

DONEGAL GROUP INC
Form 10-Q
November 07, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission file number 0-15341

Donegal Group Inc.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: **20,062,899** shares of Class A Common Stock, par value \$0.01 per share, and **5,576,775** shares of Class B Common Stock, par value \$0.01 per share, outstanding on October 31, 2012.

Table of Contents

DONEGAL GROUP INC.

INDEX TO FORM 10-Q REPORT

	Page
PART I	
<u>FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	1
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	30
Item 4. <u>Controls and Procedures</u>	30
Item 4T. <u>Controls and Procedures</u>	30
PART II	
<u>OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	31
Item 1A. <u>Risk Factors</u>	31
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
Item 3. <u>Defaults upon Senior Securities</u>	31
Item 4. <u>Removed and Reserved</u>	31
Item 5. <u>Other Information</u>	31
Item 6. <u>Exhibits</u>	32
<u>Signatures</u>	33

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****Donegal Group Inc. and Subsidiaries****Consolidated Balance Sheets**

	September 30, 2012 (Unaudited)	December 31, 2011
Assets		
Investments		
Fixed maturities		
Held to maturity, at amortized cost	\$ 43,888,265	\$ 58,489,619
Available for sale, at fair value	687,478,911	646,598,178
Equity securities, available for sale, at fair value	2,582,602	7,437,538
Investments in affiliates	36,672,972	32,322,246
Short-term investments, at cost, which approximates fair value	32,785,642	40,461,410
Total investments	803,408,392	785,308,991
Cash	20,041,988	13,245,378
Accrued investment income	6,595,607	6,713,038
Premiums receivable	121,335,888	104,715,327
Reinsurance receivable	208,912,086	209,823,907
Deferred policy acquisition costs	40,968,975	36,424,955
Deferred tax asset, net	2,431,511	9,919,720
Prepaid reinsurance premiums	114,686,364	106,450,018
Property and equipment, net	5,489,355	6,154,383
Accounts receivable - securities	557,537	1,507,500
Federal income taxes recoverable	3,676,164	2,661,808
Due from affiliate	795,748	
Goodwill	5,625,354	5,625,354
Other intangible assets	958,010	958,010
Other	1,232,427	1,285,089
Total assets	\$ 1,336,715,406	\$ 1,290,793,478
Liabilities and Stockholders' Equity		
Liabilities		
Unpaid losses and loss expenses	\$ 446,654,358	\$ 442,407,615
Unearned premiums	373,751,109	336,937,261
Accrued expenses	17,253,046	20,956,549
Reinsurance balances payable	17,436,361	20,039,339
Borrowings under line of credit	49,690,694	54,500,000
Cash dividends declared to stockholders		2,996,076
Subordinated debentures	20,465,000	20,465,000
Accounts payable - securities	5,416,888	
Due to affiliate		5,386,391
Drafts payable	1,352,724	1,548,953
Other	1,806,641	2,104,702
Total liabilities	933,826,821	907,341,886

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Stockholders' Equity		
Preferred stock, \$1.00 par value, authorized 2,000,000 shares; none issued		
Class A common stock, \$.01 par value, authorized 30,000,000 shares, issued 20,901,669 and 20,752,999 shares and outstanding 20,027,747 and 19,971,441 shares	209,017	207,530
Class B common stock, \$.01 par value, authorized 10,000,000 shares, issued 5,649,240 shares and outstanding 5,576,775 shares	56,492	56,492
Additional paid-in capital	173,234,072	170,836,943
Accumulated other comprehensive income	29,447,156	23,533,447
Retained earnings	212,078,748	199,604,700
Treasury stock	(12,136,900)	(10,787,520)
Total stockholders' equity	402,888,585	383,451,592
Total liabilities and stockholders' equity	\$ 1,336,715,406	\$ 1,290,793,478

See accompanying notes to consolidated financial statements.

