreement, Donegal Mutual and Atlantic States pool substantially all of their respective premiums, losses and loss expenses to the reinsurance pool, and the reinsurance pool, acting through Donegal Mutual, then cedes a portion of the pooled business, currently 80%, to Atlantic States, and Donegal Mutual retains the remaining 20%. Donegal Mutual and Atlantic States share the underwriting results in proportion to their respective participation in the underwriting pool. Since we established Atlantic States in 1986, Donegal Mutual and our insurance subsidiaries have conducted business together as the Donegal Insurance Group, while retaining their separate legal and corporate existences. As the Donegal Insurance Group, Donegal Mutual and our insurance subsidiaries share a combined business plan to enhance market penetration and underwriting profitability objectives. As such, Donegal Mutual and our insurance subsidiaries share the same business philosophies, the same management, the same employees and the same facilities and offer the same types of insurance products.

We believe Donegal Mutual's long-term ownership of a majority interest in the combined voting power of our Class A common stock and of our Class B common stock fosters our ability to:

implement our strategic business philosophies;

realize the benefits of long-term management continuity;

maintain superior employee relations; and

provide a stable environment within which we can grow our businesses.

The products Donegal Mutual and our insurance subsidiaries offer are generally complementary, which permits the Donegal Insurance Group to offer a broad range of products in 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 Donegal Mutual and our insurance subsidiaries offer generally relate to specific risk profiles within similar classes of business, such as preferred tier products versus standard tier products. Donegal Mutual and we do not allocate all of the standard risk gradients to one company. As a result, the underwriting results of the business the individual companies write directly will vary. However, the underwriting pool homogenizes the risk characteristics of all business Donegal Mutual and Atlantic States write directly. We receive 80% of the results of the underwriting pool because Atlantic States has an 80% participation in the pool. The business Atlantic States derives from the underwriting pool represents a significant percentage of our total consolidated revenues. However, the percentage of the total revenue we derive from the underwriting pool has gradually decreased over the past few years as we have acquired a number of other property and casualty insurance companies that do not participate in the underwriting pool.

As the capital of Atlantic States and our other insurance subsidiaries has increased, the underwriting capacity of our insurance subsidiaries, including Atlantic States, has proportionately increased. The size of the underwriting pool has increased substantially. Therefore, as we originally planned in the mid-1980s, Atlantic States has successfully raised the capital necessary to support the growth of its direct business as well as to accept increases in its allocation of business from the underwriting pool. In addition, the portion of the

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underwriting pool allocated to Atlantic States has increased from an initial allocation of 35% in 1986 to an 80% allocation since March 1, 2008. We do not anticipate any further change in the pooling agreement between Atlantic States and Donegal Mutual in the foreseeable future, including any change in the percentage participation of Atlantic States in the underwriting pool.

The board of directors of Donegal Mutual and our board of directors review annually our structure and relationships. The most recent such review occurred in February 2015. As a result of these reviews, both our board of directors and Donegal Mutual's board of directors reaffirmed their belief, as of the date of this proxy statement, that the Donegal Mutual-DGI structure and the inter-company relationships we describe in this proxy statement continue to be appropriate for the respective businesses and operations of DGI and of Donegal Mutual. Our board of directors reaffirmed in February 2015 that Donegal Mutual's majority voting control of us is in the best interests of our stockholders, Donegal Mutual's employees who provide services to us and our subsidiaries, the policyholders of our insurance subsidiaries and the general public.

As our Form 10-K Report for the year ended December 31, 2014 reports, certain of our insurance subsidiaries pay dividends to us. During the year ended December 31, 2014, our insurance subsidiaries paid a total of \$11.5 million in dividends to us. These dividends are a major source of the funds we utilize to pay quarterly cash dividends to our stockholders. We paid \$13.6 million in dividends to our stockholders in 2014, of which Donegal Mutual received \$6.0 million based on its holdings of our Class A common stock and our Class B common stock on the respective record dates for our payments of dividends during the year ended December 31, 2014.

***Our Recapitalization in 2001***

We recapitalized effective April 19, 2001. At that time, we effected a one-for-three reverse stock split of our common stock and renamed it Class B common stock and issued two shares of our Class A common stock as a stock dividend for each post-reverse stock split share of our Class B common stock. Our Class A common stock has one-tenth of a vote per share and our Class B common stock has one vote per share. As a result of the reverse split and the stock dividend, each of our stockholders at April 19, 2001 continued to own the same number of shares of our common stock, with one-third of the shares being shares of our Class B common stock and two-thirds of the shares being shares of our Class A common stock. As a result, the relative voting power and equity interest of all of the stockholders of DGI at the time of our recapitalization remained constant. Donegal Mutual's continued ownership of more than a majority of the aggregate voting power of our outstanding shares of our Class A common stock and our Class B common stock after the recapitalization better enables us to maintain our long-term relationship with Donegal Mutual, which our board of directors believes is a central part of our historical business strategy and success.

We effected our recapitalization because our board of directors believed in 2001, and continues to believe as of the date of this proxy statement, that a capital structure that has more than one class of publicly traded securities offers us a number of benefits. The principal benefit to us from our two-class capital structure is our ability to issue our Class A common stock or securities convertible into or exchangeable for our Class A common stock for financing, acquisition and compensation purposes without materially adversely affecting the relative voting power of any of our stockholders, including Donegal Mutual. At the time of our recapitalization in 2001 and continuing to the current time, our board of directors recognized that our recapitalization was likely to favor longer-term investors, including Donegal Mutual, and could discourage attempts to acquire us, which our board of directors continues to believe is remote in any event because of Donegal Mutual's continuing ownership of more than a majority of the voting power of our common stock.

Every holder of our Class A common stock and every holder of our Class B common stock who owns shares of our Class A common stock or our Class B common stock has purchased our Class A common stock or our Class B common stock with the prior knowledge and consistent disclosure by us that Donegal Mutual has, since our formation in 1986, held majority voting control of us. For the reasons we discuss in this proxy statement,

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Donegal Mutual intends to retain that majority voting control of us for the long-term future because Donegal Mutual believes that its majority voting control of us is in our long-term best interests and the long-term best interests of Donegal Mutual.

### ***The Continuing Relationship of Donegal Mutual and DGI***

Our board of directors is of the opinion that preservation of the relationship between Donegal Mutual and us and our status as a public company majority-controlled by Donegal Mutual is in the best interests of all of the constituencies that we and Donegal Mutual serve, including:

our stockholders;

the policyholders of our insurance subsidiaries and the policyholders of Donegal Mutual;

Donegal Mutual's employees who provide services to us and our subsidiaries;

the independent insurance agents who represent Donegal Mutual and our insurance subsidiaries; and

the local communities in which Donegal Mutual and we maintain offices.

We believe our relationship with Donegal Mutual offers us and our insurance subsidiaries a number of competitive advantages, including the following:

facilitating the stable management, consistent underwriting discipline, external growth and long-term profitability of the Donegal Insurance Group;

creating operational and expense synergies given the combined resources and operating efficiencies of the Donegal Insurance Group;

providing Donegal Mutual and Atlantic States with a significantly larger underwriting capacity than either company could have achieved independently because of the underwriting pool Donegal Mutual and Atlantic States have maintained since 1986;

enhancing our opportunities to expand by acquisition because of the ability of Donegal Mutual to acquire control of other mutual insurance companies and thereafter demutualize them and then sell them to us at a fair price or reinsure substantially all of their insurance business and place such business in the underwriting pool; and

producing more uniform and stable underwriting results for the Donegal Insurance Group than any of the individual member companies could achieve without the relationship between Donegal Mutual and our insurance subsidiaries.

We refer our stockholders to our Form 10-K Report for our fiscal year ended December 31, 2014 for a further discussion of our business strategy.

### ***Our Strategy to Maximize Stockholder Value***

A fundamental goal of our board of directors and management is to maximize stockholder value over the long-term. We conduct our operations with this fundamental goal in mind. Our business strategies seek to maximize stockholder value by improving operating efficiencies as well as

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pursuing internal and external growth in order to enhance the long-term profitability of our businesses. Our board of directors and management regularly evaluate our business strategies and concentrate on improving our long-term, sustainable earnings. We focus on:

generating sustainable underwriting profitability by carefully selecting product lines, evaluating individual risks based on historic results, minimizing individual exposure to catastrophe-prone areas, analyzing the cost and availability of reinsurance as well as the level at which we purchase reinsurance and evaluating claims history on a regular basis to ensure the adequacy of underwriting guidelines and product pricing;

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pursuing profitable growth by organic expansion within the traditional operating territories of our insurance subsidiaries through developing and maintaining quality independent agency representation;

seeking to acquire property and casualty insurance companies or blocks of existing in-force insurance policies that augment the organic growth of our insurance subsidiaries in existing markets and expand our business into new geographic regions;

enhancing the profitability of our insurance subsidiaries through expense reductions and the utilization of state-of-the-art technology to increase operating efficiency and effective electronic communication with agents, policyholders and potential policyholders;

providing responsive and friendly customer and agent service to enable our insurance subsidiaries to attract new policyholders and retain existing policyholders; and

maintaining premium rate adequacy to enhance the underwriting profitability of our insurance subsidiaries, while maintaining high levels of retention for their existing books of business, and at the same time enhancing their ability to write new business.

***The Coordinating Committee***

Donegal Mutual and we have maintained a coordinating committee since our formation in 1986. The coordinating committee consists of two members of our board of directors, neither of whom is a member of Donegal Mutual's board of directors, and two members of Donegal Mutual's board of directors, neither of whom is a member of our board of directors. The purpose of the coordinating committee is to establish and maintain a process for an ongoing evaluation of the fairness of the terms of the transactions between Donegal Mutual on the one hand, and our insurance subsidiaries and us on the other hand.

Any change to an agreement between Donegal Mutual, on the one hand, and us or any of our insurance subsidiaries on the other hand, or any new agreement between Donegal Mutual, on the one hand, and us or any of our insurance subsidiaries, on the other hand, is also subject to the applicable provisions of the Pennsylvania Insurance Company Law of 1921, as amended, and the Pennsylvania Insurance Holding Company Act, as amended, or the PHCA. The coordinating committee utilizes the following standards in considering whether to approve a new agreement between Donegal Mutual and us or Donegal Mutual and one or more of our insurance subsidiaries or to change an existing agreement between Donegal Mutual and us or Donegal Mutual and one or more of our insurance subsidiaries:

a new agreement and any change to a previously approved agreement must receive coordinating committee approval. The coordinating committee will only approve a new agreement or a change in an existing agreement if:

both of our members on the coordinating committee determine that the new agreement or the change in an existing agreement is fair and equitable to us and in the best interests of our stockholders; and

both of Donegal Mutual's members on the coordinating committee determine that the new agreement or the change in an existing agreement is fair and equitable to Donegal Mutual and in the best interests of Donegal Mutual's policyholders;

the new agreement or the change in an existing agreement must be approved by our board of directors; and

the new agreement or the change in an existing agreement must be approved by Donegal Mutual's board of directors.

The coordinating committee also meets annually during the first two months of each year to review each continuing agreement and each on-going transaction between Donegal Mutual and us or one or more of our insurance subsidiaries, including the various reinsurance agreements between Donegal Mutual and our insurance





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subsidiaries. The purpose of this annual review is to examine the results of these reinsurance agreements over the immediately preceding year and for the four preceding years and to determine if the results of the existing agreements between Donegal Mutual and us and our insurance subsidiaries remain fair and equitable to us and our stockholders and fair and equitable to Donegal Mutual and its policyholders or if Donegal Mutual and we should mutually agree to certain adjustments. In the case of these agreements, the adjustments typically consist of adjustments to the reinsurance premiums, the level at which the reinsurance attaches and the reinstatement premiums and are designed to achieve relative parity between Donegal Mutual, on the one hand, and us or one or more of our insurance subsidiaries, on the other hand, over a period of several years. These agreements are ongoing in nature and will continue in effect throughout 2015 in the ordinary course of our business and the business of our insurance subsidiaries and in the ordinary course of the business of Donegal Mutual.

Robert S. Bolinger and Richard D. Wampler, II are our members of the coordinating committee as of the date of this proxy statement. Our board of directors appointed Mr. Wampler as a member of the coordinating committee in January 2015 to fill a vacancy created by the resignation of John J. Lyons in December 2014. See Proposal 1 Election of Class B Directors for certain biographical information about Messrs. Bolinger and Wampler. Dennis J. Bixenman and John E. Hiestand serve as Donegal Mutual's members of the coordinating committee. Certain biographical information about Messrs. Bixenman and Hiestand is as follows:

Mr. Bixenman, age 68, has been a director of Donegal Mutual since 2008. Mr. Bixenman retired at the end of 2012 as vice president and senior consultant of Williams & Company Consulting, Inc., an environmental and business consulting firm with its headquarters in Sioux City, Iowa. Mr. Bixenman is a certified public accountant with extensive experience in auditing and preparing financial statements. Mr. Bixenman beneficially owns 37,722 shares of our Class A common stock. He owns no shares of our Class B common stock. As director compensation in 2014, Donegal Mutual paid Mr. Bixenman cash fees of \$62,000 and granted him a restricted stock award of 400 shares of Class A common stock with a value at the time of issuance in January 2014 of \$6,360. Mr. Bixenman received \$500 in cash fees as compensation from Donegal Mutual for each meeting attended as one of Donegal Mutual's members on the coordinating committee during 2014.

Mr. Hiestand, age 77, has been a director of Donegal Mutual since 1983 and has been a self-employed provider of insurance administrative services for over 20 years. Mr. Hiestand served as a director of Central Savings and Loan Association in Columbia, Pennsylvania from 1982 to 1992. Mr. Hiestand beneficially owns 39,247 shares of our Class A common stock. He owns 157 shares of our Class B common stock. As director compensation in 2014, Donegal Mutual paid Mr. Hiestand cash fees of \$60,050 and granted him a restricted stock award of 400 shares of Class A common stock with a value at the time of issuance in January 2014 of \$6,360. Mr. Hiestand received \$500 in cash fees as compensation from Donegal Mutual for each meeting attended as one of Donegal Mutual's members on the coordinating committee during 2014.

***Inter-Company Transactions***

Donegal Mutual provides facilities, personnel and other services to us and our insurance subsidiaries pursuant to a service agreement that has been in effect since 1986. Donegal Mutual allocates certain related expenses to Atlantic States in accordance with the relative participation of Donegal Mutual and Atlantic States in the underwriting pool. Our insurance subsidiaries other than Atlantic States reimburse Donegal Mutual for those services for their respective personnel costs and bear their proportionate share of information services costs based on their written insurance premiums compared to the total written insurance premiums of the Donegal Insurance Group. Donegal Mutual's charges for these services totaled \$98.6 million in 2014 compared to \$94.0 million in 2013.

As we discuss in an earlier portion of this proxy statement, Donegal Mutual and Atlantic States may amend or terminate the pooling agreement at the end of any calendar year by mutual agreement, subject to approval by the coordinating committee and approval by the respective boards of directors of Donegal Mutual and Atlantic States. Our 2014 Annual Report contains additional information describing the underwriting pool.

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In addition to the pooling agreement, our insurance subsidiaries, in the ordinary course of their businesses, have various reinsurance agreements with Donegal Mutual that renew from year to year. The coordinating committee reviews these reinsurance agreements annually so as to achieve relative parity between Donegal Mutual and our insurance subsidiaries between the reinsurance premiums Donegal Mutual charges our insurance subsidiaries and the losses Donegal Mutual incurs under the reinsurance it provides to our insurance subsidiaries over a period of several years. We believe the reinsurance arrangements between Donegal Mutual and our insurance subsidiaries are no less favorable to our insurance subsidiaries than the terms and conditions of reinsurance available to our insurance subsidiaries from independent third parties. These reinsurance agreements include:

Donegal Mutual and Peninsula have a quota-share reinsurance agreement under which Peninsula transfers to Donegal Mutual 100% of the premiums and losses related to the workers' compensation product line Peninsula writes in certain states. Peninsula offers workers' compensation insurance in those states in order to provide the Donegal Insurance Group with an additional pricing tier in those states where any one insurance company may offer only a single pricing tier for workers' compensation insurance.

Donegal Mutual and Le Mars have a quota-share reinsurance agreement under which Donegal Mutual transfers to Le Mars 100% of the premiums and losses related to certain products Donegal Mutual offers in certain Midwest states. This reinsurance agreement permits Le Mars to offer additional products complementary to Le Mars' commercial accounts.

Donegal Mutual also maintains 100% retrocessional reinsurance agreements with Southern and with Le Mars. The purpose of these agreements is to permit Southern and Le Mars to share Donegal Mutual's A.M. Best rating of A (Excellent). The retrocessional reinsurance agreements do not otherwise provide for pooling or reinsurance with or by Donegal Mutual and do not transfer insurance risk to Donegal Mutual for financial and accounting purposes. In addition, Donegal Mutual and we have a capital support agreement with Sheboygan that permits Sheboygan to share Donegal Mutual's A.M. Best rating of A (Excellent).

Donegal Mutual and MICO maintain a quota-share reinsurance agreement that transfers 25% of MICO's business to Donegal Mutual. Because of the reinsurance pooling agreement between Donegal Mutual and our subsidiary, Atlantic States, we receive an 80% allocation, or 20%, of the MICO business Donegal Mutual reinsures.

In January 2015, the coordinating committee met and determined that the proposed terms of these reinsurance agreements for 2015 were fair and equitable to us and our stockholders and fair and equitable to Donegal Mutual and its policyholders. Accordingly, the coordinating committee unanimously approved the continuation of the terms of such agreements and transactions, with non-material adjustments, through the next scheduled annual review during the first two months of 2016.

