

DONEGAL GROUP INC  
Form 11-K  
June 29, 2018  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 11-K**

**ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2017**

**TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file no.: 333-93785**

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:  
**Donegal Mutual Insurance Company 401(k) Plan**

**1195 River Road**

**Marietta, Pennsylvania 17547**

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

**Donegal Group Inc.**

**1195 River Road**

**Marietta, Pennsylvania 17547**

**Table of Contents**

**DONEGAL MUTUAL INSURANCE  
COMPANY 401(k) PLAN  
FINANCIAL STATEMENTS WITH  
SUPPLEMENTAL SCHEDULE  
YEARS ENDED DECEMBER 31, 2017 AND 2016  
AND  
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Table of Contents

**DONEGAL MUTUAL INSURANCE COMPANY**

**401(k) PLAN**

TABLE OF CONTENTS

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	1
Financial Statements	
<u>Statements of Net Assets Available for Benefits</u>	3
<u>Statements of Changes in Net Assets Available for Benefits</u>	4
<u>Notes to Financial Statements</u>	5
Supplemental Schedule	
<u>Schedule H - Part IV Line 4(i) Schedule of Assets (Held at End of Year)</u>	14
<u>Signatures</u>	15
<u>Exhibit 23.1</u>	17

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Plan Administrator and Participants

Donegal Mutual Insurance Company 401(k) Plan

Marietta, Pennsylvania

**Opinion on the Financial Statements**

We have audited the accompanying statements of net assets available for benefits of the Donegal Mutual Insurance Company 401(k) Plan (the Plan ) as of December 31, 2017 and 2016, the related statements of changes in net assets available for benefits for the years then ended, and the related notes (collectively, the financial statements ). In our opinion, the financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2017 and 2016, and the changes in net assets available for benefits for the years ended December 31, 2017 and 2016, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on the Plan s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ( PCAOB ) and are required to be independent with respect to the Plan in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Plan s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risk of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by the Plan s management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

**Supplemental Information**

The supplemental information in the accompanying schedule of Schedule H, Part IV, Line 4(i) - Schedule of Assets (Held at End of Year) as of December 31, 2017 has been subjected to audit procedures performed in conjunction with the audit of the Plan s financial statements. The supplemental information is presented for the purpose of additional analysis and is not a required part of the financial statements but included supplemental information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental information is

**Table of Contents**

the responsibility of the Plan's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.

/s/ BDO USA, LLP

We have served as the Plan's auditor since 2013.

Philadelphia, Pennsylvania

June 29, 2018

Table of Contents**DONEGAL MUTUAL INSURANCE COMPANY****401(k) PLAN****STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS****DECEMBER 31, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
<b><u>Assets</u></b>		
Investments		
Non-interest-bearing cash	\$	\$ 14,692
Common/collective trust funds	12,033,970	10,161,301
Registered investment companies	93,833,669	79,156,749
Employer securities	8,385,192	8,531,741
<b>Net Assets Available for Benefits</b>	<b>114,252,831</b>	<b>97,864,483</b>

The accompanying notes are an integral  
part of these financial statements.

Table of Contents**DONEGAL MUTUAL INSURANCE COMPANY****401(k) PLAN****STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS****DECEMBER 31, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
Investment Income		
Interest	\$	\$ 14,228
Dividends	2,028,906	2,279,595
Net appreciation in fair value of investments	12,796,710	5,860,844
	14,825,616	8,154,667
Contributions		
Employer	2,877,275	2,558,692
Participants	4,941,016	4,473,375
Rollover	873,628	231,335
	8,691,919	7,263,402
Total Additions	23,517,535	15,418,069
Benefits Paid to Participants	(7,129,187)	(1,782,810)
Net Increase	16,388,348	13,635,259
Net Assets Available for Benefits		
Beginning of Year	97,864,483	84,229,224
End of Year	114,252,831	97,864,483

The accompanying notes are an integral  
part of these financial statements.