Table of Contents**Donegal Group Inc. and Subsidiaries****Consolidated Statements of Income**

(Unaudited)

	Three Months Ended September 30,	
	2012	2011
Revenues:		
Net premiums earned	\$ 120,916,960	\$ 108,506,809
Investment income, net of investment expenses	4,715,295	5,041,568
Net realized investment gains	1,312,137	2,458,609
Lease income	235,734	241,247
Installment payment fees	1,914,587	1,889,474
Equity in earnings of Donegal Financial Services Corporation	1,336,818	1,026,764
 Total revenues	 130,431,531	 119,164,471
Expenses:		
Net losses and loss expenses	82,105,094	89,411,543
Amortization of deferred policy acquisition costs	18,864,000	17,282,000
Other underwriting expenses	19,130,875	15,286,807
Policyholder dividends	401,531	223,352
Interest	584,109	528,671
Other expenses	473,240	490,566
 Total expenses	 121,558,849	 123,222,939
 Income (loss) before income tax expense (benefit)	 8,872,682	 (4,058,468)
Income tax expense (benefit)	2,033,298	(4,878,394)
 Net income	 \$ 6,839,384	 \$ 819,926
 Earnings per common share:		
Class A common stock - basic and diluted	\$ 0.27	\$ 0.03
 Class B common stock - basic and diluted	 \$ 0.25	 \$ 0.03

Donegal Group Inc. and Subsidiaries**Consolidated Statements of Comprehensive Income**

(Unaudited)

	Three Months Ended September 30,	
	2012	2011
Net income	\$ 6,839,384	\$ 819,926
Other comprehensive income, net of tax		
Unrealized gain on securities:		
Unrealized holding income during the period, net of income tax of \$3,494,545 and \$5,010,679	6,527,358	9,375,803
Reclassification adjustment for gains included in net income, net of income tax of \$446,127 and \$835,927	(866,010)	(1,622,682)

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Other comprehensive income	5,661,348	7,753,121
Comprehensive income	\$ 12,500,732	\$ 8,573,047

See accompanying notes to consolidated financial statements.

Table of Contents**Donegal Group Inc. and Subsidiaries****Consolidated Statements of Income**

(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
Revenues:		
Net premiums earned	\$ 353,177,873	\$ 317,293,489
Investment income, net of investment expenses	14,724,305	15,692,704
Net realized investment gains	5,150,450	7,147,703
Lease income	727,705	707,790
Installment payment fees	5,676,957	5,596,010
Equity in earnings of Donegal Financial Services Corporation	3,621,593	1,364,715
Total revenues	383,078,883	347,802,411
Expenses:		
Net losses and loss expenses	245,099,666	246,686,904
Amortization of deferred policy acquisition costs	54,980,000	50,902,000
Other underwriting expenses	57,617,438	49,826,197
Policyholder dividends	800,015	529,281
Interest	1,785,108	1,530,983
Other expenses	1,961,158	1,860,978
Total expenses	362,243,385	351,336,343
Income (loss) before income tax expense (benefit)	20,835,498	(3,533,932)
Income tax expense (benefit)	3,962,900	(4,865,805)
Net income	\$ 16,872,598	\$ 1,331,873
Earnings per common share:		
Class A common stock - basic	\$ 0.67	\$ 0.05
Class A common stock - diluted	\$ 0.66	\$ 0.05
Class B common stock - basic and diluted	\$ 0.61	\$ 0.05

Donegal Group Inc. and Subsidiaries**Consolidated Statements of Comprehensive Income**

(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
Net income	\$ 16,872,598	\$ 1,331,873
Other comprehensive income, net of tax		

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Unrealized gain on securities:		
Unrealized holding income during the period, net of income tax of \$5,895,784 and \$9,328,913	11,096,463	17,529,346
Reclassification adjustment for gains included in net income, net of income tax of \$1,751,153 and \$2,430,219	(3,399,297)	(4,717,484)
Other comprehensive income	7,697,166	12,811,862
Comprehensive income	\$ 24,569,764	\$ 14,143,735

See accompanying notes to consolidated financial statements.

Table of Contents

Donegal Group Inc. and Subsidiaries

Consolidated Statement of Stockholders Equity

(Unaudited)

Nine Months Ended September 30, 2012

	Class A Shares	Class B Shares	Class A Amount	Class B Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock	Total Stockholders Equity
Balance, December 31, 2011	20,752,999	5,649,240	\$ 207,530	\$ 56,492	\$ 170,836,943	\$ 23,533,447	\$ 199,604,700	\$ (10,787,520)	\$ 383,451,592
Issuance of common stock (stock compensation plans)	148,670		1,487		2,306,886				2,308,373
Net income							16,872,598		16,872,598
Cash dividends declared							(6,141,281)		(6,141,281)
Grant of stock options					40,726		(40,726)		
Tax benefit on exercise of stock options					49,517				49,517
Repurchase of treasury stock								(1,349,380)	(1,349,380)
Other comprehensive income						7,697,166			7,697,166
Other						(1,783,457)	1,783,457		
Balance, September 30, 2012	20,901,669	5,649,240	\$ 209,017	\$ 56,492	\$ 173,234,072	\$ 29,447,156	\$ 212,078,748	\$ (12,136,900)	\$ 402,888,585

See accompanying notes to consolidated financial statements.