We refer you to Note 3 of the Notes to Our Consolidated Financial Statements we include in our 2014 Annual Report for further information about the reinsurance agreements between Donegal Mutual and our insurance subsidiaries. The intent of these catastrophe and excess of loss reinsurance agreements is to lessen the effects of a single large loss, or an accumulation of smaller losses arising from one event, to levels that are appropriate given the size, underwriting profile and surplus capacity of each of our insurance subsidiaries.

***Union Community Bank***

We own 48.2% and Donegal Mutual owns 51.8% of DFSC. Since May 2011, DFSC has owned Union Community Bank, or UCB. UCB has been a state-chartered savings bank since 2013.

Because DFSC owns UCB, Donegal Mutual and we, as the two owners of DFSC, and DFSC are grandfathered unitary savings and loan holding companies regulated under the Home Owners' Loan Act, or HOLA. The Board of Governors of the Federal Reserve System, or the Board, supervises and regulates grandfathered unitary savings and loan holding companies, including Donegal Mutual, DFSC and us.

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No person may acquire control of a grandfathered unitary savings and loan holding company without complying with regulatory requirements under either HOLA, if the acquiror is a company, or the Change in Bank Control Act (the CBCA ), which can apply to any kind of acquirer, including an individual. The Board regulations under the CBCA establish a rebuttable presumption of control applicable to any person who wishes to acquire more than 10% of any class of voting security of a grandfathered unitary savings and loan holding company that has a class of voting securities registered under the Exchange Act. DGI is such an entity.

We do not consolidate the financial statements of DFSC and its wholly owned subsidiary, UCB, with our financial statements. We have included the separate consolidated financial statements of DFSC as a schedule to our Form 10-K Report for the year ended December 31, 2014.

At December 31, 2014, UCB had total assets of \$506.4 million, total deposits of \$403.5 million and total loans of \$301.9 million. UCB had net income of \$3.1 million for the year ended December 31, 2014, compared to net income of \$6.3 million for the year ended December 31, 2013. Donegal Mutual and UCB are also parties to a customary administrative services agreement. Under this agreement, Donegal Mutual provides various services, principally internal audit, investment, information technology, administrative support, facility and equipment maintenance services and purchasing, to UCB, subject to the overall limitation that the costs Donegal Mutual charges to UCB for these services may not exceed the costs of independent vendors for similar services and further subject to annual maximum cost limitations the administrative services agreement specifies. Donegal Mutual and we also conduct routine banking business with UCB in the ordinary course of business of the Donegal Insurance Group.

Donegal Mutual leases 3,600 square feet in a Donegal Mutual-owned building in Marietta, Pennsylvania to UCB. In addition, UCB leases 3,000 square feet in a building in Lancaster, Pennsylvania from DFSC. Both leases provide for an annual rent based on an independent appraisal each year.

***The Risk Management Committee***

The Donegal Insurance Group maintains a risk management committee. The risk management committee consists of 14 officers of Donegal Mutual, eight of whom are also officers of DGI. The purpose of the risk management committee is to assess and monitor the major strategic, operational, regulatory, informational and external risks that affect the business the Donegal Insurance Group transacts and the internal and external resources of the Donegal Insurance Group for assessing and controlling such risks. The Donegal Insurance Group's risk management committee meets quarterly, and annually evaluates its performance of its responsibilities. The risk management committee submits reports to our board of directors no less frequently than quarterly, and the officer in charge of the activities of the risk management committee reports quarterly in person to our board of directors.

The responsibilities of the risk management committee on behalf of the Donegal Insurance Group include:

evaluating the effectiveness of the Donegal Insurance Group's assessment and management of risk;

developing and recommending policies and procedures relating to risk assessment, risk management and risk reporting;

assessing the Donegal Insurance Group's risk management, legal compliance and risk-control activities and the adequacy of such activities in identifying the risks that confront the Donegal Insurance Group;

reporting periodically to the respective boards of directors of Donegal Mutual and us; and

analyzing annually the committee's performance of the responsibilities assigned to it.

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**CORPORATE GOVERNANCE**

Our board of directors maintains corporate governance guidelines to assist the committees of our board of directors in the discharge of their respective responsibilities. Each committee of our board of directors has a written charter that sets forth the purposes, goals and responsibilities of the committee as well as the qualifications for committee membership, procedures for the appointment and removal of committee members, committee structure and operations and committee reporting to our board of directors. You may view the charters of our executive committee, our audit committee, our nominating committee and our compensation committee on our website at [www.donegalgroup.com](http://www.donegalgroup.com). The charters of the committees of our board of directors provide our stockholders with a description of the manner in which our board of directors and its committees operate.

***The Composition of Our Board of Directors***

Our By-laws provide that the number of members of our board of directors shall not be less than seven nor more than 12. Our board of directors fixes the size of our board of directors within these limits, and may increase or decrease the size of our board of directors from time to time. Currently, our board of directors has fixed the number of members of our board of directors at 11. Our board of directors consists of three classes, with the three-year terms of one of the classes expiring at three successive annual meetings and upon each member of the newly elected class of directors taking office.

We constitute a controlled company under applicable NASDAQ regulations because Donegal Mutual owns more than a majority of the aggregate voting power of the outstanding shares of our Class A common stock and the outstanding shares of our Class B common stock. As a controlled company, we are exempt from a number of NASDAQ corporate governance requirements, including the NASDAQ requirement that a majority of the members of our board of directors be independent.

The composition of our board of directors is, however, subject to the corporate governance rules of the PHCA. The PHCA requires that the board of directors of a Pennsylvania-domiciled insurance company or of a company that controls a Pennsylvania-domiciled insurance company, such as we do, maintain a committee or committees that undertake certain corporate governance responsibilities. The PHCA further requires that the members of these committees be solely directors who are not officers or employees of the Pennsylvania-domiciled insurance company or its holding company and who do not own beneficially a 10% or greater interest in the voting stock of such insurance company or its holding company. We maintain an audit committee, a compensation committee and a nominating committee whose respective members satisfy the requirements of the PHCA.

Pursuant to the PHCA, the committees of our board of directors annually discharge each of the following responsibilities:

the recommendation of the appointment of an independent registered public accounting firm for our insurance company subsidiaries;

the review of the financial condition of our insurance company subsidiaries;

the review of the scope and results of the independent audit and any internal audit of our insurance company subsidiaries;

the nomination of candidates for election as our directors by our stockholders; and

the evaluation of the performance of the principal officers of each of our insurance company subsidiaries and the recommendation to their respective boards of directors as to the selection and compensation of their respective principal officers.

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### *The Committees of Our Board of Directors*

We expect our directors to attend all meetings of our board of directors, meetings of the committees of our board of directors on which they serve and meetings of our stockholders. We further expect our directors to devote the time necessary to fulfill their responsibilities as directors. During 2014, each of our directors attended 75% or more of the total number of meetings of our board of directors and of the meetings of the committees of our board of directors on which that director served. All of the members of our board of directors attended our 2014 annual meeting of stockholders, with the exception of Mr. Nikolaus for medical reasons. Each of the committees of our board of directors has a written charter that stockholders may view on our website. Our website address is [www.donegalgroupp.com](http://www.donegalgroupp.com). Each of the committees of our board of directors, with the exception of the special committee, reviews its charter annually. Each of the committees of our board of directors in its discretion, and at our expense, may retain counsel and other advisors, including but not limited to, legal and financial advisors, to assist the committee the discharge of the responsibilities of the committee as set forth in its charter.

Our board of directors has delegated some of its authority to the following four committees of our board of directors:

the executive committee;

the audit committee;

the nominating committee; and

the compensation committee.

Our board of directors also maintains a special committee that we discuss beginning on page 22 of this proxy statement. The following table shows the number of meetings each committee of our board of directors, other than the special committee, held in 2014 and the attendance of the members of those committees at the meetings of the committees on which they served. Mr. Berlucchi and Mrs. Gilmartin did not serve as a member of any of the committees of our board of directors during 2014. The table excludes the attendance data with respect to a director who resigned in December 2014.

	<b>Our Board Committees</b>			
	<b>Executive</b>	<b>Audit</b>	<b>Nominating</b>	<b>Compensation</b>
Number of Meetings Held in 2014	14	9	2	4
Number of Meetings Attended in 2014 by Members of the Committees:				
Robert S. Bolinger		9		
Philip H. Glatfelter, II	14		2	4
Jack L. Hess		9		4
Kevin M. Kraft, Sr.	14		2	
Jon M. Mahan		9	1	
Donald H. Nikolaus	11			
Richard D. Wampler, II		9	2	4

### *The Executive Committee*

Members: Messrs. Glatfelter (Chairman), Kraft and Nikolaus. The executive committee has the authority to take all actions that our full board of directors can take, consistent with the DGCL, our certificate of incorporation and our By-laws, between meetings of our board of directors.

The responsibilities of the executive committee include:

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exercising all powers and authority of our board of directors between meetings of our board of directors to the extent consistent with the DGCL and our corporate governance documents;

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consulting with and advising our management on our general business, operational, administrative and legal affairs;

consulting with and advising management on the development of our policies;

analyzing other matters which management may bring to the executive committee for consideration from time to time; and

performing such other functions as our board of directors may specifically delegate to the executive committee from time to time.

***The Audit Committee***

Members: Messrs. Bolinger, Hess, Huber (since January 30, 2015), Mahan and Wampler (Chairman). Mr. Lyons served as a member of this committee during 2014 until his resignation as a director on December 12, 2014. Each member of the audit committee satisfies the independence requirements of the SEC and the PHCA and is in compliance with applicable provisions of the PHCA and the Sarbanes-Oxley Act of 2002. Each of Messrs. Hess, Huber and Wampler is a certified public accountant and each constitutes a designated financial expert member of our audit committee.

The responsibilities of the audit committee include:

the annual appointment of our independent registered public accounting firm;

the on-going review of the scope and results of the audit of our financial statements by our independent registered public accounting firm and the internal audits our staff conducts;

the review of all of the periodic reports we file with the SEC and press releases before the filing of the SEC reports or the publication of the press releases;

the annual review of all related person transactions to which we are one of the parties other than those transactions between Donegal Mutual and us or one or more of our insurance subsidiaries that are subject to review by our coordinating committee; and

the regular review of the adequacy of our accounting, financial, internal and operating controls.

***The Nominating Committee***

Members: Messrs. Glatfelter (Chairman), Kraft, Mahan and Wampler.

The responsibilities of the nominating committee include:

the identification of individuals the nominating committee believes have the necessary qualifications to serve as members of our board of directors;

the recommendation of nominees to stand for election to our board of directors;

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the consideration of candidates nominated by stockholders other than Donegal Mutual to stand for election to our board of directors;

the evaluation of the self-evaluations each of the committees of our board of directors submits to us annually; and

the provision to our board of directors of the nominating committee's annual evaluation of its performance during the preceding year.

### ***The Compensation Committee***

Members: Messrs. Glatfelter, Hess (Chairman), Kraft (since January 30, 2015) and Wampler. Mr. Lyons served as a member of this committee during 2014 until his resignation as a director on December 12, 2014. Our compensation committee and the compensation committee of Donegal Mutual meet jointly from time to time.



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The members of the Donegal Mutual compensation committee, as of the date of this proxy statement, are Scott A. Berlucchi (Chairman), Philip H. Glatfelter, II, Jack L. Hess and Kevin M. Kraft, Sr. Following these joint meetings, our compensation committee meets and makes compensation determinations with respect to the compensation of our named executive officers and our other officers and employees.

The responsibilities of our compensation committee include:

the annual review of the compensation of all of our salaried employees;

the annual review of the compensation of our executive officers, including our named executive officers;

the recommendation to our board of directors from time to time as to grants of stock options to our employees; and

the oversight of the employee benefit plans Donegal Mutual and we maintain.

See *Executive Compensation Discussion and Analysis* for further information.

### ***The Coordinating Committee***

We refer you to *The Relationship of Donegal Mutual and DGI - The Coordinating Committee* beginning on page 15 of this proxy statement for information as to the responsibilities of the coordinating committee and the identity of its members.

### ***The Special Committee***

Members: Bolinger, Huber (since January 30, 2015), Mahan, Moore and Wampler.

The special committee of our board of directors is comprised of our independent directors who do not also serve as directors of Donegal Mutual. The special committee operates under a charter our board of directors established, and, from time to time, reviews stockholder proposals and evaluates other matters from the perspective of our stockholders other than Donegal Mutual. The special committee held four meetings in 2014. All of the members of the special committee attended at least 75% of those meetings.

The charter of the special committee provides for the following principal responsibilities:

Evaluate the merits and conditions of stockholder proposals;

Evaluate the advisability of recommending to our board of directors acceptance or rejection of stockholder proposals;

Present to our board of directors the results of the committee's evaluation of stockholder proposals and its recommendations, including the reasons for its recommendations, with respect to such stockholder proposals; and

Undertake such other responsibilities as our board of directors may assign from time to time to the special committee and report to our board of directors with respect to any such other matter.

### ***Compensation Committee Interlocks and Insider Participation***

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No member of our compensation committee is a former or current officer of Donegal Mutual or us, nor does any member of our compensation committee have any other interlocking relationships, as current SEC rules and regulations define such terms.

### ***Related Person Transactions***

We have a written related person policy that governs the review, approval or ratification of transactions between us on the one hand, and our executive officers, directors and our 10% or greater stockholders on the

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other hand. SEC rules and regulations require that we disclose in our annual proxy statements specified information reporting related person transactions in excess of a specified amount and certain other filings we submit to the SEC.

This policy applies, in our case, to all transactions with related parties with the exception of those transactions between Donegal Mutual and us or one or more of our insurance subsidiaries that require the prior approval of our coordinating committee. See *The Relationship of Donegal Mutual and DGI – The Coordinating Committee* beginning on page 15 of this proxy statement.

Our related person policy establishes procedures for our prior review of proposed transactions between us and a related person because we recognize that related person transactions can suggest a heightened risk of a conflict of interest and can create the appearance of impropriety. Applicable SEC regulations define a related person as including our directors, our executive officers, a holder of 5% or more of the outstanding shares of our Class A common stock, a holder of 5% or more of the outstanding shares of our Class B common stock and each of the immediate family members of each of those persons. Our policy requires that all proposed related person transactions first receive the approval of our audit committee before we can agree to the transaction. In addition, if the related-party transaction continues in effect for more than one year, our audit committee must annually approve the continuation of that transaction.

Donald H. Nikolaus, our chairman of the board and president and a member of our board of directors and who is also the president and a director of Donegal Mutual, is a partner in the law firm of Nikolaus & Hohenadel. Such firm has served as general counsel to Donegal Mutual since 1972 and as our general counsel since 1986, principally in connection with the defense of insurance claims litigation arising in Lancaster, Dauphin and York counties of Pennsylvania. We pay such firm its customary fees for its services. We paid Nikolaus & Hohenadel legal fees of \$466,393 in 2013 and \$394,879 in 2014.

Patricia A. Gilmartin, one of our directors and a director of Donegal Mutual, was an employee of Associated Donegal Insurance Brokers from 1969 to February 2013 when Ms. Gilmartin retired from that firm. That firm has no affiliation with us except that it receives insurance commissions from our insurance subsidiaries and Donegal Mutual in the ordinary course of business and in accordance with their standard commission schedules and agency contracts.

Frederick W. Dreher, a director of Donegal Mutual since December 1996, has been a partner in the law firm of Duane Morris LLP since 1970. Since 1986, Duane Morris LLP has represented us, our insurance subsidiaries, Donegal Mutual, DFSC and UCB in certain legal matters. We pay Duane Morris LLP its customary fees for its services. The Donegal Insurance Group and DFSC paid Duane Morris LLP legal fees of \$1,567,837 in 2013 and \$681,486 in 2014.

Donegal Mutual and we conduct routine banking transactions in the ordinary course of our business with UCB and on terms and conditions no more favorable to Donegal Mutual or DGI than the terms and conditions on which UCB offers its banking services to independent third parties. Donegal Mutual and UCB are also parties to a customary administrative services agreement pursuant to which UCB reimburses Donegal Mutual and us for our respective costs in providing certain administrative services to UCB.

### ***Our Code of Business Conduct and Ethics***

We follow our code of business conduct and ethics in conducting business with third parties because we believe it is important that we conduct our business with integrity and with the trust of the people with whom we do business. Our code of business conduct and ethics provides guidance to our employees, including our named executive officers, and the independent agents who represent Donegal Mutual and our insurance subsidiaries as they deal with the legal and ethical issues that arise in our business dealings with others. You may view our code of business conduct and ethics on our website at [www.donegalgroup.com](http://www.donegalgroup.com).

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We also maintain an internal audit department that evaluates our business and financial processes, our management of risk and the efficacy of our financial controls. Our director of internal audit reports no less frequently than quarterly to the audit committee of our board of directors and to our board of directors.

**EXECUTIVE COMPENSATION DISCUSSION AND ANALYSIS***Executive Summary**2014 Performance Review*

The following table depicts our net revenues and our net income for the year ended December 31, 2014 and the price of our Class A common stock and Class B common stock at December 31, 2014 compared to the same data at December 31, 2013.