**Table of Contents**

**DONEGAL MUTUAL INSURANCE COMPANY**

**401(k) PLAN**

**NOTES TO THE FINANCIAL STATEMENTS**

**1. DESCRIPTION OF PLAN**

The following description of the Donegal Mutual Insurance Company 401(k) Plan (the Plan ) provides only general information. Participants should refer to the Plan Document for a more complete description of the Plan s provisions.

***General***

The Plan is a defined contribution 401(k) plan, which became effective January 1, 1998. All employees of Donegal Mutual Insurance Company ( the Company ) are eligible to participate as of the first day of the month after the month in which their employment with the Company commences. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ( ERISA ).

***Contributions***

Participants may contribute between 1% and 100% of their annual compensation up to the maximum limit established by the Internal Revenue Code ( IRC ). Contributions made to each participant s account will be invested, based on the individual s direction, in various investment options. The Company will contribute, on behalf of each participant, a sum equal to 100% of the first 3% of participant deferrals and 50% of the next 6%. Participants may also contribute qualified rollover balances from their prior plans.

Newly hired employees are automatically enrolled into the Plan at 3% of eligible compensation. Employee deferrals will automatically be increased by 1% at the beginning of each successive year until the deferred percentage reaches 6%. Employees not selecting an investment option for their deferrals have their contributions invested in the Putnam Dynamic Asset Allocation Conservative Fund. Employees have the option to opt out of participation or change their elective deferral at any time following their eligibility date.

**Table of Contents**

**DONEGAL MUTUAL INSURANCE COMPANY**

**401(k) PLAN**

**NOTES TO THE FINANCIAL STATEMENTS**

**1. DESCRIPTION OF PLAN (Cont d)**

***Participant Accounts***

Each participant's account is credited with the participant's contribution and an allocation of the following in accordance with Plan provisions: (a) the Company's contribution and (b) Plan earnings. Allocations are based on participant earnings, deferrals or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

***Participant Loans***

The Plan does not currently allow participant loans.

***Vesting***

Participants are immediately vested in their salary deferral, rollover contributions, and all amounts that transferred into the Plan from certain predecessor company-sponsored defined contribution plans and earnings thereon. Vesting of Company contributions and earnings thereon is based on years of service. A participant is 100% vested after 2 years of credited service.

***Payment of Benefits***

The normal retirement date is the first of the month following attainment of age 65. Early retirement is possible at age 55. Benefits are paid in the form of a lump-sum distribution. Upon termination of service for other reasons, participants will receive a lump-sum distribution if the total of their vested balance does not exceed \$1,000. If the vested balance exceeds \$1,000, but is less than \$5,000, the participant may elect to receive a lump-sum distribution, however, if no election is made, the Plan Committee will pay the distribution in a direct rollover to an individual retirement account designated by the Plan Committee. If the vested balance exceeds \$5,000, the assets will generally be held in the Plan until the participant's normal or early retirement date. However, participants are entitled to receive the entire balance in their employee account and employer account (if vested) as a lump-sum distribution, as soon as administratively possible. There is a provision available to allow hardship withdrawals of benefits prior to termination of employment as defined in the Plan and in compliance with the IRC.

**Table of Contents**

**DONEGAL MUTUAL INSURANCE COMPANY**

**401(k) PLAN**

**NOTES TO THE FINANCIAL STATEMENTS**

**1. DESCRIPTION OF PLAN (Cont d)**

*Forfeitures*

Forfeitures arising from participants who are less than 100% vested will be used to restore any accounts of participants reemployed during the Plan year or to reduce Company contributions per guidelines established by the Plan. Forfeitures used to reduce Company contributions totaled \$37,682 in 2017 and \$48,316 in 2016. As of December 31, 2017 and 2016, there were \$31,625 and \$37,682 of unallocated forfeitures, respectively.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Accounting*

The financial statements are prepared under the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ).

*Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets available for benefits during the reporting period. The most significant estimate is the determination of the fair values of the Plan's investments. Actual results could differ from those estimates.

*Investment Valuation and Income Recognition*

Investments are valued at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 for a discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Plan's realized gains and losses on investments bought and sold as well as net unrealized gains and losses on those held during the year.