Table of Contents**Donegal Group Inc. and Subsidiaries****Consolidated Statements of Cash Flows**

(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
Cash Flows from Operating Activities:		
Net income	\$ 16,872,598	\$ 1,331,873
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,305,664	2,808,515
Net realized investment gains	(5,150,450)	(7,147,703)
Equity in earnings of Donegal Financial Services Corporation	(3,621,593)	(1,364,715)
Changes in assets and liabilities:		
Losses and loss expenses	4,246,743	31,036,985
Unearned premiums	36,813,848	49,585,118
Premiums receivable	(16,620,561)	(9,367,635)
Deferred acquisition costs	(4,544,020)	(3,327,517)
Deferred income taxes	3,343,578	(4,838,144)
Reinsurance receivable	911,821	(22,955,603)
Prepaid reinsurance premiums	(8,236,346)	(20,530,218)
Accrued investment income	117,431	901,588
Due to affiliate	(6,182,139)	2,509,790
Reinsurance balances payable	(2,602,978)	2,393,655
Current income taxes	(1,014,356)	(1,260,419)
Accrued expenses	(3,703,503)	(1,591,005)
Other, net	(441,632)	(101,687)
Net adjustments	(3,378,493)	16,751,005
Net cash provided by operating activities	13,494,105	18,082,878
Cash Flows from Investing Activities:		
Purchases of fixed maturities, available for sale	(174,925,183)	(131,357,708)
Purchases of equity securities, available for sale	(17,768,362)	(19,839,856)
Maturity of fixed maturities:		
Held to maturity	14,351,317	4,768,716
Available for sale	86,783,677	43,494,164
Sales of fixed maturities, available for sale	68,049,639	101,494,480
Sales of equity securities, available for sale	22,235,533	17,675,980
Purchase of Michigan Insurance Company		(7,207,471)
Net purchases of property and equipment	(61,731)	
Net increase in investment in affiliates	(100,000)	(20,570,000)
Net sales (purchases) of short-term investments	7,675,768	(19,396,137)
Net cash provided by (used in) investing activities	6,240,658	(30,937,832)
Cash Flows from Financing Activities:		
Cash dividends paid	(9,137,357)	(8,877,810)
Issuance of common stock	2,357,890	898,507
Purchase of treasury stock	(1,349,380)	(1,480,395)
Payments on line of credit	(6,000,000)	(3,617,371)

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Borrowings under line of credit	1,190,694	22,500,000
Net cash (used in) provided by financing activities	(12,938,153)	9,422,931
Net increase (decrease) in cash	6,796,610	(3,432,023)
Cash at beginning of period	13,245,378	16,342,212
Cash at end of period	\$ 20,041,988	\$ 12,910,189
Cash paid during period - Interest	\$ 1,620,551	\$ 1,259,938
Net cash paid (received) during period - Taxes	\$ 1,626,965	\$ (1,110,000)

See accompanying notes to consolidated financial statements.

Table of Contents

DONEGAL GROUP INC. AND SUBSIDIARIES

(Unaudited)

Notes to Consolidated Financial Statements

1 - Organization

Donegal Mutual Insurance Company (Donegal Mutual) organized us as an insurance holding company on August 26, 1986. Our insurance subsidiaries, Atlantic States Insurance Company (Atlantic States), Southern Insurance Company of Virginia (Southern), Le Mars Insurance Company (Le Mars), the Peninsula Insurance Group (Peninsula), which consists of Peninsula Indemnity Company and The Peninsula Insurance Company, Sheboygan Falls Insurance Company (Sheboygan) and Michigan Insurance Company (MICO), write personal and commercial lines of property and casualty insurance exclusively through a network of independent insurance agents in certain Mid-Atlantic, Midwestern, New England and Southern states. We have three operating segments: our investment function, our personal lines of insurance and our commercial lines of insurance. The personal lines products of our insurance subsidiaries consist primarily of homeowners and private passenger automobile policies. The commercial lines products of our insurance subsidiaries consist primarily of commercial automobile, commercial multi-peril and workers' compensation policies. We also own 48.2% of the outstanding stock of Donegal Financial Services Corporation (DFSC), a grandfathered unitary savings and loan holding company that owns Union Community Bank FSB (UCB). Donegal Mutual owns the remaining 51.8% of the outstanding stock of DFSC.