	At or For the Year Ended December 31,		
	2014	2013	Increase/ Decrease
Total revenues	\$ 586.5 million	\$ 547.1 million	7.2%
Net income	14.5 million	26.3 million	-44.8
Class A common stock price at year end	15.98	15.90	0.5
Class B common stock price at year end	21.50	23.65	-9.1

*Stock Option Grants*

On December 18, 2014, our board of directors granted stock options to a number of our employees, including our named executive officers, and also granted stock options to our directors. We granted each director, other than Mr. Nikolaus, an option to purchase 8,000 shares of our Class A common stock exercisable for ten years that vests in three equal annual cumulative installments commencing on July 1, 2015. Each stock option is exercisable at a price of \$15.80 per share, which price exceeded the closing price of our Class A common stock on the day before the date of grant by a modest amount:

Name of Grantee	Number of Shares Purchasable
Donald H. Nikolaus	100,000
Kevin G. Burke	45,000
Jeffrey D. Miller	45,000
Each other named executive officer	40,000
Each director other than Mr. Nikolaus(1)	8,000

- (1) Mr. Huber, who was appointed a director of DGI on January 30, 2015, has served as a director of UCB and its predecessor for a number of years. On December 18, 2014, Mr. Huber received a grant to purchase 2,500 shares of our Class A common stock in his position as a director of UCB. Mr. Huber's option has the same terms and conditions as those of our other directors.

*Summary of the 2014 Compensation of Our Named Executive Officers*

The compensation of our named executive officers in 2014 consisted of three principal elements:

a base salary paid bi-weekly in cash;

an incentive bonus paid in cash following the determination of our underwriting profit for our immediately preceding completed fiscal year; and

long-term incentive compensation in the form of stock options that we granted in December.

We paid aggregate incentive bonuses of \$380,000 to our named executive officers in respect of 2014 compared to aggregate incentive bonuses of \$1.3 million in respect of 2013. Our named executive officers also participate in our 401(k) plan to which we make contributions on a formula basis. Our named executive officers also receive the health and other insurance benefits we make available to all of our full-time employees.

**Table of Contents****2014 Total Direct Compensation of Our Named Executive Officers****Annual**

<b>Compensation</b>	<b>Key Factors</b>	<b>Purpose</b>	<b>2014 Actions</b>
Base Salary	Compensation committee reviews and recommends adjustments to base salary annually based on performance and prevailing salaries within our peer group	Provides fixed amount of cash on which named executive officers may rely	Cash increase for 2014 of an average of 15.2% to reflect salaries within our peer group
Annual Incentive Plan (Cash Incentive Award)	Compensation committee determines funding level based on a formula basis tied to our underwriting results for the year	Motivates named executive officers to achieve individual performance goals	We paid bonuses for 2014 pursuant to a formula based on our underwriting profit
	Chief executive officer recommends the allocation of the bonus pool among individual officers based on performance against key business priorities and performance of their respective business units	Reinforces pay for performance	
Long-Term Incentive Compensation	Stock options that vest in three equal annual installments	Focuses entire organization on achieving key business objectives Stock options support our growth, provide a link between the compensation of our named executive officers and our stock performance and also serve as a retention device	Stock options granted in 2014 that are exercisable at \$15.80 per share, vest in three equal annual installments commencing on July 1, 2015
		Supports pay for performance because options have substantial value only if our Class A stock price increases by a substantial amount	
		over the exercise price of the option to purchase Class A shares	

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We believe our 2014 compensation for our officers, including our named executive officers, is fair and reasonable. We implemented our compensation programs to balance risk and reward in our overall business strategy. The description of our compensation emphasizes that we tie a significant percentage of the total compensation of our officers, including our named executive officers, directly to our objective of attaining an underwriting profit each year. Accordingly, we base our annual incentive bonus awards on our underwriting results. As a result, our named executive officers evaluate carefully the risks we write because a reduction in our underwriting profitability would adversely affect the annual incentive bonus compensation of our named executive officers. Finally, our incentive compensation programs for our named executive officers do not guarantee compensation to our named executive officers.

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We believe that the elements of our compensation program as we describe them in this proxy statement establish that we have the appropriate mix of risk vs. benefit to align effectively the interests of our named executive officers with the interests of our stockholders, and that our incentive compensation programs do contribute to the enhancement of the long-term value of an investment in DGI. For example, our named executive officers only realize a gain from the stock options we grant to them as compensation if the price of our Class A common stock increases above the exercise price of the options subsequently to the date of grant of the option and net of the income taxes our named executive officers would incur.

***Director Compensation***

Our objectives for our director compensation are to attract qualified individuals to serve on our board of directors and the board of directors of Donegal Mutual and to align the interests of our directors with the interests of our stockholders. Our compensation committee reviews our director compensation program annually to confirm that the compensation of the members of our board of directors and the board of directors of Donegal Mutual remains competitive and comparable to the compensation practices of our competitors and to make recommendations to our board of directors that the compensation committee believes are appropriate.

	<b>Type of Compensation</b>	<b>Amount</b>	<b>Form of Payment</b>
Annual Retainer	Base Retainer	\$61,392	\$55,000 in cash and an annual restricted stock award of 400 shares of Class A common stock with an estimated value of \$6,392 based on the closing price of our Class A common stock on December 31, 2014
	Additional retainer amount for each committee meeting attended other than meetings of the audit committee, the coordinating committee and the special committee	\$250	Cash
	Additional retainer amount for each audit committee meeting, each coordinating committee meeting and each special committee meeting attended	\$500	Cash
Periodic Equity Grant	When we grant options to our executive officers, we also typically grant options to our directors exercisable for ten years at the closing market price of our Class A common stock on the day before the date of grant	Option to purchase 8,000 shares of DGICA at \$15.80 per share valued at \$13,520 on the December 18, 2014 date of grant	Non-qualified stock options to purchase shares of our Class A common stock

Under our equity incentive plan for directors, each of our directors and each director of Donegal Mutual who is not also one of our directors receives an annual restricted stock award of 400 shares of our Class A common stock. We grant the award to each director as of the first business day of each year, provided the



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director served as a member of our board of directors or as a member of the board of directors of Donegal Mutual during any portion of the preceding year. Each of our directors and each of the directors of Donegal Mutual is also eligible to receive non-qualified options to purchase shares of our Class A common stock in an amount our board of directors determines on the date of grant. On December 18, 2014, we granted each of our directors, and each director of Donegal Mutual who was not also a member of our board of directors, a non-qualified stock option to purchase 8,000 shares of our Class A common stock at an exercise price of \$15.80 per share. Each option is exercisable until December 18, 2024. Donegal Mutual reimburses us for the cost of the restricted stock awards we grant to those directors of Donegal Mutual who do not also serve as members of our board of directors.

The following table sets forth a summary of the compensation we paid to our non-officer directors during 2014 who were serving as directors at December 31, 2014. A director who resigned in December 2014 and is therefore not listed in the table received cash fees of \$67,350 and a stock award of \$6,360 during 2014.

<b>Name</b>	<b>Fees Earned or Paid in Cash (\$)</b>	<b>Stock Awards (\$)</b>	<b>Option Awards (\$)</b>	<b>Total (\$)</b>
Scott A. Berlucchi	62,900	6,360	13,520	82,780
Robert S. Bolinger	68,000	6,360	13,520	87,880
Patricia A. Gilmartin	61,500	6,360	13,520	81,380
Philip H. Glatfelter, II	118,111	6,360	13,520	137,991
Jack L. Hess	67,900	6,360	13,520	87,780
Kevin M. Kraft, Sr.	69,100	6,360	13,520	88,980
Jon M. Mahan	67,300	6,360	13,520	87,180
S. Trezevant Moore, Jr.	61,500	6,360	13,520	81,380
Richard D. Wampler, II	68,700	6,360	13,520	88,580

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The following table summarizes the outstanding equity awards our directors held at December 31, 2014, excluding the awards our chairman of the board and president, Mr. Nikolaus, holds, which we report elsewhere in this proxy statement:

Name	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options		Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)
	(#) Exercisable	(#) Unexercisable				
Scott A. Berlucchi	10,000		14.00	7/15/2015	400	6,392
	12,000		12.50	7/27/2021		
	5,667	2,833	14.50	12/20/2022		
	4,000	8,000	15.90	12/19/2023		
		8,000	15.80	12/18/2024		
Robert S. Bolinger	10,000		14.00	7/15/2015	400	6,392
	12,000		12.50	7/27/2021		
	5,667	2,833	14.50	12/20/2022		
	4,000	8,000	15.90	12/19/2023		
		8,000	15.80	12/18/2024		
Patricia A. Gilmartin	12,000		12.50	7/27/2021	400	6,392
	5,667	2,833	14.50	12/20/2022		
	4,000	8,000	15.90	12/19/2023		
		8,000	15.80	12/18/2024		
Philip H. Glatfelter, II	10,000		14.00	7/15/2015	400	6,392
	12,000		12.50	7/27/2021		
	5,667	2,833	14.50	12/20/2022		
	4,000	8,000	15.90	12/19/2023		
		8,000	15.80	12/18/2024		
Jack L. Hess	10,000		14.00	7/15/2015	400	6,392
	12,000		12.50	7/27/2021		
	5,667	2,833	14.50	12/20/2022		
	4,000	8,000	15.90	12/19/2023		
		8,000	15.80	12/18/2024		
Kevin M. Kraft, Sr.	10,000		14.00	7/15/2015	400	6,392
	12,000		12.50	7/27/2021		
	5,667	2,833	14.50	12/20/2022		
	4,000	8,000	15.90	12/19/2023		
		8,000	15.80	12/18/2024		
Jon M. Mahan	10,000		14.00	7/15/2015	400	6,392
	12,000		12.50	7/27/2021		
	5,667	2,833	14.50	12/20/2022		
	4,000	8,000	15.90	12/19/2023		
		8,000	15.80	12/18/2024		
S. Trezevant Moore, Jr.	10,000		14.00	7/15/2015	400	6,392
	12,000		12.50	7/27/2021		
	5,667	2,833	14.50	12/20/2022		
	4,000	8,000	15.90	12/19/2023		
		8,000	15.80	12/18/2024		
Richard D. Wampler, II	10,000		14.00	7/15/2015	400	6,392
	12,000		12.50	7/27/2021		
	5,667	2,833	14.50	12/20/2022		
	4,000	8,000	15.90	12/19/2023		
		8,000	15.80	12/18/2024		



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In addition to the compensation we describe in the two preceding tables, we reimburse our directors for any out-of-pocket expenses they reasonably incur in connection with attendance at meetings of our board of directors, meetings of committees of our board of directors and meetings of our stockholders upon presentation of appropriate vouchers for such expenses.

### ***Our Compensation Philosophy and Risk Management Considerations***

Our compensation committee, meeting separately and, on occasion, jointly with the compensation committee of Donegal Mutual, oversees our compensation and benefit plans and policies with respect to our executive officers, including our named executive officers. The oversight by the compensation committees of our compensation process includes reviewing and recommending for approval by our board of directors equity-based incentive awards to our executive officers and all other compensation decisions relating to our executive officers.

The compensation committee determined that the primary objectives of our compensation programs for our executive officers are to:

Attract and retain talented and dedicated executive officers who contribute to our growth, development and profitability and encourage their retention.

We believe we achieved this objective because we have employed three of our seven named executive officers we include in our summary compensation table in this proxy statement continuously for the entire 29-year period we have been in existence, and we have employed our other four named executive officers for 27, 21, 14 and 14 years, respectively.

Motivate our executive officers to achieve our strategic business objectives and reward them upon their achievement of those objectives.

We believe we achieved this objective through the compound rate of growth in our total revenues, which was 8.7% for the five years ended December 31, 2014, and through the compound rate of growth in our book value plus cumulative dividends, which was 5.5% for the five years ended December 31, 2014.

Provide long-term compensation to our executive officers that rewards them for sustained financial and operating performance and leadership excellence.

We believe our stock option grants appropriately reward our executive officers for sustained financial and operating leadership and performance.

To achieve the above objectives, we compensate our executive officers through a combination of base salary, annual cash bonuses, principally based on our underwriting results, and long-term equity compensation in the form of stock options.

The compensation committee believes that our underwriting results-based bonus plan and our performance-based equity ownership programs create incentives that have been designed to result in the creation of long-term stockholder value as well as creating incentives for our executive officers including our named executive officers, to remain with us for the long-term. We have utilized the following elements of our compensation programs to promote the creation of long-term stockholder value without creating conditions that could lead to the taking of excessive risk:

The financial measures we use to determine the bonuses of our executive officers are metrics the compensation committee believes promote long-term stockholder value. These measures include our underwriting results, our return on equity and our growth in net written premiums. The compensation committee sets limits on these bonus payments that encourage success without encouraging excessive risk-taking or short-term results.

We grant stock options that are exercisable for ten years from the date of grant at the closing price of our Class A common stock on the day before the date of grant. Our compensation committee believes such stock options encourage our executive officers to attain sustained long-term performance.

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Our stock option plans authorize us to grant options to purchase shares of our Class A common stock to our employees, officers and directors.

We do not reduce the exercise price of stock options if the price of our Class A common stock subsequently declines below the exercise price unless we first obtain stockholder approval. However, we do adjust the exercise price of previously granted stock options to reflect recapitalizations, stock or extraordinary dividends, stock splits, mergers, spin-offs and similar events as the applicable stock option plan permits.

At our 2011 annual meeting of stockholders, our stockholders voted to submit the compensation of our named executive officers to a non-binding advisory vote of our stockholders once every three years. Our stockholders voted to approve the compensation of our named executive officers on a non-binding advisory vote at our 2014 annual meeting of stockholders by a total of 6,444,580 votes FOR, 93,517 votes AGAINST and 3,942 votes ABSTAIN with 930,565 broker non-votes. We will next submit the compensation of our named executive officers for approval by a non-binding advisory vote of our stockholders at our 2017 annual meeting of stockholders.

The compensation of Mr. Nikolaus has historically been substantially higher than the compensation of our other named executive officers. Our board of directors believes strong justification exists for the compensation of Mr. Nikolaus based on the compensation of the chief executive officers of the insurance companies we regard as our peers and because of his breadth of executive and operating responsibilities for the Donegal Insurance Group over the past 29 years. In addition to the consideration by the compensation committee of the individual fulfillment by each of our named executive officers of such officer's duties, responsibilities and individual performance, the compensation committee also considers teamwork, development of junior employees for whom that named executive officer has primary responsibility, time in position, internal equity among our named executive officers and their ability to collaborate and communicate effectively with our other executive officers.

Our compensation committee believes that, on an overall basis, exclusive of the effect of unusually severe weather conditions, our named executive officers achieved the targets our board of directors established for our named executive officers for 2014 as set forth in our management-prepared business plan for 2014.

We believe the specific compensation decisions we made for each of our named executive officers in 2014 appropriately reflect our financial and operational performance in 2014 and the relative success of that named executive officer in meeting the target our business plan outlined for those named executive officers in each such officer's primary areas of responsibility. Our compensation committee also evaluates the achievement by our named executive officers of our overall corporate objectives, and the contribution of each of our named executive officers to those achievements.

### ***Employment and Change of Control Agreements***

#### ***Employment Agreement with Mr. Nikolaus***

The employment and change of control agreements Donegal Mutual and we entered into with Mr. Nikolaus on July 29, 2011 provide for an initial term of employment of five years. On each anniversary date of the effective date of that employment agreement, the term automatically extends for an additional one-year period, so that on each anniversary date of the effective date, the employment agreement will have a remaining term of five years unless either Mr. Nikolaus or our board of directors provides not less than six months advance notice that the automatic extension of the employment agreement will terminate as of the next succeeding anniversary of the effective date.

A summary of the other principal terms of the employment agreement with Mr. Nikolaus is as follows:

Mr. Nikolaus has the right to receive an annual base salary of such amount as our compensation committee and the compensation committee of Donegal Mutual jointly recommend and as their boards of directors approve from time to time but in no event less than \$575,000 per year.

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Mr. Nikolaus has the right to participate in our annual executive incentive bonus plans and the benefit plans in which all of our other executive officers participate.

Subject to any required stockholder approval, Mr. Nikolaus has the right to receive an annual grant of non-qualified stock options to purchase not less than 150,000 shares of our Class A common stock at a price per share equal to the closing price of our Class A common stock on the day before the date of each annual grant. Each option vests in three equal annual installments and remains exercisable for a term of ten years from the date of grant. In 2014, we granted Mr. Nikolaus an option, subject to the foregoing terms, to purchase 100,000 shares of our Class A common stock at an exercise price of \$15.80 per share. The closing price of our Class A common stock on the day before the date of that grant was \$15.79 per share. Because Mr. Nikolaus was on a medical leave of absence in his capacity as our chief executive officer that commenced on August 29, 2014, our board of directors approved the request of Mr. Nikolaus to reduce the number of option grants to him in respect of his employment during 2014 from not less than 150,000 shares of our Class A common stock to 100,000 shares of our Class A common stock.

The employment agreement includes customary provisions relating to vacations, illness, death, indemnification, confidentiality and non-competition.

The employment agreement includes certain rights to terminate the agreement and, upon the occurrence of certain events, such as a change of control, the right to receive severance payments as set forth in the employment agreement.

### ***Consulting Agreement with Mr. Nikolaus***

Upon the retirement of Mr. Nikolaus or his termination of his employment under the employment agreement for other than cause, his death, his permanent disability or his termination of the employment agreement for good reason, as the employment agreement defines each of those terms, the term of the consulting agreement Donegal Mutual and we have with Mr. Nikolaus will commence and continue for a period of five years from its date of commencement.

A summary of the principal terms of the consulting agreement with Mr. Nikolaus is as follows:

Donegal Mutual and we will retain Mr. Nikolaus to provide consulting services to us and our respective boards of directors in connection with our general operations, our merger and acquisition activities, participation in meetings and other activities of the Insurance Federation of Pennsylvania and such other projects and assignments as to which Mr. Nikolaus, Donegal Mutual and we mutually agree from time to time.