Net investment returns reflect certain fees paid by the investment funds to their affiliated investment advisors, transfer agents, and others as further described in each fund prospectus or other published documents. These fees are deducted by the investment funds prior to allocation of the Plan's investment earnings activity and thus are not separately identifiable as an expense.



**Table of Contents**

**DONEGAL MUTUAL INSURANCE COMPANY**

**401(k) PLAN**

**NOTES TO THE FINANCIAL STATEMENTS**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont d)**

***Payment of Benefits***

Benefits are recorded when paid.

***Subsequent Events***

The Company and Plan have evaluated subsequent events for potential recognition and/or disclosure through the date these financial statements were issued.

**3. INVESTMENTS**

The Plan invests in three common/collective trust funds, the Putnam Bond Index Fund, the Wells Fargo Stable Value Fund M Shares and the Putnam S&P 500 Index Fund. The common/collective trust funds are valued at the net asset value ( NAV ) per unit, as determined by the trustee at year-end. The NAV is used as the practical expedient to estimate fair value. The value is based upon the units of the collective trust fund held by the Plan at year end multiplied by the respective unit value. The unit value is based on the fair value of the underlying investments. The Putnam Bond Index Fund's investment objective is to achieve a return, before the assessment of fees, that closely approximates the return of the Barclay's Aggregate Bond index, a common measure of U.S. investment-grade bond market performance. To achieve its investment objective, the Putnam Bond Index Fund invests a significant portion of its assets in securitized debt instruments, including mortgage-backed and asset backed investments. The Wells Fargo Stable Value Fund M Shares' investment objective is to seek safety of principal and consistency of returns while attempting to maintain minimal volatility. To achieve its investment objective, the Wells Fargo Stable Value Fund M Shares is primarily comprised of investment contracts including Guaranteed Investment Contracts (GICs), Separate Account GICs, and Security Backed Investment Contracts. GICs are issued by insurance companies which guarantee the return of principal and a stated rate of interest. The Putnam S&P 500 Index Fund's investment objective is to achieve a return, before the assessment of fees, that closely approximates the return of the Standard & Poor's 500 Composite Stock Price Index, a common measure of U.S. market performance. To achieve its investment objective, the Putnam S&P 500 Index Fund invests primarily in the securities that constitute the Standard & Poor's 500 Composite Stock Price Index either directly or through the purchase of shared or collective investment trusts having investment objectives similar to that of the Putnam S&P 500 Index Fund. For liquidity and hedging purposes, the Putnam S&P 500 Index Fund may invest in high-quality, money market instruments and in money market funds that invest exclusively in high-quality money market instruments. The Putnam S&P 500 Index Fund also uses stock index futures contracts in order to manage transaction costs and minimize tracking errors between the Putnam S&P 500 Index Fund and the Standard & Poor's 500 Composite Stock Price Index. The Plan's investments in the common/collective trust funds are not subject to any withdrawal restrictions and distributions may be taken at any time. The Plan has no unfunded commitments relating to the common/collective trust funds at December 31, 2017 and 2016.



**Table of Contents**

**DONEGAL MUTUAL INSURANCE COMPANY**

**401(k) PLAN**

**NOTES TO THE FINANCIAL STATEMENTS**

**4. FAIR VALUE MEASUREMENTS**

The Plan accounts for financial assets and liabilities using a framework that establishes a hierarchy that ranks the quality of inputs, or assumptions, used in the determination of fair value, and the Plan classifies financial assets and liabilities carried at fair value in one of the following three categories of inputs:

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

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

Level 3 unobservable inputs not corroborated by market data.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used for investments measured at fair value. There have been no significant changes in the methodologies used or transfers between levels during the years ended December 31, 2017 or 2016.