At September 30, 2012, Donegal Mutual held approximately 39% of our outstanding Class A common stock and approximately 76% of our outstanding Class B common stock. This ownership provides Donegal Mutual with approximately two-thirds of the total voting power of our outstanding common stock. Our insurance subsidiaries and Donegal Mutual have interrelated operations. While each company maintains its separate corporate existence, our insurance subsidiaries and Donegal Mutual conduct business together as the Donegal Insurance Group. As such, Donegal Mutual and our insurance subsidiaries share the same business philosophy, the same management, the same employees and the same facilities and offer the same types of insurance products.

Atlantic States, our largest insurance subsidiary, participates in a pooling agreement with Donegal Mutual. Under the pooling agreement, the two companies pool their insurance business, and each company receives an allocated percentage of the pooled business. Atlantic States has an 80% share of the results of the pooled business, and Donegal Mutual has a 20% share of the results of the pooled business.

On February 23, 2009, our board of directors authorized a share repurchase program pursuant to which we may purchase up to 300,000 shares of our Class A common stock at prices prevailing from time to time in the open market subject to the provisions of applicable rules of the Securities and Exchange Commission (SEC) and in privately negotiated transactions. We purchased 92,364 and 115,257 shares of our Class A common stock under this program during the nine months ended September 30, 2012 and 2011, respectively. We have purchased a total of 228,992 shares of our Class A common stock under this program from its inception through September 30, 2012.

2 - Basis of Presentation

Our financial information for the interim periods included in this Form 10-Q Report is unaudited; however, such information reflects all adjustments, consisting only of normal recurring adjustments that, in the opinion of our management, are necessary for a fair presentation of our financial position, results of operations and cash flows for those interim periods. Our results of operations for the nine months ended September 30, 2012 are not necessarily indicative of the results of operations we expect for the year ending December 31, 2012.

You should read these interim financial statements in conjunction with the financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2011.

During the second quarter of 2012, we recorded an entry that reduced Accumulated Other Comprehensive Income and increased Retained Earnings by \$1.8 million to correct an immaterial error related to prior years.

3 - Earnings Per Share

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We have two classes of common stock, which we refer to as our Class A common stock and our Class B common stock. Our certificate of incorporation provides that whenever our board of directors declares a dividend on our Class B common stock, our board of directors must also declare a dividend on our Class A common stock that is payable at the same time to

Table of Contents

holders as of the same record date at a rate that is at least 10% greater than the rate at which our board of directors declared a dividend on our Class B common stock. Accordingly, we use the two-class method to compute our earnings per common share. The two-class method is an earnings allocation formula that determines earnings per share separately for each class of common stock based on dividends we have declared and an allocation of our remaining undistributed earnings using a participation percentage that reflects the dividend rights of each class. The table below presents for the periods indicated a reconciliation of the numerators and denominators we used to compute basic and diluted net income per share for each class of our common stock:

	Three Months Ended September 30,			
	2012			2011
	Class A	Class B	Class A	Class B
	(in thousands, except per share data)			
Basic and diluted net income per share:				
Numerator:				
Allocation of net income	\$ 5,465	\$ 1,374	\$ 662	\$ 158
Denominator:				
Weighted-average shares outstanding	20,041,620	5,576,775	19,976,954	5,576,775
Basic net income per share	\$ 0.27	\$ 0.25	\$ 0.03	\$ 0.03
Diluted net income per share:				
Numerator:				
Allocation of net income	\$ 5,465	\$ 1,374	\$ 662	\$ 158
Denominator:				
Number of shares used in basic computation	20,041,620	5,576,775	19,976,954	5,576,775
Weighted-average shares effect of dilutive securities				
Add: Director and employee stock options	268,476			
Number of shares used in per share computations	20,310,096	5,576,775	19,976,954	5,576,775
Diluted net income per share	\$ 0.27	\$ 0.25	\$ 0.03	\$ 0.03