Mr. Nikolaus' status under the consulting agreement will be that of an employee of Donegal Mutual and DGI.

The consulting agreement provides that Mr. Nikolaus will receive all benefits we provide to our senior executive officers and such benefits as became fully vested while Mr. Nikolaus served as our chief executive officer pursuant to his employment agreement with Donegal Mutual and us.

Under the consulting agreement, Donegal Mutual and we will pay Mr. Nikolaus annual compensation in an amount equal to 50% of his base salary, as defined in his employment agreement, for our most recently completed fiscal year before the year in which the consulting agreement becomes effective, but in no event less than \$600,000 per year, plus such discretionary incentive payments as our respective boards of directors may jointly authorize from time to time.

The consulting agreement includes customary provisions relating to vacations, illness, death, indemnification, confidentiality and non-competition.

The consulting agreement includes certain rights for either Mr. Nikolaus or us to terminate the consulting agreement and for Mr. Nikolaus to receive certain payments upon such termination as set forth in the consulting agreement.



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### ***Employment and Change of Control Agreements with Our Named Executive Officers Other Than Mr. Nikolaus***

The respective employment agreements among Donegal Mutual, us and Messrs. Burke, Greenya, Miller, Pandey, Shenk and Wagner, who collectively constitute our other named executive officers (our Other Executive Officers ), contain provisions similar to those included in the employment agreement among Mr. Nikolaus, Donegal Mutual and us, except as follows:

The initial term of the employment agreements among our Other Executive Officers, Donegal Mutual and us is three years; however, such term automatically extends on each anniversary of the effective date of the employment agreements for an additional one-year period, so that, on each anniversary date of the effective date of the employment agreement of each Other Executive Officer, each employment agreement will have a remaining term of three years unless either the Other Executive Officer or the respective boards of directors of Donegal Mutual or us provide not less than 90 days advance notice that the automatic extension will terminate upon the next succeeding extension date of the employment agreement.

We and Donegal Mutual have agreed to pay our Other Executive Officers an annual base salary in the amount as the compensation committees of Donegal Mutual and we recommend and our board of directors and the board of directors of Donegal Mutual each respectively approve from time to time, but in no event less than minimum amounts generally stated within the employment agreements of those Other Executive Officers.

The employment agreements contain customary provisions relating to vacations, illness, death, indemnification and confidentiality.

The employment agreements include certain rights to terminate the agreements and, upon the occurrence of certain events such as a change of control, the right to receive severance payments, as the respective employment agreements provide.

### ***Potential Payments to Our Named Executive Officers Upon Termination or Change-of-Control***

If we or Donegal Mutual terminate the employment of one of our named executive officers, or a Change-of-Control of DGI (as defined below) occurs and the employment of the named executive officer subsequently terminates on an involuntary basis, the named executive officer would be entitled to receive certain payments and benefits from us. The table below shows the estimated payments and benefits in connection with the following events based upon the assumptions we state below:

**Voluntary Termination** includes the voluntary resignation of a named executive officer.

**Involuntary-for-Cause Termination** includes a termination of the employment of a named executive officer for reasons such as violation of certain policies or for certain performance-related issues.

**Involuntary Termination** includes a termination of the employment of a named executive officer other than for cause, but not including a termination related to a Change-of-Control of DGI. Terminations due to death or disability result in substantially the same treatment as an Involuntary Termination.

**Change-of-Control** of DGI, as defined in the employment agreements we have entered into with each of our named executive officers, includes the occurrence of one of the types of Transaction (a Transaction ) we describe below:

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the acquisition of shares of our Class A common stock and our Class B common stock by any person or group in a Transaction or series of Transactions that result in such person or group directly or indirectly first owning more than 25% of the aggregate voting power of our Class A common stock and our Class B common stock taken as a single class; or

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the consummation of a Transaction after which the holders of our outstanding voting capital stock taken as a single class prior to the consummation of the Transaction do not collectively own 60% or more of the aggregate voting power of the entity surviving such Transaction immediately after the consummation of such Transaction; or

the sale, lease, exchange or other transfer in a Transaction or series of Transactions of all or substantially all of our assets, but excluding therefrom the sale and re-investment of our consolidated investment portfolio; or

as the result of or in connection with any cash tender offer or exchange offer, merger or Transaction, sale of assets or contested-election of directors or any combination of the foregoing transactions; or

a change of control of Donegal Mutual as such term is defined in the Pennsylvania Insurance Holding Companies Act; or

the persons who constituted a majority of the members of the respective boards of directors of us or Donegal Mutual on July 29, 2011 and persons whose election as members of their respective boards received the approval of such members then still in office or whose subsequent election had been so approved prior to the date of a Transaction, but before the occurrence of an event that constitutes a Change-of-Control, no longer constitute such a majority of the boards then in office.

A Transaction constituting a Change-of-Control of DGI shall only be deemed to have occurred upon the closing of the Transaction.

The employment agreements provide generally that if the employment of a named executive officer terminates within 180 days after a Change-of-Control of DGI either by us without Cause, or by the named executive officer for Good Reason, in both cases, as defined in the employment agreements, then the named executive officer will be entitled to receive an amount equal to the sum of:

the executive's base salary accrued through the date the termination of the executive's employment becomes effective;

any incentive compensation we have the obligation to pay to the executive pursuant to the employment agreement with that named executive officer;

any amounts payable under any of the benefit plans Donegal Mutual or we maintain in accordance with the terms of such plans;

any amount in respect of excise taxes we have the obligation to pay to that named executive officer under our employment agreement with such officer;

an amount equal to the aggregate premiums that that named executive officer would have to pay to maintain in effect throughout the period from the date of termination of that named executive officer's employment through the remainder of the term had the named executive officer remained employed, assuming no increase in insurance premium rates and the same medical, health, disability and life insurance coverage we provided to that named executive officer immediately prior to the date of such termination; and

as a severance payment, payable in 36 equal consecutive monthly installments, commencing with the date of the termination of the employment of that named executive officer, the named executive officer's annual base salary as of the effective date of termination of the employment of the named executive officer and any incentive we paid to the named executive officer during our most recently completed fiscal year before such termination.

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We will make these payments, provided the timing of such payments could be postponed to the extent required to comply with the requirements of Section 409A of the Internal Revenue Code of 1986 , as amended (the Code ).

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*General Assumptions*

We set forth in the table below a description of the payments and/or benefits that we would provide to our named executive officers related to each employment termination event or a Change-of-Control of DGI as of December 31, 2014. We also discuss below the basis upon which we calculated the payments and/or benefits. Except as we note below, these amounts are the incremental or enhanced amounts that a named executive officer would receive that are greater than those that we would have provided to employees generally under the same circumstances. The amounts we disclose below are estimates only and are based on various assumptions we discuss below. The actual amounts we would pay would be the benefits that we would provide can be determined only at the time that an employment termination event occurs.

The table below assumes that:

a Change-of-Control of DGI occurred on December 31, 2014 under the terms of various plans and agreements unrelated to the employment agreements, regardless of a termination of employment;

the employment of each named executive officer terminated on December 31, 2014 due in turn to each termination event, including termination within 180 days after a Change-of-Control of DGI, as contemplated by the employment agreements; and

values related to outstanding stock options reflect the market value of the Company's Class A common stock of \$15.98 per share, the last reported price of our Class A common stock on the NASDAQ Global Market System on December 31, 2014.

**Table of Contents****Amounts Potentially Payable Upon Termination**

<b>Name</b>	<b>Event</b>	<b>Severance Benefits (\$)</b>	<b>Stock Options (\$)</b>	<b>Other Benefits (\$)</b>	<b>Total (\$)</b>
Donald H. Nikolaus	Voluntary Termination		1,195,165		1,195,165
	Involuntary-for-Cause Termination		1,195,165		1,195,165
	Involuntary Termination	4,000,000	1,195,165	62,615	5,257,780
	Change-of-Control	2,700,000	1,296,500	37,569	4,034,069
Kevin G. Burke	Voluntary Termination		406,400		406,400
	Involuntary-for-Cause Termination		406,400		406,400
	Involuntary Termination	1,014,000	406,400	38,592	1,458,992
	Change-of-Control	1,164,000	440,700	38,592	1,643,292
Cyril J. Greenya	Voluntary Termination		406,400		406,400
	Involuntary-for-Cause Termination		406,400		406,400
	Involuntary Termination	840,000	406,400	29,547	1,275,947
	Change-of-Control	975,000	439,800	29,547	1,444,347
Jeffrey D. Miller	Voluntary Termination		416,300		416,300
	Involuntary-for-Cause Termination		416,300		416,300
	Involuntary Termination	930,000	416,300	38,592	1,384,892
	Change-of-Control	1,080,000	450,600	38,592	1,569,192
Sanjay Pandey	Voluntary Termination		77,277		77,277
	Involuntary-for-Cause Termination		77,277		77,277
	Involuntary Termination	840,000	77,277	38,592	955,869
	Change-of-Control	975,000	105,744	38,592	1,119,336
Robert G. Shenk	Voluntary Termination		406,400		406,400
	Involuntary-for-Cause Termination		406,400		406,400
	Involuntary Termination	876,000	406,400	30,615	1,313,015
	Change-of-Control	1,011,000	439,800	30,615	1,481,415
Daniel J. Wagner	Voluntary Termination		386,600		386,600
	Involuntary-for-Cause Termination		386,600		386,600
	Involuntary Termination	840,000	386,600	30,615	1,257,215
	Change-of-Control	975,000	420,000	30,615	1,425,615

***Our Compensation Process***

In assessing the performance of our named executive officers in light of the objectives our board of directors establishes, the compensation committee reviews specific achievements associated with each named executive officer's attainment of those objectives, the degree of difficulty in achieving those objectives and the extent to which significant unforeseen obstacles or favorable circumstances affected their performance. As part of its oversight of the compensation of our named executive officers, the compensation committee recommended increases in the base salaries of our named executive officers for 2014 that averaged 15.2%, which our compensation committee considered reasonable based on publicly available information from companies we informally consider our peer group (EMC Insurance Group, State Auto Financial Corporation and Selective Insurance Group).

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### ***Limitations on the Deductibility of Compensation***

Section 162(m) of the Code generally does not allow us to deduct annual compensation we pay to any of our named executive officers that is in excess of \$1.0 million for federal income tax purposes. However, compensation paid pursuant to a performance-based plan is generally not subject to the Section 162(m) limitation.

Although the compensation committee is aware of the Section 162(m) limitation, our compensation committee believes that it is equally important to maintain flexibility and the competitive effectiveness of the compensation of our named executive officers. The compensation committee may, therefore, from time to time, authorize compensation agreements or plans that would not be deductible for federal income tax purposes if the compensation committee believes it is in our best interests and in the best interests of our stockholders to do so.

### ***Our Cash Incentive Bonus Plan***

For a number of years, we have had a cash incentive bonus plan for our officers, including our named executive officers. We determine the amount, if any, available for the award of these bonuses pursuant to a formula that we base on our annual underwriting results and other financial results of the Donegal Insurance Group. The formula operates as follows:

We first determine the base underwriting income, if any, that the Donegal Insurance Group realized for the year;

We then adjust that base underwriting income, if any, by adding back the amount the Donegal Insurance Group accrued during the year for bonuses to our officers, and make a formula-based adjustment to limit the impact of any catastrophe losses and guaranty fund assessments on the base underwriting income, if any, the Donegal Insurance Group experienced for the year;

We then adjust the amount so determined based on variable percentages of the growth in net written premium of the Donegal Insurance Group for the year as specified in our bonus plan;

We then multiply the amount so determined by a percentage that is based on the return on equity of the Donegal Insurance Group for the year;

We then multiply the amount so determined by a predetermined factor, and the resulting amount constitutes the executive incentive compensation pool for the applicable year;

If the surplus of the Donegal Insurance Group for the year is below the amount our bonus plan specifies, we reduce the executive incentive compensation pool by 50%; and

Our compensation committee then allocates that executive incentive compensation pool among our officers, including our named executive officers, on a discretionary basis.

### ***Other Aspects of Our Compensation Philosophy***

#### ***Other Benefits***

We provide our named executive officers with the same employee benefits that all of our other employees receive under our broad-based benefit plans. These plans provide for health benefits, life insurance and other customary welfare benefits.

#### ***Perquisites***

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We do not provide our named executive officers with any retirement, welfare plan benefits or other perquisites that we do not provide to all of our other employees other than as we disclose in this proxy statement.

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**Table of Contents****Summary Compensation Table**

The following table shows the compensation we paid during 2012, 2013 and 2014 for services rendered in all capacities to our chief executive officer, our chief financial officer and our five (four in 2012) other most highly compensated executive officers. We refer to these officers, whom we name in the table below, as our named executive officers. During 2011, we entered into employment agreements with all of our executive officers, including our named executive officers. We refer you to Employment and Change of Control Agreements for a description of those employment agreements. We do not provide any of our named executive officers with restricted stock awards, non-equity incentive plan compensation, deferred compensation or pension benefits with the exception of two of our named executive officers who receive an annual restricted stock award of 400 shares of our Class A common stock as part of their compensation for serving as members of our board of directors and Donegal Mutual's board of directors.

Based on the compensation we paid to our named executive officers in 2014, their salaries accounted for 67.7% of their total compensation in 2014 and their performance-based compensation for 10.1% of their total compensation in 2014.

Name and Principal Position	Year	Salary(\$)	Bonus\$(1)	Stock Awards at Grant Date Fair Value (\$)	Option Awards at Grant Date Fair Value \$(2)	All Other Compen- sation \$(3)	Total (\$)
Donald H. Nikolaus, President and Chairman of the Board (on medical leave of absence in his capacity as Chief Executive Officer from August 29, 2014 through December 31, 2014)(4)	2014	800,000	100,000	6,360	169,000	76,217	1,151,577
	2013	725,000	540,000	5,616	385,000	70,365	1,725,981
	2012	650,000	297,500	5,664	427,500	66,133	1,446,797
Kevin G. Burke, Executive Vice President and Chief Operating Officer; Acting Chief Executive Officer from August 29, 2014 through December 31, 2014(4)	2014	305,000	50,000		76,050	12,183	443,233
	2013	240,000	130,000		165,000	11,702	546,702
	2012	215,000	65,000		128,250	12,076	420,326
Cyril J. Greenya, Senior Vice President	2014	280,000	45,000	6,360	67,600	70,221	469,181
	2013	235,000	130,000	5,616	165,000	59,226	594,842
	2012	215,000	65,000	5,664	128,250	56,592	470,506
Jeffrey D. Miller, Executive Vice President and Chief Financial Officer	2014	310,000	50,000		76,050	11,934	447,984
	2013	275,000	135,000		165,000	12,547	587,547
	2012	245,000	68,000		128,250	12,199	453,449
Sanjay Pandey, Senior Vice President	2014	280,000	45,000		67,600	11,701	404,301
	2013	233,000	120,000		165,000	11,864	529,864
Robert G. Shenk, Senior Vice President	2014	292,000	45,000		67,600	11,959	416,559

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Senior Vice President	2013	268,000	130,000	165,000	11,681	574,681
	2012	248,000	65,000	128,250	13,791	455,041
Daniel J. Wagner,	2014	280,000	45,000	67,600	12,570	405,170
Senior Vice President and Treasurer	2013	235,000	130,000	165,000	12,088	542,088
	2012	215,000	65,000	128,250	12,465	420,715

- (1) Our executive officers are eligible to participate in a cash incentive bonus plan. We refer you to [Executive Compensation](#) Our Cash Incentive Bonus Plan.

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- (2) We show the option awards at an estimated grant date fair value, which we calculated by using an option pricing model. Further, the options are subject to a vesting schedule, and the estimated value obtained from the option pricing model does not represent actual value based upon trading prices of our Class A common stock at the grant date. See Note 13 to our consolidated financial statements included in our 2014 Annual Report for information on the accounting treatment and calculation of the grant date fair value of these stock options.
- (3) In the case of Mr. Nikolaus, the total shown includes directors and committee meeting fees of \$63,600 and a matching 401(k) plan contribution of \$12,617 paid during 2014. In the case of Messrs. Burke, Shenk, Miller, Pandey and Wagner, the totals shown includes a matching 401(k) plan contribution of \$12,183, \$11,959, \$11,934, \$11,701 and \$12,570, respectively, paid during 2014. In the case of Mr. Greenya, the total shown includes directors fees of \$58,500 and a matching 401(k) plan contribution of \$11,721 paid during 2014.
- (4) Mr. Nikolaus began a leave of absence for medical reasons in his capacity as our chief executive officer on August 29, 2014 that continued through the remainder of 2014. Mr. Nikolaus expects to complete his medical recovery and resume his duties as our chief executive officer on a full-time basis during the spring of 2015. Since August 29, 2014, Mr. Burke has served as our acting chief executive officer.

**Grants of Plan-Based Awards**

During 2014, we granted non-qualified options to purchase shares of our Class A common stock at an exercise price of \$15.80 per share to our named executive officers as we set forth in the following table. As of the close of business on the day before the date on which we granted the options, the closing market price per share of our Class A common stock was \$15.79.