The Plan values employer securities and registered investment companies based on the closing price reported on the active market on which the individual securities/funds are traded and are classified as level 1. Cash (interest bearing and non-interest bearing) carrying value is deemed to be fair value and classified as level 1. The Plan had no investments classified as Level 3 during the years ended December 31, 2017 and 2016.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Table of Contents**DONEGAL MUTUAL INSURANCE COMPANY****401(k) PLAN****NOTES TO THE FINANCIAL STATEMENTS****4. FAIR VALUE MEASUREMENTS (Cont d)**

The Plan evaluates assets and liabilities (if any) on a recurring basis to determine the appropriate level at which to classify them for each reporting period. The following table presents the fair value measurements for the Plan's investments by level, within the fair value hierarchy as of December 31:

	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1) 2017	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Registered Investment Companies	\$ 93,833,669	\$ 93,833,669	\$	\$
Employer Securities	8,385,192	8,385,192		
<b>Total investments at fair value</b>	<b>102,218,861</b>	<b>102,218,861</b>		
Common/Collective Trust Funds measured at net asset value*	12,033,970			
<b>Total investments</b>	<b>\$ 114,252,831</b>	<b>\$ 102,218,861</b>	<b>\$</b>	<b>\$</b>

	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1) 2016	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Non-interest-bearing Cash	\$ 14,692	\$ 14,692	\$	\$
Registered Investment Companies	79,156,749	79,156,749		
Employer Securities	8,531,741	8,531,741		



Total investments at fair value	87,703,182	87,703,182		
Common/Collective Trust Funds measured at net asset value*	10,161,301			
Total investments	\$ 97,864,483	\$ 87,703,182	\$	\$

\*Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Statement of Net Assets Available for Benefits.

**Table of Contents**

**DONEGAL MUTUAL INSURANCE COMPANY**

**401(k) PLAN**

**NOTES TO THE FINANCIAL STATEMENTS**

**5. TAX STATUS**

The Internal Revenue Service has determined and informed the Company by letters dated May 11, 2015 and September 28, 2009 that the Plan is designed in accordance with applicable sections of the IRC. The Plan administrator has analyzed the Plan and believes the Plan was designed and is being operated in compliance with IRC. U.S. GAAP requires Plan management to evaluate tax positions taken by the Plan and recognize a tax liability if the organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Plan administrator has analyzed the tax positions taken by the Plan and has concluded that as of December 31, 2017, there are no uncertain positions taken, or expected to be taken, that would require recognition of a liability or disclosure in the financial statements. The Plan is subject to routine audits by taxing jurisdictions.

**6. RELATED PARTY AND PARTY-IN-INTEREST TRANSACTIONS**

Donegal Group Inc. is a regional insurance holding company that was formed by the Company in 1986. The Plan held 440,885 shares of Class A and 54,135 shares of Class B Donegal Group Inc. common stock with fair values of \$7,627,303 and \$757,889, respectively, as of December 31, 2017. The Plan held 438,844 shares of Class A and 54,135 shares of Class B Donegal Group Inc. common stock with fair values of \$7,670,995 and \$860,746, respectively, as of December 31, 2016. The net realized/unrealized (depreciation) appreciation in fair value of Donegal Group Inc. common stock (including Class A and Class B) during 2017 and 2016 was (\$166,624) and \$1,459,056, respectively. Dividends received from Donegal Group Inc. in 2017 and 2016 were \$273,073 and \$264,690, respectively. During 2017, the Plan purchased (excluding reinvested dividends) 5,483 shares of Donegal Group Inc. Class A common stock at an aggregate cost of \$166,301 and sold 9,335 shares of Donegal Group Inc. Class A common stock for total proceeds of \$155,228. During 2016, the Plan purchased (excluding reinvested dividends) 19,465 shares of Donegal Group Inc. Class A common stock at an aggregate cost of \$306,633 and sold 25,733 shares of Donegal Group Inc. Class A common stock for total proceeds of \$422,264.