Table of Contents

	Nine Months Ended September 30,			
	2012	(in thousands, except per share data)		2011
	Class A	Class B	Class A	Class B
Basic and diluted net income per share:				
Numerator:				
Allocation of net income	\$ 13,478	\$ 3,395	\$ 1,078	\$ 254
Denominator:				
Weighted-average shares outstanding	20,026,652	5,576,775	20,005,149	5,576,775
Basic net income per share	\$ 0.67	\$ 0.61	\$ 0.05	\$ 0.05
Diluted net income per share:				
Numerator:				
Allocation of net income	\$ 13,478	\$ 3,395	\$ 1,078	\$ 254
Denominator:				
Number of shares used in basic computation	20,026,652	5,576,775	20,005,149	5,576,775
Weighted-average shares effect of dilutive securities				
Add: Director and employee stock options	310,117			
Number of shares used in per share computations	20,336,769	5,576,775	20,005,149	5,576,775
Diluted net income per share	\$ 0.66	\$ 0.61	\$ 0.05	\$ 0.05

We did not include outstanding options to purchase the following number of shares of Class A common stock in our computation of diluted earnings per share because the exercise price of the options was greater than the average market price of our Class A common stock during the applicable period:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Number of shares excluded	1,222,000	6,332,167	1,219,000	6,332,167

4 - Reinsurance

Atlantic States and Donegal Mutual have participated in a pooling agreement since 1986 under which each company places all of its direct written business into the pool, and Atlantic States and Donegal Mutual then share the underwriting results of the pool in accordance with the terms of the pooling agreement. Atlantic States has an 80% share of the results of the pool, and Donegal Mutual has a 20% share of the results of the pool.

Our insurance subsidiaries and Donegal Mutual purchase certain third-party reinsurance on a combined basis. Le Mars, MICO, Peninsula and Sheboygan also purchase separate third-party reinsurance that provides coverage that is commensurate with their relative size and exposures. Our insurance subsidiaries use several different reinsurers, all of which, consistent with requirements of our insurance subsidiaries and Donegal Mutual, have an A.M. Best rating of A- (Excellent) or better or, with respect to foreign reinsurers, have a financial condition that, in the opinion of our management, is equivalent to a company with at least an A- rating from A.M. Best. The following information describes the external reinsurance our insurance subsidiaries have in place at September 30, 2012:

excess of loss reinsurance, under which losses are automatically reinsured, through a series of reinsurance agreements, over a set retention (generally \$1.0 million), and

catastrophe reinsurance, under which Donegal Mutual, Atlantic States and Southern recover, through a series of reinsurance agreements, 90% to 100% of an accumulation of many losses resulting from a single event, including natural disasters, over a set retention (generally \$5.0 million).

Table of Contents

Through June 7, 2012, our insurance subsidiaries and Donegal Mutual had property catastrophe coverage through a series of layered treaties up to aggregate losses of \$130.0 million per occurrence over the set retention. From and after June 8, 2012, our insurance subsidiaries and Donegal Mutual increased their coverage to \$145.0 million per occurrence over the set retention.

Our insurance subsidiaries and Donegal Mutual also purchase facultative reinsurance to cover exposures from losses that exceed the limits provided by their third-party reinsurance agreements.

MICO maintains a quota-share reinsurance agreement with third-party reinsurers to reduce its net exposures. Effective from December 1, 2010 to December 31, 2011, the quota-share reinsurance percentage was 50%. Effective January 1, 2012, MICO reduced the quota-share reinsurance percentage from 50% to 40%.

Effective November 1, 2012, Donegal Mutual and Southern terminated their quota-share reinsurance agreement on a run-off basis. Under that agreement, Southern assumed 100% of the premiums and losses related to personal lines products Donegal Mutual offered in Virginia through the use of its automated policy quoting and issuance system.

In addition to the pooling agreement and third-party reinsurance, our insurance subsidiaries have various reinsurance agreements with Donegal Mutual.

Other than the changes we discuss above, we made no significant changes to our third-party reinsurance or the reinsurance agreements between our insurance subsidiaries and Donegal Mutual during the nine months ended September 30, 2012.