Name	Grant Date	Number of Shares Subject to Option	Exercise or Base Price of Option Awards(\$)	Grant Date Fair Value of Option Awards(\$)
Donald H. Nikolaus	12/18/2014	100,000	15.80	169,000
Kevin G. Burke	12/18/2014	45,000	15.80	76,050
Cyril J. Greenya	12/18/2014	40,000	15.80	67,600
Jeffrey D. Miller	12/18/2014	45,000	15.80	76,050
Sanjay Pandey	12/18/2014	40,000	15.80	67,600
Robert G. Shenk	12/18/2014	40,000	15.80	67,600
Daniel J. Wagner	12/18/2014	40,000	15.80	67,600

**Stock Incentive Plans**

We have an equity incentive plan for our employees and an equity incentive plan for our directors. Under these plans, our board of directors, upon the recommendation of its compensation committee, may grant options to purchase our Class A common stock and, in the case of our directors, restricted stock awards as well as stock options. Grants under the plans can take the form of incentive stock options, non-qualified stock options, stock units and other stock-based awards. With the exception of an annual fixed restricted stock award of 400 Class A shares we issue to our directors and to the directors of Donegal Mutual who do not also serve as directors of DGI, all of our incentive compensation grants have been stock options. The purpose of the plans is to provide long-term incentive awards to our employees and directors as a means to attract, motivate, retain and reward talented and experienced persons.

At December 31, 2014, we had reserved 834,000 shares of our Class A common stock for future grants under our equity incentive plan for employees and 211,700 shares of our Class A common stock for future grants under our equity incentive plan for directors. If any shares we have reserved for issuance upon the exercise of an option are not issued for any reason, we may again grant options to purchase those shares.

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If the number and kind of shares available for grants and options under our plans and the exercise price of outstanding options were to change by reason of a merger, consolidation, reorganization, stock split, stock dividend or other event affecting the number of outstanding shares of our Class A common stock, the plans provide for an automatic adjustment in the kinds of shares and the price per share to reflect any increase or decrease in the number of, change in kind of or change in value of shares to preclude the enlargement or dilution of rights and benefits under the plans. Unless we otherwise provide in an individual option or employment agreement, unvested options do not automatically accelerate in the event we enter into a business combination or we sell all or substantially all of our assets.

Our board of directors, upon the recommendation of its compensation committee, has:

the authority to determine the persons eligible to receive an option grant, the number of shares subject to each option, the exercise price of each option, the vesting schedule, the circumstances in which the vesting of options may accelerate and any extension of the period for exercise; and

the authority to determine any matter relating to options granted under our stock incentive plans.

Our board of directors has the authority to suspend, amend or terminate our stock incentive plans, except as would adversely affect the rights of persons holding outstanding awards without the consent of such persons.

**Table of Contents****Outstanding Equity Awards at December 31, 2014**

The following table summarizes the outstanding equity awards our named executive officers held at December 31, 2014:

Name	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options		Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)
	(#) Exercisable	(#) Unexercisable				
Donald H. Nikolaus	175,000		14.00	7/15/2015	400	6,392
	200,000		12.50	7/27/2021		
	100,000	50,000	14.50	12/20/2022		
	58,333	116,667	15.90	12/19/2023		
		100,000	15.80	12/18/2024		
Kevin G. Burke	50,000		14.00	7/15/2015		
	75,000		12.50	7/27/2021		
	30,000	15,000	14.50	12/20/2022		
	25,000	50,000	15.90	12/19/2023		
		45,000	15.80	12/18/2024		
Cyril J. Greenya	50,000		14.00	7/15/2015	400	6,392
	75,000		12.50	7/27/2021		
	30,000	15,000	14.50	12/20/2022		
	25,000	50,000	15.90	12/19/2023		
		40,000	15.80	12/18/2024		
Jeffrey D. Miller	55,000		14.00	7/15/2015		
	75,000		12.50	7/27/2021		
	30,000	15,000	14.50	12/20/2022		
	25,000	50,000	15.90	12/19/2023		
		45,000	15.80	12/18/2024		
Sanjay Pandey	72		14.00	7/15/2015		

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	11,667		12.50	7/27/2021
	23,333	11,667	14.50	12/20/2022
	25,000	50,000	15.90	12/19/2023
		40,000	15.80	12/18/2024
Robert G. Shenk	50,000		14.00	7/15/2015
	75,000		12.50	7/27/2021
	30,000	15,000	14.50	12/20/2022
	25,000	50,000	15.90	12/19/2023
		40,000	15.80	12/18/2024
Daniel J. Wagner	40,000		14.00	7/15/2015
	75,000		12.50	7/27/2021
	30,000	15,000	14.50	12/20/2022
	25,000	50,000	15.90	12/19/2023
			15.80	
		40,000		12/18/2024

**Table of Contents*****Option Exercises and Stock Vested***

The following table summarizes stock options our named executive officers exercised and, in the case of our named executive officers who are also directors, restricted stock awards vested, during 2014:

Name	Option Awards		Option Exercises and Stock Vested	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)(1)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)(1)
Donald H. Nikolaus			400	6,360
Kevin G. Burke				
Cyril J. Greenya			400	6,360
Jeffrey D. Miller				
Sanjay Pandey				
Robert G. Shenk				
Daniel J. Wagner	10,000	2,100		

(1) We calculate the value our named executive officers realized on exercise or vesting based upon the closing price of our Class A common stock on NASDAQ on the date of exercise or vesting less the exercise price of the option awards.

***Pension Benefits***

None of our named executive officers participated in or had an account balance in qualified or non-qualified defined benefit plans that we sponsored in 2012, 2013 or 2014, and we contemplate none for 2015.

***Non-Qualified Deferred Compensation***

None of our named executive officers participated in or had an account balance in non-qualified deferred compensation plans or other deferred compensation plans that we maintained in 2012, 2013 or 2014, and we contemplate no such plans for 2015.

***Limitation of Liability and Indemnification***

Our certificate of incorporation includes a provision that limits, to the maximum extent Delaware law permits, the liability of our directors and officers to us and to our stockholders for money damages except for liability resulting from:

actual receipt of an improper benefit or profit in money, property or services; or

active and deliberate dishonesty established by a final judgment as being material to the cause of action.

This limitation does not, however, apply to violations of the federal securities laws, nor does it limit the availability of non-monetary relief in any action or proceeding.

Our certificate of incorporation and By-laws obligate us, to the maximum extent Delaware law permits, to indemnify any person who is or was a party, or is threatened to be made a party, to any threatened or pending action, suit or proceeding by reason of the fact that such person is serving or served as one of our directors or officers, or, while one of our directors or officers, is serving or served as, at our request, as a director or officer of another entity. Insofar as indemnification for liabilities arising under the federal securities laws may be permitted to our officers and directors pursuant to the foregoing provisions, we understand that, in the opinion of the SEC, such indemnification is against public policy as expressed in such laws and is unenforceable.

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In addition, our certificate of incorporation and By-laws permit us, at our expense, to purchase and maintain insurance to protect us, Donegal Mutual and any of our or their subsidiaries directors, officers or employees



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against any liability of any character asserted against or incurred by us, Donegal Mutual or any such director, officer or employee or arising out of any such person's corporate status, whether or not we would have the power to indemnify such person against such liability under Delaware law or Pennsylvania law, as the case may be. We also maintain, and intend to continue to maintain, liability insurance that covers our officers and directors as well as the officers and directors of Donegal Mutual and the directors and officers of our subsidiaries and the subsidiaries of Donegal Mutual.

**Report of the Compensation Committees of Donegal Mutual and DGI**

The compensation committee of our board of directors held a joint meeting with the compensation committee of the board of directors of Donegal Mutual on February 10, 2015. The compensation committees reviewed and discussed the compensation discussion and analysis that appears in this proxy statement under the caption Executive Compensation Discussion and Analysis.

Based on the review and discussion by our compensation committee with management and the joint meeting with the members of our compensation committee and the compensation committee of Donegal Mutual, the members of our compensation committee then held a separate meeting at which our compensation committee reviewed our success in meeting our corporate objectives for 2014. Our compensation committee then reviewed the individual performance of our named executive officers.

Our compensation committee recommended to our board of directors that our board of directors approve the inclusion of the compensation discussion and analysis set forth in this proxy statement under the caption Executive Compensation Discussion and Analysis for filing with the SEC and the incorporation by reference of such compensation discussion and analysis in our Annual Report on Form 10-K for the year ended December 31, 2014 for filing with the SEC.

March 6, 2015

MEMBERS OF THE COMPENSATION COMMITTEES OF  
DONEGAL GROUP INC. AND

DONEGAL MUTUAL INSURANCE COMPANY

Scott A. Berlucchi

Philip H. Glatfelter, II

Jack L. Hess

Kevin M. Kraft, Sr.

Richard D. Wampler, II

***Equity Compensation Plan Information***

The following table sets forth information regarding our equity compensation plans:

Plan category	Number of securities (by class) to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities (by class) remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
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Equity compensation plans approved by securityholders	8,183,430 (Class A)	\$	14.69 (Class A)	1,045,700 (Class A)
Equity compensation plans not approved by securityholders				
Total	8,183,430	\$	14.69	1,045,700

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**PROPOSAL 1**

**ELECTION OF CLASS B DIRECTORS**

***Introduction***

The DGCL, the PHCA and our By-laws govern the election of our directors by our stockholders. Because Donegal Mutual has owned more than a majority of the aggregate voting power of our outstanding shares of common stock since our inception, Donegal Mutual has had the ability to control the election of all of our directors and has always voted for the election of the candidates for directors our nominating committee and board of directors nominated. Donegal Mutual has advised us in writing that it will also do so at our 2015 Annual Meeting.

Since 1986, our board of directors has reviewed our relationship with Donegal Mutual on an annual basis. As a result of the most recent such review, our board of directors concluded unanimously that the continuation of our historical relationships with Donegal Mutual are in our best interests and the best interests of our stockholders, including our stockholders other than Donegal Mutual.

The following discussion summarizes the process the nominating committee of our board of directors follows in connection with the nomination of candidates for election as directors by our stockholders and their taking of office.

***Nominations***

Our By-laws provide that:

our board of directors shall annually appoint a nominating committee that consists of not less than two directors who are not officers or employees of Donegal Mutual or us and who do not own beneficially 10% or more of our Class A common stock or our Class B common stock; and

our nominating committee shall, prior to each annual meeting of stockholders, determine and nominate candidates for election as directors to succeed the class of directors whose terms of office will expire upon the election of directors of that class at that year's annual meeting of stockholders by our stockholders and their taking of office.

In accordance with our By-laws, on April 17, 2014, our board of directors appointed a nominating committee consisting of Philip H. Glatfelter, II, Kevin M. Kraft, Sr., Jon M. Mahan and Richard D. Wampler, II. Neither Mr. Glatfelter, Mr. Kraft, Mr. Mahan nor Mr. Wampler is an officer or employee of Donegal Mutual or us or a beneficial owner of a 10% or greater interest in our Class A common stock or a 10% or greater interest in our Class B common stock.

***Our Nominating Procedures***

Any DGI stockholder may nominate candidates for election as director at any annual meeting of our stockholders provided they comply with the advance notice provisions and other applicable provisions of our By-laws. We describe those procedures under "Stockholder Proposals" in this proxy statement. The nominating committee may also consider candidates our management proposes. We do not use executive search firms to identify director candidates.

With the exception of applicable regulations of the SEC, the listing application standards of NASDAQ and the PHCA, our nominating committee does not have any specific, minimum qualifications for the nomination of a candidate for election as one of our directors. The nominating committee may take into account such factors as it deems appropriate. These factors include the judgment, skill, diversity and business experience of the candidate, the interplay of the candidate's experience with the experience of the other members of our board of directors and the extent to which the candidate would contribute to the overall effectiveness and experience of our board of directors.

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The nominating committee and our board of directors considers, at a minimum, the following factors in identifying and evaluating potential new director candidates, including any stockholder nominee, or the continued service of our current directors:

The professional experience of a candidate for election as a director. A candidate should have a record of accomplishments and have recognized achievements in the candidate's field of employment.

Whether the candidate serves as a member of Donegal Mutual's board of directors.

The education, expertise and experience of the candidate, and the candidate's ability to offer advice and guidance to our chief executive officer based on that candidate's education, expertise and experience.

The candidate's possession of high personal and professional ethics, integrity and values, as well as a demonstrated record of cooperative interaction with the board of directors and senior management of other companies for which the candidate serves as a director.

A candidate should be inquisitive and objective, have the ability to exercise practical and sound business judgment and think independently.

The ability of the candidate to devote sufficient time to carrying out effectively his or her duties and responsibilities as one of our directors.

A candidate should have a history of engagement in his or her principal position of not less than five years during which the candidate has demonstrated the candidate's ability to work effectively with others.

We seek qualified candidates who, taken together, represent a diversity of skills, backgrounds and experience, including ethnic background, gender and professional experience. Our nominating committee assesses the areas of expertise and functional skills that would assist us in rounding out the existing collective strengths of our board of directors.

Since our formation in 1986, and because Donegal Mutual has had a greater than majority voting control of us since our inception in 1986, a majority of our board of directors has always included that number of directors who also serve as members of the board of directors of Donegal Mutual as constitutes a majority of our board of directors. The number of Donegal Mutual-designated members who serve on our board of directors has ranged from six of eight directors in 1986 to six of 11 directors in 2014. The number of Donegal Mutual directors who also serve on our board of directors will remain at six of 11 directors following our 2015 Annual Meeting assuming our board of directors' nominees for election as Class B directors receive a plurality of the votes our stockholders cast at our 2015 Annual Meeting. It is our intent and the intent of Donegal Mutual to maintain that number of Donegal Mutual directors who also serve on our board of directors as constitutes a majority of our board of directors as long as Donegal Mutual continues to own more than a majority of the aggregate voting power of our two outstanding classes of common stock.

In nominating candidates for election as members of our board of directors, the nominating committee of our board of directors takes into account the relative diversity of our policyholders and our stockholders. The nominating committee does not discriminate against any director candidate on the basis of race, color, religion, sex, national origin, age, ancestry or disability.

### ***The Role of the Nominating Committee of Our Board of Directors***

The nominating committee met on January 27, 2015 to evaluate the performance and qualifications of the four Class B members of our board of directors whose terms will expire upon the election of their successors at our 2015 Annual Meeting and the taking of office by their successors. After considering the performance and qualifications of the four Class B members of our board of directors during the past three years, the

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nominating committee nominated all four incumbent Class B directors named below for reelection to a new term as Class B directors. On January 30, 2015, our board of directors met and accepted the report of the nominating committee and approved the nomination by the nominating committee of the four incumbent Class B directors as candidates for election as Class B directors at our 2015 Annual Meeting.

**Table of Contents*****Our Nominees for Election as Class B Directors***

Our board of directors currently has 11 members and consists of four Class B directors, three Class C directors and four Class A directors. We elect each director of each class for a three-year term and until the director's successor takes office. The current three-year terms of our Class B directors expire at our 2015 Annual Meeting and upon the election and taking of office of their successors. The current three-year terms of our Class C directors next expire at our 2016 annual meeting of stockholders and upon the election and taking of office of their successors, and the current three-year terms of our Class A directors next expire at our 2017 annual meeting of stockholders and upon the election and taking of office of their successors.

We will elect four Class B directors at our 2015 Annual Meeting. Unless you have marked your proxy card to the contrary, we have instructed the proxies named on your proxy card to vote for the election of the four nominees for Class B directors we name in this proxy statement.

If any of the named nominees for Class B director becomes unavailable for any reason, our board of directors will designate a substitute nominee. Our board of directors believes each nominee will be able to serve if elected. A majority of our board of directors may fill any vacancy that occurs in our board of directors for any reason until the expiration of the term of the class of directors in which the vacancy has occurred.

The names of our four nominees for election as Class B directors, and our Class C directors and our Class A directors who will continue in office after our 2015 Annual Meeting until the expiration of their respective terms and the election and taking of office of their respective successors, together with certain information regarding them, are as follows:

**Class B Directors**

<b>Name</b>	<b>Age</b>	<b>Director Since</b>	<b>Year Term Will Expire*</b>
Kevin M. Kraft, Sr.	62	2010	2018
Jon M. Mahan	45	2007	2018
Donald H. Nikolaus	72	1986	2018
Richard D. Wampler, II	73	2005	2018

\* If elected at our 2015 Annual Meeting.

Our board of directors recommends you vote FOR the election of the four nominees for Class B directors we name above.

***Our Class C Directors and Class A Directors Who Will Continue as Directors After Our 2015 Annual Meeting*****Class C Directors**

<b>Name</b>	<b>Age</b>	<b>Director Since</b>	<b>Year Term Will Expire</b>
Scott A. Berlucchi	57	2013	2016
Barry C. Huber*	63	2015	2016
S. Trezevant Moore, Jr.	61	2008	2016

**Table of Contents****Class A Directors**

<b>Name</b>	<b>Age</b>	<b>Director Since</b>	<b>Year Term Will Expire</b>
Robert S. Bolinger	78	1986	2017
Patricia A. Gilmartin	75	1986	2017
Philip H. Glatfelter, II	85	1986	2017
Jack L. Hess	67	2011	2017

\* Our board of directors appointed Mr. Huber as a Class C director on January 30, 2015 to fill a vacancy and to serve until the next election of our Class C directors at our 2016 annual meeting of stockholders and until his successor takes office.

Mr. Berlucchi has been president and chief executive officer of Auburn Memorial Hospital, Auburn, New York since 2007. From 2004 to 2007, Mr. Berlucchi was president and chief executive officer of Elk Regional Health System in St. Mary's, Pennsylvania. We believe the experience of Mr. Berlucchi as the chief executive officer of a major hospital system qualifies him to serve as a member of our board of directors.

Mr. Bolinger retired in 2001 as chief executive officer of Susquehanna Bancshares, Inc., a position he held from 1982 to 2001. From 2000 to 2002, Mr. Bolinger served as chairman of the board of directors of Susquehanna Bancshares, Inc. We believe Mr. Bolinger's experience as the chief executive officer of a major financial institution qualifies him to serve on our board of directors.