**7. ADMINISTRATION OF PLAN ASSETS**

The Plan's assets were administered under a contract with Mercer Trust Company (Mercer) from January 1, 2016 to May 31, 2017 and are administered under a contract with Transamerica Retirement Solutions, LLC (Transamerica), as of December 31, 2017 and for the period from June 1, 2017 to December 31, 2017, respectively, as trustee for the Plan. The trustee invest funds received from contributions, investment sales, interest, and dividend income and makes distribution payments to participants. In connection with the transition from Mercer to Transamerica as trustee and recordkeeper, Plan assets were transferred from Mercer, custodian of the Plan from January 1, 2016 to May 31, 2017, to State Street Corporation (State Street), who was the custodian for the Plan as of December 31, 2017 and for the period from June 1, 2017 to December 31, 2017. No assets were sold in connection



**Table of Contents**

**DONEGAL MUTUAL INSURANCE COMPANY**

**401(k) PLAN**

**NOTES TO THE FINANCIAL STATEMENTS**

**7. ADMINISTRATION OF PLAN ASSETS (Cont d)**

with the change in custodian. Funds previously held by Mercer were re-registered under State Street.

Certain administrative functions are performed by officers or employees of the Plan's sponsor. No such officer or employee receives compensation from the Plan. Certain administrative expenses of maintaining the Plan were paid by the Company in 2017 and 2016 and are excluded from these financial statements. Investment related expenses are included in net appreciation of fair value of investments and are not separately identifiable.

**8. PLAN TERMINATION**

Although it has not expressed an intention to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become 100% vested in their accounts.

**9. RISKS AND UNCERTAINTIES**

The Plan invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits.

**Table of Contents**

**SUPPLEMENTAL SCHEDULE**

**Table of Contents**

## Schedule H - Financial Information (Form 5500)

Part IV - Line 4i - Schedule of Assets (Held at End of Year)

Name of Plan Sponsor: Donegal Mutual Insurance Company

Name of Plan: Donegal Mutual Insurance Company 401(k) Plan

Employer Identification Number: 23-1336198

Three Digit Plan Number: 003

December 31, 2017

(a)	(b)	(c)	(d)	(e)
Identity of issue, borrower, lessor, or similar party	Description of investment including maturity date, rate of interest, collateral, par of maturity value***			Current Value
Putnam Bond Index Fund	69,023	Common/Collective Trust Units	**	1,598,568
Wells Fargo Stable Value Fund M Shares	38,740	Common/Collective Trust Units	**	1,938,924
Putnam S&P 500 Index Fund	97,784	Common/Collective Trust Units	**	8,496,478
<b>Total common/collective trust funds</b>				<b>12,033,970</b>
Oakmark Equity & Income Fund	109,885	Registered Investment Companies	**	3,537,204
PIMCO Total Return Fund	451,813	Registered Investment Companies	**	4,640,116
Columbia Contrarian Core Fund Class R4	156,112	Registered Investment Companies	**	4,105,744
American Funds New Perspective Fund R4 Class	62,046	Registered Investment Companies	**	2,641,285
T. Rowe Price Small Cap Stock Fund	128,528	Registered Investment Companies	**	6,130,779
American Funds Growth Fund of America	84,684	Registered Investment Companies	**	4,157,999
Putnam Dynamic Asset Allocation Growth Fund	634,256	Registered Investment Companies	**	10,915,548
Putnam Dynamic Asset Allocation Balanced Fund	873,814	Registered Investment Companies	**	13,395,569
Putnam Dynamic Asset Allocation Conservative Fund	819,370	Registered Investment Companies	**	8,996,688
Putnam International Equity Fund	154,886	Registered Investment Companies	**	4,096,747
Putnam Equity Income Fund	292,745	Registered Investment Companies	**	7,175,187
Alger Capital Appreciation Fund Class A	190,744	Registered Investment Companies	**	4,703,743
Putnam Diversified Income Trust	133,570	Registered Investment Companies	**	932,319
Baron Asset Fund	35,242	Registered Investment Companies	**	2,402,093
Artisan Mid Cap Value Fund Investor Class	219,882	Registered Investment Companies	**	4,997,915

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Vanguard Federal Money Market Fund Investor	5,972,350	Registered Investment Companies	**	6,143,402
Neuberger & Berman Genesis Trust	84,325	Registered Investment Companies	**	4,861,331
<b>Total registered investment companies</b>				<b>93,833,669</b>
* Donegal Group Inc.	440,885	Shares of Class A Common Stock	**	7,627,303
* Donegal Group Inc.	54,135			