5 - Investments

The amortized cost and estimated fair values of our fixed maturities and equity securities at September 30, 2012 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(in thousands)		
Held to Maturity				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 1,000	\$ 23	\$	\$ 1,023
Obligations of states and political subdivisions	42,437	2,020		44,457
Corporate securities	250	1		251
Residential mortgage-backed securities	201	16		217
Totals	\$ 43,888	\$ 2,060	\$	\$ 45,948

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(in thousands)		
Available for Sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 75,426	\$ 1,557	\$ 11	\$ 76,972
Obligations of states and political subdivisions	378,337	34,297	62	412,572
Corporate securities	70,680	3,735	162	74,253
Residential mortgage-backed securities	119,445	4,342	105	123,682
Fixed maturities	643,888	43,931	340	687,479
Equity securities	2,462	144	23	2,583

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Totals	\$ 646,350	\$ 44,075	\$ 363	\$ 690,062
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Table of Contents

At September 30, 2012, our holdings of obligations of states and political subdivisions included general obligation bonds with an aggregate fair value of \$360.4 million and an amortized cost of \$331.9 million. Our holdings also included special revenue bonds with an aggregate fair value of \$96.6 million and an amortized cost of \$88.9 million. With respect to both categories of these bonds, we held no securities of any issuer that comprised more than 10% of the category at September 30, 2012. Education bonds and water and sewer utility bonds represented 50% and 19%, respectively, of our total investments in special revenue bonds based on their carrying values at September 30, 2012. Many of the issuers of the special revenue bonds we held at September 30, 2012 have the authority to impose ad valorem taxes. In that respect, many of the special revenue bonds we held are similar to general obligation bonds.

The amortized cost and estimated fair values of our fixed maturities and equity securities at December 31, 2011 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Held to Maturity				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 1,000	\$ 54	\$	\$ 1,054
Obligations of states and political subdivisions	56,966	2,857		59,823
Corporate securities	250	3		253
Residential mortgage-backed securities	274	19	1	292
Totals	\$ 58,490	\$ 2,933	\$ 1	\$ 61,422

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Available for Sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 59,432	\$ 1,546	\$	\$ 60,978
Obligations of states and political subdivisions	372,663	26,252	39	398,876
Corporate securities	62,837	1,805	528	64,114
Residential mortgage-backed securities	119,367	3,307	44	122,630
Fixed maturities	614,299	32,910	611	646,598
Equity securities	7,239	606	407	7,438
Totals	\$ 621,538	\$ 33,516	\$ 1,018	\$ 654,036

At December 31, 2011, our holdings of obligations of states and political subdivisions included general obligation bonds with an aggregate fair value of \$372.2 million and an amortized cost of \$348.4 million. Our holdings also included special revenue bonds with an aggregate fair value of \$86.5 million and an amortized cost of \$81.0 million. With respect to both categories of these bonds, we held no securities of any issuer that comprised more than 10% of the category at December 31, 2011. Education bonds and water and sewer utility bonds represented 59% and 17%, respectively, of our total investments in special revenue bonds based on their carrying values at December 31, 2011. Many of the issuers of the special revenue bonds we held at December 31, 2011 have the authority to impose ad valorem taxes. In that respect, many of the special revenue bonds we held are similar to general obligation bonds.

Table of Contents

We show below the amortized cost and estimated fair value of our fixed maturities at September 30, 2012 by contractual maturity .. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
	(in thousands)	
Held to maturity		
Due in one year or less	\$ 1,500	\$ 1,524
Due after one year through five years	33,069	34,535
Due after five years through ten years	9,118	9,672
Due after ten years		
Residential mortgage-backed securities	201	217
Total held to maturity	\$ 43,888	\$ 45,948
Available for sale		
Due in one year or less	\$ 15,257	\$ 15,390
Due after one year through five years	62,479	64,884
Due after five years through ten years	190,144	203,214
Due after ten years	256,563	280,309
Residential mortgage-backed securities	119,445	123,682
Total available for sale	\$ 643,888	\$ 687,479

Gross realized gains and losses from investments before applicable income taxes were as follows:

	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
	2012	2011	2012	2011
	(in thousands)			
Gross realized gains:				
Fixed maturities	\$ 1,249	\$ 3,464	\$ 4,944	\$ 3,905
Equity securities	215	129	1,003	4,634
	1,464	3,593	5,947	8,539
Gross realized losses:				
Fixed maturities	36	61	42	163
Equity securities	116	1,073	755	1,228
	152	1,134	797	1,391
Net realized gains	\$ 1,312	\$ 2,459	\$ 5,150	\$ 7,148

Table of Contents

We held fixed maturities and equity securities with unrealized losses representing declines that we considered temporary at September 30, 2012 as follows:

	Less Than 12 Months	More Than 12 Months
 		