Mrs. Gilmartin was an employee of Associated Donegal Insurance Brokers from 1969 until her retirement in February 2013. That agency has no affiliation with us, except that Associated Donegal Insurance Brokers receives insurance commissions in the ordinary course of business from our insurance subsidiaries and Donegal Mutual in accordance with their standard commission schedules and agency contracts. Mrs. Gilmartin has been a Donegal Mutual director for 34 years and provides valuable input to maintain and enhance the relationships between Donegal Mutual and us and our respective insurance agents. Mrs. Gilmartin, who has been a registered insurance agent for over 50 years, helps provide us and our insurance subsidiaries with insight into the concerns of agents. We believe the long experience of Mrs. Gilmartin as an insurance agent and her long association as one of our directors qualifies her to serve on our board of directors.

Mr. Glatfelter, who has extensive banking experience, retired in 1989 as a vice president of Meridian Bank, a position he held for more than five years prior to his retirement. Mr. Glatfelter has been a director of Donegal Mutual for 32 years and has been instrumental in promoting the growth of Donegal Mutual and us. Mr. Glatfelter was vice chairman of the board of directors of Donegal Mutual from 1991 to 2001 and served as chairman of our board of directors from 2001 to April 2012 and chairman of the board of directors of Donegal Mutual since 2001. He also serves on the board of directors of UCB, our banking affiliate, and Conestoga Title Insurance Company, a subsidiary of Donegal Mutual. Mr. Glatfelter is also a director of a Lancaster County-based water utility and has served as a director and chairman of several community-based non-profit entities. We believe Mr. Glatfelter's extensive experience with financial institutions and his long service on our board of directors qualifies him to continue to serve on our board of directors.

Mr. Hess has been a certified public accountant for more than 30 years. He became a partner in Hess & Hess, certified public accountants, in 1982 and was the managing partner of that firm from 1998 to 2010. Effective January 1, 2011, Hess & Hess merged with Bertz & Co. and operates under the name Bertz, Hess & Co., LLP. Mr. Hess has been a director of Donegal Mutual since 2009, a director of DGI since 2011 and a director of Conestoga Title Insurance Company, a subsidiary of Donegal Mutual, since 2006. Mr. Hess' background brings significant auditing and tax expertise to our board of directors as well as experienced business management skills and significant standing in the Lancaster business community, which we believe qualifies Mr. Hess to serve on our board of directors.

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Mr. Huber practiced for over 35 years as a certified public accountant with the Lancaster, Pennsylvania-based public accounting firm of Trout, Ebersole & Groff, LLP, for which he served as managing partner from 1998 to 2010. He retired from that firm in 2012. He served as a director of Union National Financial Corporation and Union National Community Bank from 2006 until 2011. Since DFSC acquired Union National Financial Corporation in 2011, Mr. Huber has served as a director and chairman of the audit committee of the board of directors of UCB. We believe the experience of Mr. Huber as the managing partner of a major regional public accounting firm and his experience as a director of UCB and the predecessor of UCB qualify Mr. Huber to serve on our board of directors.

Mr. Kraft has served as a director since December 2009. Mr. Kraft has been the chief executive officer of Clyde W. Kraft Funeral Home, Columbia, Pennsylvania since 1995. Mr. Kraft is also registered as an insurance agent with the Pennsylvania Department of Insurance. Mr. Kraft served as a director of Central Savings and Loan Association in Columbia, Pennsylvania from 1980 to 1992. After Farmers First Bank acquired Central Savings and Loan Association, Mr. Kraft served as a member of the regional board of Farmers First Bank. Mr. Kraft currently serves on the board of directors of a Lancaster County-based water utility, Conestoga Title Insurance Company and UCB. Mr. Kraft has been a director of Donegal Mutual since 2003. We believe Mr. Kraft's experience with financial institutions qualifies him to continue to serve as a member of our board of directors.

Mr. Mahan has been a managing director in the Investment Banking Division of Stifel Nicolaus & Company, Incorporated, or Stifel Nicolaus, and, previously, Legg Mason Wood Walker, Incorporated, prior to the acquisition of the Legg Mason Capital Markets Division by Stifel Nicolaus on December 1, 2005. Mr. Mahan joined Legg Mason in 1996 and served as a principal from 2001 to 2004. Mr. Mahan specializes in corporate finance with a focus on mergers and acquisitions, and has experience with a variety of corporate transactions involving mergers and acquisitions. Mr. Mahan's expertise benefits our analysis of acquisition opportunities and makes him a desirable member of our board of directors.

Mr. Moore has served as an executive vice president of FirstKey Mortgage, LLC, a subsidiary of Cerberus, since October 2014. Mr. Moore served as a managing director in the securities unit of the Royal Bank of Scotland from October 2012 to October 2014. From March 2010 until October 2012, Mr. Moore served as senior vice president, Strategic Investment Group, of The Federal Home Loan Mortgage Corporation. From November 2008 to March 2010, Mr. Moore served as a consultant to an interest rate risk management company. From May 2008 to November 2008, Mr. Moore served as a consultant to a medical malpractice insurance company. We believe the experience of Mr. Moore in mortgage securities and financial businesses amply qualifies him to serve as a member of our board of directors.

Mr. Nikolaus has been president and chief executive officer of Donegal Mutual since 1981 and a director of Donegal Mutual since 1972. He has been our president and chief executive officer since 1986 and chairman of our board of directors since April 2012. Mr. Nikolaus also serves as the chairman of the board of directors of UCB and as chairman of the board or president of each of our insurance subsidiaries as well as Conestoga Title Insurance Company. Prior to the formation of the predecessor to UCB, Mr. Nikolaus served as a director of several regional banks. Mr. Nikolaus has also served as chairman of the Insurance Federation of Pennsylvania. Mr. Nikolaus has been a partner in the law firm of Nikolaus & Hohenadel since 1972. Mr. Nikolaus also currently serves as an executive officer and director of several Lancaster County-based water utilities. The leadership and accomplishments of Mr. Nikolaus as our chief executive officer for over 25 years provides a strong foundation for the continuation of Mr. Nikolaus as a member of our board of directors.

Mr. Wampler is a certified public accountant and served as a principal of the accounting firm of Brown Schultz Sheridan & Fritz from 1998 to 2005. For 28 prior years, Mr. Wampler was a partner in the accounting firm of KPMG LLP. His practice focused on property and casualty insurance companies. Mr. Wampler is also a member of the board of trustees of the Pennsylvania School Boards Association Insurance Trust and the boards of directors of its insurance subsidiaries. He also served previously as a member of the subscribers advisory committee of the third largest medical professional liability insurer in Pennsylvania. We believe Mr. Wampler's



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background and financial expertise qualifies Mr. Wampler to serve on our board of directors and assist us in our analysis of statutory accounting principles as well as generally accepted accounting principles and in analyzing and maintaining internal controls over financial reporting.

Six of our 11 current directors also serve as directors of Donegal Mutual with whom we have a variety of inter-company agreements providing for, among other things, the pooling of Atlantic States underwriting results with those of Donegal Mutual, reinsurance and expense-sharing. See The Relationship of Donegal Mutual and DGI. After the election of the nominees for Class B directors we name in this proxy statement, six of our 11 directors will also continue to serve as directors of Donegal Mutual. We believe our board membership appropriately represents our public stockholders, who collectively owned approximately one-third of the aggregate voting power of our outstanding shares of our Class A common stock and our outstanding shares of our Class B common stock at March 2, 2015, and Donegal Mutual, which owned approximately two-thirds of the aggregate voting power of our outstanding shares of our Class A common stock and our outstanding shares of our Class B common stock at March 2, 2015.

*Our board of directors unanimously recommends that you vote FOR the election of our four nominees to serve as Class B directors for a term of three years and until their respective successors take office.*

**PROPOSAL 2**

**APPROVAL OF OUR 2015 EQUITY INCENTIVE PLAN FOR EMPLOYEES**

*Description of Our 2015 Equity Incentive Plan for Employees*

*Purpose*

Our board of directors adopted our 2015 equity employee plan for employees, or our 2015 Employee Plan, on March 6, 2015, subject to stockholder approval of our 2015 Employee Plan at our 2015 Annual Meeting. The objective of our 2015 Employee Plan is to provide an incentive to our employees to contribute to our growth, development and financial success as well as that of the member companies of the Donegal Insurance Group by continuing to align the interests of our employees with the interests of our stockholders. We include a copy of our 2015 Employee Plan as Appendix A to this proxy statement.

*Grants*

Our 2015 Employee Plan, if approved by the requisite vote of our stockholders at our 2015 Annual Meeting, will permit the granting of options to purchase an aggregate of 4,500,000 shares of our Class A common stock, including options we intend will qualify as incentive stock options under Section 422 of the Code, and non-qualified stock options we do not intend will qualify under Section 422 of the Code. Although all of Donegal Mutual's employees and all of the employees of our respective subsidiaries and affiliates are eligible to receive options under our 2015 Employee Plan, the award of options to any particular employee is subject to the discretion of our board of directors and its compensation committee. We will target the grant of option awards to those officers and employees of the Donegal Insurance Group who are responsible for management and direction of its business. Our intent is to provide those officers and employees with the opportunity to participate in the growth we anticipate in the value of our Class A common stock.

Our board of directors may make the following types of grants under our 2015 Employee Plan:

qualified and non-qualified stock options;

restricted stock awards; and

other stock-based awards based on, measured by or payable in shares of our Class A common stock.

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Upon the approval of our 2015 Employee Plan, we will no longer grant options under our 2013 Employee Plan. The maximum number of shares of our Class A common stock for which we may grant options under our 2015 Employee Plan may not exceed 4,500,000 shares. For administrative purposes, our board of directors will reserve shares for issuance when we grant options to purchase our Class A common stock under our 2015 Employee Plan. If an option expires or terminates for any reason before it is fully vested or exercised, we may again make the number of shares subject to that option that the optionee has not purchased or that has not vested subject to another option under our 2015 Employee Plan. We will make appropriate adjustments to outstanding options and to the number or kind of shares subject to our 2015 Employee Plan in the event of a stock split, reverse stock split, stock dividend, share combination or reclassification and certain other types of corporate transactions, including a merger or a sale of all or substantially all of our assets. The maximum number of shares of our Class A common stock for which we may grant an option to any employee in any calendar year under our 2015 Employee Plan may not exceed 200,000 shares.

### ***Administration***

Our board of directors or a board committee of two or more members who are non-employee directors within the meaning of Rule 16b-3 under the Exchange Act will administer our 2015 Employee Plan. Our compensation committee, with the advice of our president and chief executive officer, will:

recommend to our board of directors the employees to whom we will grant options and the type, amount of shares and terms of each option grant;

determine the exercise price for the purchase of shares of our Class A common stock subject to options, which exercise price may not be less than 100% of the closing price of our Class A common stock on the NASDAQ Global Select Market as of the close of business on the day before the date of grant of the option;

determine whether the options are incentive stock options or non-qualified options, although we have not granted incentive options in recent years;

interpret the provisions of our 2015 Employee Plan and decide all questions of fact arising in the application of our 2015 Employee Plan; and

make all other determinations necessary or advisable for the administration of our 2015 Employee Plan.

### ***Option Agreements***

Our compensation committee will determine the exercise price of any stock options we grant. The exercise price of an option will be equal to or greater than 100% of the fair market value of our Class A common stock as of the close of business on the day before the date of grant. Our 2015 Employee Plan defines fair market value as the closing price of our Class A common stock on the NASDAQ Global Select Market on the day before the date on which we grant a stock option. In the event no sales on the NASDAQ Global Select Market occur on such date, we will determine the fair market value as of the date immediately preceding the day before the date of grant of a stock option.

An option holder, upon the exercise of an option or a portion of an option, must pay the exercise price in full of the shares the option holder purchases. The payment will equal the exercise price of the option times the number of shares for which the option holder has exercised his or her option. An option holder may pay the exercise price by:

the payment of cash;

delivery of shares of our Class A common stock having a fair market value on the date of exercise equal to the exercise price of the number of shares for which the option holder is exercising his or her option;

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having a broker or our transfer agent sell shares of our Class A common stock the option holder owns simultaneously with the exercise of the option and remitting the aggregate exercise price to us and the remainder of the proceeds to the holder of the option; or

any other method our board of directors authorizes in its discretion.

The policy of our compensation committee is that an option holder exercising an option must pay us any taxes we have the obligation to withhold as a result of the exercise at the time of exercise.

We will evidence the grant of an option by delivering a written option agreement to each option holder. The option agreement will be consistent with the terms of our 2015 Employee Plan and as our compensation committee approves from time to time. The option agreement will state the number of shares of our Class A common stock the option holder may purchase pursuant to the option granted, the exercise price, when the option holder may exercise all or a part of the option and the term for which the option is exercisable.

The term of any option under our 2015 Employee Plan may not exceed five years. Our board of directors will determine when options become exercisable, and may accelerate the exercisability of outstanding options at any time for any reason. Except as we may otherwise provide in the option agreement granting an option, an employee may only exercise an option while the option holder remains a Donegal Insurance Group employee. The option agreement explains the circumstances in which an optionee may exercise an option after the termination of the optionee's employment.

### ***Transferability***

An employee may not transfer an option granted under our 2015 Employee Plan except by will or by the laws of descent and distribution.

### ***Incentive Options and Non-Qualified Options***

Our board of directors will determine whether options we grant are incentive stock options meeting the requirements of Section 422 of the Code or non-qualified options that do not satisfy the requirements of Section 422 of the Code; although, as noted earlier, as a historical matter, we have not granted incentive stock options in recent years. We may grant incentive stock options only to eligible employees. All of Donegal Mutual's employees and all employees of our respective subsidiaries and affiliates are eligible to receive a stock option under our 2015 Employee Plan. An employee may not exercise an incentive stock option after the expiration of five years from the date of grant. An optionee may not receive incentive stock options that first become exercisable in any calendar year for shares with an aggregate fair market value determined at the date of grant in excess of \$100,000.

### ***Amendment and Termination***

Our 2015 Employee Plan will remain in effect until April 15, 2020. Without stockholder approval, we may not amend our 2015 Employee Plan if the amendment would materially increase:

the number of shares that we may issue;

the benefits accruing to participants; or

the requirements for eligibility for participation.

In all other respects, our board of directors may amend, modify, suspend or terminate our 2015 Employee Plan, except that our board of directors may not make any modification, amendment or termination to our 2015 Employee Plan, without the consent of an optionee, if such modification, amendment or termination would adversely affect the rights of the optionee under an outstanding option. In addition, our board of directors may not reprice stock options.



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### ***Federal Income Tax Consequences***

A general summary of the federal income tax consequences of grants of stock options under our 2015 Employee Plan follows. Grants may also be subject to state and local taxes. We intend this discussion for use by our stockholders in determining how to vote at our 2015 annual meeting of stockholders and not as tax advice to our employees who receive grants of stock options under our 2015 Employee Plan.

An employee receiving a stock option will not recognize taxable income for federal income taxes upon the grant of the stock option, nor will we be entitled to any deduction on account of the grant of a stock option. Upon the exercise of a non-qualified stock option, an employee will recognize ordinary income in the amount by which the fair market value of the shares on the date of exercise then exceeds the exercise price of the option.

The basis of shares acquired upon the exercise of a non-qualified stock option will equal the fair market value of the shares on the date of exercise, and the holding period of the shares for capital gain purposes will begin on the date of exercise. In general, we will be entitled to a business expense deduction in the same amount and at the same time as an employee recognizes ordinary income upon exercise of a non-qualified stock option.

A purchase of shares upon exercise of an incentive stock option will not result in recognition of income at that time, provided the optionee was our employee during the period from the date of grant until three months before the date of exercise, or 12 months if the employment of the employee terminates due to total and permanent disability. The basis of the shares an employee receives upon exercise of an incentive stock option is the exercise price times the number of shares purchased. The holding period for such shares for capital gain purposes begins on the date of exercise.

If an optionee does not dispose of the shares the optionee purchased upon the exercise of an incentive stock option for one year after the optionee's purchase of the shares or within two years after the date of the grant of such incentive stock option, whichever is later, then any gain or loss realized on a later sale or exchange of such shares will generally be a long-term capital gain or a long-term capital loss equal to the difference between the amount the optionee realizes upon the disposition and the exercise price. If the optionee sells the shares during such period, i.e., within two years after the date of grant of the incentive stock option or within one year after the purchase of the shares by the optionee upon the exercise of the stock option, the sale will be deemed a disqualifying disposition. In the event of a disqualifying disposition, the optionee will recognize ordinary income equal to the amount, if any, by which the lesser of the fair market value of such shares on the date of exercise or the amount realized from the sale exceed the amount the optionee paid for such shares.

### ***Tax Withholding***

We have the right to require the recipient of any grant to pay to us an amount necessary to satisfy our federal, state and local tax withholding obligations with respect to a grant to that recipient. We may withhold an amount necessary to satisfy these amounts from other amounts we would otherwise pay to the recipient.

### ***Potential Dilutive Effect of Stock Options***

Our board of directors believes our granting of stock options to our employees and directors as well as the employees and directors of our subsidiaries and our affiliates is an important part of our compensation philosophy and that our stock option grants promote the interests of DGI and its stockholders by aligning the interests of such employees and directors with the interests of our stockholders and motivating such employees and directors to achieve our long-term corporate objectives. For those reasons, our board of directors believes it is desirable and appropriate that our stockholders vote to approve our 2015 Employee Plan and our 2015 Director Plan.

If all of the currently outstanding and exercisable options to purchase shares of our Class A common stock were exercised, the shares so issued would represent approximately 20.8% of the number of shares of our

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Class A common stock outstanding at March 2, 2015. The average number of options to purchase Class A shares we have issued in each of the last three years is 1.9 million at a weighted average exercise price of \$15.48 per share. As we note elsewhere in this proxy statement, upon stockholder approval of our 2015 Employee Plan and our 2015 Director Plan, we will no longer make grants under our previous incentive plans.

The potential dilution we describe above may not be indicative of the actual number of shares we will issue in the future. Our stock compensation plans do not contemplate the amount or timing of specific equity awards, other than the annual restricted stock grant of 500 Class A shares to each director.

The potential dilution we describe above is a forward-looking statement. Forward-looking statements are not facts. Actual results may differ materially because of factors such as those we identify in the reports we file with the SEC.

*Our board of directors recommends a vote FOR approval of our 2015 Employee Plan.*

### **PROPOSAL 3**

#### **APPROVAL OF OUR 2015 EQUITY INCENTIVE PLAN FOR DIRECTORS**

##### ***Description of Our 2015 Equity Incentive Plan for Directors***

###### ***Purpose***

On March 6, 2015, our board of directors adopted our 2015 equity incentive plan for directors, or our 2015 Director Plan, subject to stockholder approval at our 2015 Annual Meeting. The purpose of our 2015 Director Plan is to enhance our ability and the ability of the member companies of the Donegal Insurance Group to attract and retain qualified directors, to provide a portion of the compensation of our directors in the form of equity and, in so doing, to strengthen the alignment of the interests of our directors with the interests of our stockholders. We include a copy of our 2015 Director Plan as Appendix B to this proxy statement.

###### ***Grants***

Our 2015 Director Plan provides for:

the grant of non-qualified stock options to eligible non-employee directors; and

an annual restricted stock award of 500 shares of Class A common stock to each of our directors and to the directors of Donegal Mutual who are not also our directors.

We make annual restricted stock awards on an automatic basis to our directors, without any action by our board of directors or the board of directors of Donegal Mutual. The total number of shares of Class A common stock that may be the subject of grants under our 2015 Director Plan may not exceed 500,000 shares.

The number of persons who are eligible to participate in our 2015 Director Plan is currently 31, consisting of our directors, the directors of Donegal Mutual, the directors of our respective subsidiaries and the directors of each of the companies from which we or Donegal Mutual assume 100% quota-share reinsurance. We have not granted any options or restricted stock awards under our 2015 Director Plan, and we have not made any determination as to the allocation of grants of options or restricted stock awards under our 2015 Director Plan, except as we describe above.

Our 2015 Director Plan provides for appropriate adjustments to outstanding options and to the number or kind of shares subject to our 2015 Director Plan in the event of a stock split, reverse stock split, stock dividend, share combination or reclassification and certain other types of corporate transactions, including our merger with another corporation or a sale of all or substantially all of our assets.





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Our board of directors will administer our 2015 Director Plan. Our board of directors has the power to interpret our 2015 Director Plan, the director options and the restricted stock awards, and, subject to the terms of our 2015 Director Plan, to determine who will be granted director options, the number of shares of our Class A common stock subject to director options to be granted to any non-employee director, the timing of such grants and the terms of exercise. Our board of directors has the authority to amend the terms of an option provided the amendment does not materially impair the rights or obligations of the director, subject to the condition that our board of directors may not reprice stock options. Our board of directors also has the power to adopt rules for the administration, interpretation and application of our 2015 Director Plan. Our board of directors does not have any discretion to determine who will be granted restricted stock awards under our 2015 Director Plan, to determine the number of shares of our Class A common stock to be subject to such restricted stock awards to be granted to each director or to determine the timing of such grants.

### ***Restricted Stock Awards***

Restricted stock awards consist of shares of Class A common stock that we issue in the name of the director but that the director may not sell or otherwise transfer until one year after the date of grant. Upon the issuance of shares pursuant to a restricted stock award, the director has all rights of a holder of our Class A common stock with respect to the shares, except that the director may not sell or otherwise transfer such shares until one year after the date of grant.

We will evidence restricted stock awards by written agreements in such form consistent with our 2015 Director Plan as our board of directors approves from time to time. Each agreement will contain such restrictions, terms and conditions as our 2015 Director Plan requires.

### ***Non-qualified Stock Options***

The exercise price of an option will be equal to or greater than 100% of the fair market value of our Class A common stock on the date of grant. Our 2015 Director Plan defines fair market value as the closing price of our Class A common stock on the NASDAQ Global Select Market on the day before the date of the grant of the option. In the event no sales on the NASDAQ Global Select Market occur on such date, we will determine the fair market value as of the date immediately preceding the day before the date of grant of a stock option.

A director may pay the exercise price of an option in cash, by delivering shares of our Class A common stock having a fair market value on the date of exercise equal to the exercise price of the option the director is exercising, by having a broker sell Class A common stock simultaneously with the exercise of the option and remitting the aggregate exercise price to us or by any other method our board of directors may authorize from time to time.

The term of any option under our 2015 Director Plan may not exceed five years. Our board of directors will determine when options become exercisable, and may accelerate the exercisability of outstanding options at any time for any reason. Except as provided in the written agreement evidencing each option grant, an option may only be exercised while the recipient remains a director. The written agreement evidencing the restricted stock award will explain the circumstances in which an option may be exercised after termination of an individual's service as a director.

### ***Transferability***

A director may not transfer an option granted under our 2015 Director Plan except by will or by the laws of descent and distribution.

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### ***Amendment and Termination***

Our 2015 Director Plan will remain in effect until April 15, 2020. Our board of directors may terminate or amend our 2015 Director Plan at any time, subject to any required stockholder approval unless the termination or amendment would impair any rights or obligations under any outstanding director stock option.

### ***Federal Income Tax Consequences***

A general summary of the federal income tax consequences of grants of stock options under our 2015 Director Plan follows. Grants may also be subject to state and local taxes. This description is intended for use by our stockholders in determining how to vote at our 2015 Annual Meeting and not as tax advice to directors who receive grants of stock options under our 2015 Director Plan.

A director receiving a non-qualified option will not recognize income for federal income tax purposes upon the grant of the option, nor will we be entitled to any deduction on account of such grant. Upon the exercise of a non-qualified stock option, the director will recognize ordinary income in the amount by which the fair market value of such shares on the date of exercise then exceeds the exercise price of the option.

A director who receives a restricted stock award will recognize ordinary income in the year of receipt, measured by the value of the shares received determined without regard to the transfer restriction. In general, we will be entitled to a tax deduction in connection with grants under our 2015 Director Plan in an amount equal to the ordinary income the director realizes at the time the director recognizes ordinary income.

### ***Tax Withholding***

We have the right to require a director who receives a grant of a non-qualified stock option to pay to us an amount necessary to satisfy our federal, state and local tax withholding obligations with respect to a grant to that recipient. We may withhold an amount necessary to satisfy these amounts from other amounts we would otherwise pay to the recipient.

### ***Potential Dilutive Effect of Stock Options***

We refer you to the discussion of the effect outstanding stock options may have on the price and trading volume of our Class A common stock under *Approval of Our 2015 Equity Incentive Plan for Employees - Potential Dilutive Effect of Stock Options*.

***Our board of directors recommends a vote FOR approval of our 2015 Director Plan.***

## **PROPOSAL 4**

### **RATIFICATION OF THE APPOINTMENT BY OUR AUDIT COMMITTEE OF**

### **KPMG LLP TO SERVE AS OUR INDEPENDENT REGISTERED PUBLIC**

### **ACCOUNTING FIRM FOR 2015**

Our audit committee has appointed KPMG LLP to serve as our independent registered public accounting firm for our fiscal year ending December 31, 2015. Although our By-laws do not require that we submit our audit committee's appointment of KPMG LLP to our stockholders for ratification, we do so as a matter of good corporate governance.

Representatives of KPMG LLP will attend our 2015 Annual Meeting and will respond to appropriate questions. The KPMG LLP representatives will also be able to make a statement during our 2015 Annual Meeting if any of them determine to do so.

***Our board of directors recommends that you vote FOR the ratification of our audit committee's appointment of KPMG LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2015.***

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Even if our stockholders ratify the appointment of KPMG LLP, our audit committee, in its discretion, may appoint a different independent registered public accounting firm at any time during 2015 if our audit committee determines that such a change would be in our best interests and in the best interests of our stockholders.

### **AUDIT AND NON-AUDIT FEES**

Our audit committee approves the fees and other significant compensation we pay to our independent registered public accounting firm for the preparation and issuance of an audit report or related work incidental to the opinion. Our audit committee also approves all auditing services and permitted non-audit services, including the fees and terms for such services, to be performed for us by our independent registered public accounting firm, subject to the de minimis exceptions for non-audit services described in the Exchange Act. Our audit committee delegates to our audit committee chairman pre-approval authority for non-audit services up to \$25,000 subject to subsequent approval by the full audit committee at its next scheduled meeting.

Our audit committee reviewed and discussed with KPMG LLP the following fees for services KPMG LLP rendered to us during our 2014 fiscal year and considered whether KPMG LLP's performance of any non-audit services is compatible with KPMG LLP's independence.

*Audit Fees.* The fees of KPMG LLP we incurred in connection with the audit of our annual consolidated and statutory financial statements for those fiscal years, the reviews of the consolidated financial statements in our Form 10-Q quarterly reports and the services KPMG LLP performed on our behalf in connection with filings of registration statements and offerings for our fiscal years ended December 31, 2013 and 2014 were \$790,000 and \$800,000, respectively.

*Audit-Related Fees.* We did not pay KPMG LLP any audit-related fees during our fiscal year ended December 31, 2014. We paid KPMG LLP audit-related fees of \$18,000 in connection with agreed-upon procedures KPMG LLP performed to assist us and the Michigan Catastrophic Claims Association (the "MCCA") in evaluating MICO's compliance with annual assessment reporting requirements for the MCCA's fiscal years ended June 30, 2013 and 2012.

*Tax Fees.* We did not pay any tax fees to KPMG LLP during our fiscal years ended December 31, 2013 or 2014.

*All Other Fees.* We did not pay KPMG LLP any fees for other services during our fiscal years ended December 31, 2013 and 2014.

### ***Report of Our Audit Committee***

The audit committee performs its responsibilities in accordance with the Exchange Act. Each of the audit committee members satisfies the independence and financial literacy requirements under applicable Exchange Act rules. Our board of directors believes that all five members of the audit committee, Robert S. Bolinger, Jack L. Hess, Barry C. Huber (since January 30, 2015), Jon M. Mahan and Richard D. Wampler, II, satisfy the financial expertise requirements and have the requisite experience the SEC's rules establish. The audit committee operates pursuant to a written charter. You may view the full text of our audit committee's charter on our website at [www.donegalgroup.com](http://www.donegalgroup.com). The audit committee reviews and reassesses the adequacy of its charter on an annual basis.

As provided in its charter, our audit committee undertakes the following primary responsibilities:

the selection of, appointment of, determination of funding for, compensation of, retention of and oversight of the work of our independent registered public accounting firm and the review of its qualifications and independence;

the approval, in advance, of all auditing services and all non-audit services to be performed by our independent registered public accounting firm;



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the oversight of our accounting and financial reporting processes, including the overview of our financial reports and the reports of our internal audit staff;

the establishment of procedures for the receipt, retention and treatment of complaints we receive regarding accounting, internal accounting controls or auditing matters; and

the responsibility for reviewing reports and disclosures of all related person transactions, subject to the approval of the audit committee and the process set forth in our By-laws relating to the responsibilities of our coordinating committee.

The audit committee of our board of directors, in carrying out these responsibilities, performs many functions, including the following:

It monitors the preparation of our quarterly and annual financial reports by our management;

It supervises the relationship between us and our independent registered public accounting firm, including having direct responsibility for its appointment, compensation and retention, reviewing the scope of its audit services, approving audit and non-audit services and confirming the independence of our independent registered public accounting firm; and

It oversees management's implementation and maintenance of effective systems of internal and disclosure controls, including review of our policies relating to legal and regulatory compliance, ethics and conflicts of interest and review of our internal audit program. Our senior executive officers who have primary responsibility for the accuracy and completeness of our financial statements and our reporting processes, including our system of internal control, have advised the members of the audit committee that our financial statements were prepared in accordance with accounting principles generally accepted in the United States, or GAAP.

The audit committee of our board of directors met nine times during 2014. The audit committee schedules its meetings in order to have sufficient time to devote appropriate attention to all of its responsibilities. When it deems it appropriate, the audit committee holds meetings with our independent registered public accounting firm and with our internal auditors in executive sessions at which our senior executive officers are not present.

The members of the audit committee rely, without independent verification, on the information and representations our senior executive officers provide to them and on the representations our independent registered public accounting firm makes to them. As a result, you should not construe the oversight that our audit committee provides as establishing an independent basis for a determination that our senior executive officers have established and maintain appropriate internal controls over financial reporting, that we have prepared our financial statements in accordance with GAAP or that our independent registered public accounting firm conducted its audit of our financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) (the PCAOB).

As part of our audit committee's oversight of our financial reporting process, our audit committee reviews all annual and quarterly financial statements and discusses them with our independent registered public accounting firm and with our senior executive officers prior to the issuance of the financial statements. During 2014, our senior executive officers advised the audit committee that we had prepared each of these financial statements in accordance with GAAP, and our senior executive officers and representatives of our independent registered public accounting firm reviewed significant accounting and disclosure issues with our audit committee.

Our audit committee has reviewed and discussed our audited financial statements for the year ended December 31, 2014 with our management and with KPMG LLP. Our audit committee also discussed with KPMG LLP the matters the PCAOB Auditing Standard No. 16 requires regarding *Communication with Audit Committees*. Our audit committee has received the written disclosures and the letter from our independent

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registered public accounting firm the applicable provisions of the PCAOB require regarding independent registered public accounting firms communications with audit committees concerning independence and has discussed with KPMG LLP its independence.

Our audit committee also reviewed methods of enhancing the effectiveness of our internal and disclosure control systems. Our audit committee, as part of this process, analyzed steps we have taken to implement a continuing analysis of the improvement and efficiency of our internal control procedures.

Based on the reviews and discussions by our audit committee that we describe above, our audit committee recommended to our board of directors that our board of directors approve the inclusion of our audited financial statements for the year ended December 31, 2014 in our 2014 Annual Report on Form 10-K for filing with the SEC.

MEMBERS OF THE AUDIT COMMITTEE  
OF DONEGAL GROUP INC.

Robert S. Bolinger

Jack L. Hess

Barry C. Huber

Jon M. Mahan

March 6, 2015

Richard D. Wampler, II  
**STOCKHOLDER PROPOSALS FOR OUR**

**2016 ANNUAL MEETING OF STOCKHOLDERS**

Any stockholder who, in accordance with and subject to the provisions of Rule 14a-8 of the proxy rules of the SEC, wishes to submit a proposal for inclusion in our proxy statement for our 2016 annual meeting of stockholders must deliver such proposal and an appropriate supporting statement in writing to our corporate secretary, Sheri O. Smith, at our principal executive offices at 1195 River Road, P.O. Box 302, Marietta, Pennsylvania 17547, not later than November 16, 2015.

Section 2.3 of our By-laws provides that if a stockholder wishes to present at our 2016 annual meeting of stockholders either nominations of persons as candidates for election to the class of our board of directors whose terms expire in 2016 upon the election and taking of office of their successors or an item of business for stockholder action other than pursuant to Rule 14a-8 of the proxy rules of the SEC, the stockholder must comply with the provisions relating to stockholder proposals in our By-laws. We summarize these by-law provisions below. We must receive written notice of any such proposal that includes all of the information our By-laws require, to the attention of our corporate secretary, Sheri O. Smith, at our principal executive offices at 1195 River Road, P.O. Box 302, Marietta, Pennsylvania 17547, during the period that begins on November 16, 2015 and that ends on December 16, 2015.

A written proposal of nomination of a candidate for election as a director must set forth:

the name and address of the proposing stockholder, as the same appears on our stock register, or the proponent who intends to make the nomination;

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as to each person whom the proponent nominates for election or reelection as a director, the proponent must disclose all information relating to such person that the proxy rules under the 1934 Act require to be disclosed in a solicitation by an issuer of proxies for the election of directors;

the principal occupation or employment for the past five years of each person whose nomination the proponent intends to make;

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a description of any arrangement or understanding between each person whose nomination the proponent proposes and the proponent with respect to such person's nomination for election as a director and actions such person proposes to take;

the written consent of each person so nominated to serve as a director if elected as a director; and

the number of shares of our Class A common stock and the number of shares of our Class B common stock the proponent owns beneficially within the meaning of SEC Rule 13d-3 and owns of record.

As to any other item of stockholder business that the proponent intends to bring before our 2016 annual meeting of stockholders, the written proposal must set forth:

a brief description of such item of stockholder business;

the proponent's reasons for presenting that item of stockholder business at our 2016 annual meeting of stockholders;

any material interest of the proponent in that item of stockholder business;

the name and address of the proponent; and

the number of shares of our Class A common stock and the number of shares of our Class B common stock the proponent beneficially owns within the meaning of SEC Rule 13d-3 and owns of record.

Only candidates stockholders nominate for election as a member of a class of our board of directors in accordance with our by-law provisions as we summarize those provisions in this proxy statement will be eligible for election as a member of a class of our board of directors at our 2016 annual meeting of stockholders. A written proposal relating to stockholder approval of any item of stockholder business other than a nomination for election as a director must include information regarding the matter the stockholder proposes for stockholder action equivalent to the information required under the proxy rules of the SEC if the proponent was to solicit proxies for stockholder consideration and approval of the proposed action at a meeting of stockholders.

At our 2016 annual meeting of stockholders we will only transact such business as shall have been brought before our 2016 annual meeting of stockholders in accordance with the procedures our by-law provisions establish, as we summarize those procedures in this proxy statement or pursuant to SEC Rule 14a-8. The chairman of our 2016 annual meeting of stockholders will have the discretion to determine if a nomination or another item of stockholder business has been proposed in accordance with the procedures we set forth in our By-laws and summarize in this proxy statement. Only stockholder proposals submitted in accordance with the by-law provisions we previously summarize in this proxy statement or pursuant to SEC Rule 14a-8 will be eligible for presentation at our 2016 annual meeting of stockholders, and we will not consider any matter at our 2016 annual meeting of stockholders not submitted in accordance with the procedures we describe in this proxy statement.

**HOUSEHOLDING**

We may, unless we receive contrary instructions from you, send a single copy of our Annual Report, proxy statement and notice of annual or special meeting to any household at which two or more stockholders reside if we believe the stockholders are members of the same family.

If you would like to receive our annual disclosure documents directly in future years rather than from your broker or other nominee holder, or if you and another stockholder share an address and you and the other stockholder would like to receive individual copies of our annual disclosure documents, you should follow these instructions:



## Edgar Filing: DONEGAL GROUP INC - Form DEF 14A

If your shares are registered in your own name, please contact our transfer agent and inform it of your request to revoke or institute householding by calling Computershare Trust Company, N.A. at (800) 317-4445 or writing to Computershare Trust Company, N.A., at P.O. Box 30170, College Station, Texas 77842-3170. Computershare Trust Company, N.A. will respond to your request within 30 days.

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If a bank, broker, nominee or other holder of record holds your shares, please contact your bank, broker, nominee or other holder of record directly.

**DIRECTOR STOCKHOLDER COMMUNICATIONS**

Stockholders who wish to communicate with our board of directors or with one or more individual members of our board may do so by sending their communication in writing addressed to a particular director or directors, or in the alternative, to Non-Management Directors as a group. Please send your communication to our corporate secretary, Sheri O. Smith, at our principal executive offices at 1195 River Road, P.O. Box 302, Marietta, Pennsylvania 17547 or by e-mail to sherismith@donegalgroup.com. Our corporate secretary will promptly forward all such communications to the addressee or addressees set forth in the communication.

We encourage our directors to attend our annual meetings of stockholders. All of our directors attended our annual meeting of stockholders in 2014, with the exception of Mr. Nikolaus who did not attend our 2014 annual meeting of stockholders for medical reasons.

**OTHER MATTERS**

Our board of directors does not know of any matters to be presented for consideration at our 2015 Annual Meeting other than the matters we have described in the notice of annual meeting and in this proxy statement. However, if any stockholder properly presents such a matter in accordance with our advance notice By-laws, we will vote the proxies we receive from our stockholders, in accordance with the recommendation of our board of directors or, in the absence of such a recommendation, in accordance with the judgment of the persons named as proxies in our form of proxy card.

By order of our board of directors,

Donald H. Nikolaus,  
President and Chairman of the Board

March 16, 2015

Kevin G. Burke,  
Executive Vice President, Chief Operating  
Officer and Acting Chief Executive Officer

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**DONEGAL GROUP INC.**

**2015 EQUITY INCENTIVE PLAN FOR EMPLOYEES**

1. **Purpose.** The purpose of this 2015 Equity Incentive Plan for Employees (this Plan) is to encourage the employees of Donegal Group Inc. (the Company), its subsidiaries and its affiliates to acquire a proprietary interest in the growth and performance of the Company, and to continue to align the interests of those employees with the interests of the Company's stockholders to generate an increased incentive for such persons to contribute to the growth, development and financial success of the Company, Donegal Mutual Insurance Company and their respective subsidiaries and affiliates (the Group). To accomplish these purposes, this Plan provides a means whereby employees may receive stock options, stock awards and other stock-based awards that are based on, or measured by or payable in shares of the Company's Class A common stock.

2. **Administration.**

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

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

3. **Shares Subject to this Plan.**

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

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

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

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

a stock dividend, spinoff, recapitalization, stock split or combination or exchange of shares;

a merger, reorganization or consolidation;

a reclassification or change in par value; or

any other extraordinary or unusual event affecting the outstanding Class A common stock as a class without the Company's receipt of consideration for such extraordinary or unusual event or if the value of outstanding shares of Class A common stock is substantially reduced as a result of a spinoff or the Company's payment of any extraordinary dividend or distribution in cash, the maximum number of shares of Class A common stock available for issuance under this Plan, the maximum number of shares of Class A common stock for which any individual may receive grants in any year, the kind and number of shares covered by outstanding awards, the kind and number of shares to be issued or issuable under this Plan and the price per share or applicable market value of such grants shall be automatically and equitably adjusted to reflect any increase or decrease in the number of, or change in the kind or value of, issued shares of Class A common stock to preclude, to the extent practicable, the enlargement or the dilution of rights and benefits under this Plan and such outstanding grants. The Company shall eliminate any fractional shares resulting from such adjustment. Any adjustments to outstanding awards shall be consistent with Section 409A of the Code, to the extent applicable.

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

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

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

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

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

(b) Type of Stock Option and Price. The Committee may recommend to the Board the grant of stock options to purchase Class A common stock that the Company intends to qualify as incentive stock options within the

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meaning of Section 422 of the Code, or incentive stock options, or stock options that the Company does not intend to so qualify, or non-qualified stock options. All options shall be exercisable for a term of five years from the date of grant at a price equal to the closing market value of a share of Class A common stock on the day before the date of the grant.

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

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

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

in cash;

by delivery of shares of Class A common stock at fair market value, shares of Class B common stock at fair market value or a combination of those shares, as the Committee or the Board may determine from time to time and subject to such terms and conditions as the Committee or the Board may prescribe;

by payment through a brokerage firm of national standing whereby the grantee will simultaneously exercise the stock option and sell the shares acquired upon exercise through the brokerage firm and the brokerage firm shall remit to the Company from the proceeds of the sale of the shares the exercise price as to which the option has been exercised in accordance with the procedures permitted by Regulation T of the Federal Reserve Board; or

by any other method the Committee or the Board authorizes.

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

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

As determined as of the grant date, the aggregate fair market value of shares subject to incentive stock options that first become exercisable by a grantee during any calendar year under all plans of the Company shall not exceed \$100,000;

The exercise price of any incentive stock option granted to an individual who owns stock having more than 10% of the total combined voting power of all outstanding shares of all classes of stock of the Company must be at least 110% of the fair market value of the shares subject to the incentive stock option on the grant date, and the individual may not exercise the incentive stock option after the expiration of five years from the date of grant; and



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

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

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

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

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

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

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

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

11. **Withholding**. All grants under this Plan shall be subject to applicable federal taxes, including FICA, and state and local tax withholding requirements. The Company may require that the grantee or other person receiving or exercising a grant pay to the Company the amount of any federal taxes, state or local taxes that applicable law requires the Company to withhold with respect to the grant, or the Company may deduct from other salary paid to the grantee the amount of any withholding taxes due with respect to the grants. The Board or the Committee may permit a grantee to elect to satisfy the Company's tax withholding obligations with respect to grants paid in shares of Class A common stock by having shares of Class A common stock withheld, at the time such grants become taxable, up to an amount that does not exceed the minimum applicable withholding tax rate for federal, including FICA, state and local tax liabilities. The Board or the Committee will value any shares so withheld as of the date the grants become taxable.

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

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

## 14. Amendment and Termination of this Plan.

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

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

(c) Termination. This Plan shall terminate on April 15, 2020, unless the Board terminates this Plan earlier or extend the term of this Plan with the approval of the stockholders of the Company. The termination of this Plan shall not impair the power and authority of the Board or the Committee with respect to an outstanding award.

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

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

limit the right of the Company to grant stock options or make other stock-based awards outside of this Plan.

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



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

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

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

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

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

21. Indemnification. With respect to the administration of this Plan, the Company shall indemnify each present and future member of the Committee and the Board against, and each member of the Committee and the Board shall be entitled, without further action on such member's part, to indemnity from the Company for all expenses, including the amount of judgments and the amount of approved settlements made with a view to the curtailment of costs of litigation, other than amounts paid to the Company itself, such member reasonably incurs in connection with or arising out of, any action, suit or proceeding in which the member may be involved by reason of being or having been a member of the Committee or the Board, whether or not the member continues to be such member at the time of incurring such expenses; provided, however, that this indemnity shall not include any expenses such member incurs (i) in respect of matters as to which the member shall be finally adjudged in any such action, suit or proceeding to have been guilty of gross negligence or willful misconduct in the performance of the member's duty as such member of the Committee or the Board or (ii) in respect of any matter in which any settlement is effected for an amount in excess of the amount approved by the Company on the advice of its legal counsel; and provided further that no right of indemnification under the provisions set forth in this Section 21 shall be available to or enforceable by any such member of the Committee or the Board unless, within 60 days after institution of any such action, suit or proceeding, the member shall have offered the Company in writing the opportunity to represent the member of the Committee or the Board and defend the same at its own expense. The foregoing right of indemnification shall inure to the benefit of the heirs, executors or administrators of each such member of the Committee or the Board and shall be in addition to all other rights to which such member of the Committee or the Board may be entitled as a matter of law, contract or otherwise.

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22. Miscellaneous Provisions.

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

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

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

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

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

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**DONEGAL GROUP INC.**

**2015 EQUITY INCENTIVE PLAN FOR DIRECTORS**

1. **Purpose.** The purpose of this 2015 Equity Incentive Plan for Directors (this Plan) is to enhance the ability of Donegal Group Inc. (the Company) and Donegal Mutual Insurance Company (Donegal Mutual, and together with the respective subsidiaries and affiliates of the Company and Donegal Mutual, the Group) to attract and retain highly qualified directors, to establish a basis for providing a portion of director compensation in the form of equity and, in doing so, to strengthen the alignment of the interests of the directors of the members of the Group with the interests of the Company's stockholders.

2. **Administration.**

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

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

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

3. **Shares Subject to this Plan.**

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

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

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

a stock dividend, spinoff, recapitalization, stock split or combination or exchange of shares;

a merger, reorganization or consolidation;

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a reclassification or change in par value; or

any other extraordinary or unusual event affecting the outstanding Class A common stock as a class without the Company's receipt of consideration, or if the value of the outstanding shares of Class A common stock is substantially reduced as a result of a spinoff or the Company's payment of any extraordinary dividend or distribution in cash, the maximum number of shares of Class A common stock available for issuance under this Plan, the maximum number of shares of Class A common stock for which any individual may receive grants in any year, the kind and number of shares covered by outstanding awards, the kind and number of shares to be issued or issuable under this Plan and the price per share or applicable market value of such grants shall be automatically and equitably adjusted to reflect any increase or decrease in the number of, or change in the kind or value of, issued shares of Class A common stock to preclude, to the extent practicable, the enlargement or dilution of rights and benefits under this Plan and such outstanding grants. Any fractional shares resulting from such adjustment shall be eliminated. Any adjustments to outstanding awards shall be consistent with Section 409A of the Internal Revenue Code of 1986, as amended, or the Code, to the extent applicable.

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

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

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

7. Stock Options.

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

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

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

(d) Rights upon Termination of Service. Upon a grantee's termination of service as a director, as a result of resignation, retirement, failure to be re-elected, removal for cause or any reason other than death, the grantee shall have the right to exercise the stock option during its term within a period of three years after such

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termination to the extent that the stock option was exercisable at the time of termination, or within such other period and subject to such terms and conditions as the Board may specify. In the event that a grantee dies prior to the expiration of the grantee's stock option and without having fully exercised the grantee's stock option, the grantee's representative or successor shall have the right to exercise the stock option during its term within a period of one year after the grantee's death to the extent that the stock option was exercisable at the time of death, or within such other period, and subject to such terms and conditions, as the Board may specify.

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

in cash;

by delivery of shares of Class A common stock at fair market value, shares of Class B common stock at fair market value, or a combination of those shares, as the Board may determine from time to time and subject to the terms and conditions as the Board may prescribe;

by payment through a brokerage firm of national standing whereby the grantee will simultaneously exercise the stock option and sell the shares acquired upon exercise through the brokerage firm and the brokerage firm shall remit to the Company from the proceeds of the sale of the shares the exercise price as to which the option has been exercised in accordance with the procedures permitted by Regulation T of the Federal Reserve Board; or

by any other method the Board authorizes.

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

## 8. Restricted Stock Awards.

(a) Granting of Awards. The Company shall grant each director of the Company and each director of Donegal Mutual an annual restricted stock award consisting of 500 shares of Class A common stock, except that a person who serves as a director on both boards shall receive only one annual grant. The Company shall grant the restricted stock awards on the first business day of January in each year, commencing January 4, 2016, provided that the director served as a member of the Board or of the board of directors of Donegal Mutual during any portion of the preceding calendar year.

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

The grantee may not sell or otherwise transfer the shares of Class A common stock comprising the restricted stock award until one year after the date of grant. Although the Company shall register the shares of Class A common stock comprising each restricted stock award in the name of the grantee, the Company reserves the right to place a restrictive legend on the stock certificate. None of such shares of Class A common stock shall be subject to forfeiture.

Subject to the restrictions on transfer set forth in this Section 8(b), a grantee shall have all the rights of a stockholder with respect to the shares of Class A common stock the Company issues pursuant to restricted stock awards made under this Plan, including the right to vote the shares and to receive all dividends and other distributions paid or made with respect to the shares.

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In the event of changes in the Class A common stock of the Company by reason of stock dividends, split-ups or combinations of shares, reclassifications, mergers, consolidations, reorganizations or liquidations while the shares comprising a restricted stock award shall be subject to restrictions on transfer, any and all new, substituted or additional securities to which the grantee shall be entitled by reason of the ownership of a restricted stock award shall be subject immediately to the terms, conditions and restrictions of this Plan.

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If a grantee receives rights or warrants with respect to any shares comprising a restricted stock award, the grantee may hold, exercise, sell or otherwise dispose of such rights or warrants or any shares or other securities acquired by the exercise of such rights or warrants free and clear of the restrictions and obligations set forth in this Plan.

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

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

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

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

13. Amendment and Termination of this Plan.

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

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

(c) Termination. This Plan shall terminate on April 15, 2020, unless the Board earlier terminates this Plan or the Board extends the term with the approval of the stockholders of the Company. The termination of this Plan shall not impair the power and authority of the Board with respect to an outstanding award.

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

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

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

17. Miscellaneous Plan Provisions.

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

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



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

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

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

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***DONEGAL GROUP INC.***

***ATTN: JEFFREY D. MILLER***

***1195 RIVER RD, P.O. BOX 302***

***MARIETTA, PA 17547***

**VOTE BY INTERNET - [www.proxyvote.com](http://www.proxyvote.com)**

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time April 15, 2015. Have your proxy card in hand when you access the website and follow the instructions to obtain your records and to create an electronic voting instruction form.

**ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS**

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

**VOTE BY PHONE - 1-800-690-6903**

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time April 15, 2015. Have your proxy card in hand when you call and then follow the instructions.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

**THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.**

<b>The Board of Directors recommends you vote FOR the following nominees for Class B Director:</b>	<b>For</b>	<b>Withhold</b>	<b>For All Except</b>	To withhold authority to vote for any individual nominee(s), mark For All Except and write the number(s) of the nominee(s) on the line below.
<b>1. Election of Directors Nominees</b>	..	..	..	
01 Kevin M. Kraft, Sr Wampler, II	02	Jon M. Mahan	03	Donald H. Nikolaus
	04			Richard D.

<b>The Board of Directors recommends you vote FOR proposals 2, 3 and 4.</b>	<b>For</b>	<b>Against</b>	<b>Abstain</b>
<b>2</b> Approval of our 2015 Equity Incentive Plan for Employees	..	..	..
<b>3</b> Approval of our 2015 Equity Incentive Plan for Directors	..	..	..
<b>4</b> Ratification of KPMG LLP as our independent registered public accounting firm for 2015	..	..	..

**NOTE:** In their discretion, our proxies are authorized to vote upon such other business as may properly come before our annual meeting and any adjournment or postponement thereof.

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.

Signature [PLEASE SIGN WITHIN BOX]    Date

Signature (Joint Owners)

Date

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**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:** The Notice & Proxy Statement and Annual Report is/are available at [www.proxyvote.com](http://www.proxyvote.com).

**DONEGAL GROUP INC.**

**Annual Meeting of Stockholders**

**April 16, 2015 10:00 AM**

**This proxy is solicited by the board of directors**

The undersigned hereby appoints Daniel J. Wagner and Jeffrey D. Miller, and each or either of them, proxies of the undersigned, with full power of substitution, to vote all of the shares of Class A common stock and Class B common stock of Donegal Group Inc. (the Company) that the undersigned may be entitled to vote at the Annual Meeting of Stockholders of the Company to be held at the Heritage Hotel Lancaster, 500 Centerville Road, Lancaster, Pennsylvania 17601, on April 16, 2015 at 10:00 a.m., and at any adjournment or postponement thereof, as set forth on the reverse side of this proxy card.

You are encouraged to specify your choices by marking the appropriate boxes, SEE REVERSE SIDE, but you need not mark any boxes if you wish to vote in accordance with our board of directors recommendations.

**Continued and to be signed on reverse side**