DONEGAL GROUP INC
Form S-2/A
September 26, 2001

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON SEPTEMBER 26, 2001

REGISTRATION NO. 333-68748

==========

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 1
TO

FORM S-2

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

DONEGAL GROUP INC.

(Exact name of registrant as specified in its charter)

Delaware	23-2424711
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1195 River Road
Marietta, Pennsylvania 17547
(888) 877-0600

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Donald H. Nikolaus, President
Donegal Group Inc.
1195 River Road
Marietta, Pennsylvania 17547
(888) 877-0600

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copy to:
Kathleen M. Shay, Esquire
Duane Morris
4200 One Liberty Place
Philadelphia, PA 19103-7396
(215) 979-1000

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. [X]

If the registrant elects to deliver its latest annual report to security holders, or a complete and legible facsimile thereof, pursuant to Item 11(a)(1) of this Form, check the following box. [X]

If this Form is filed to register additional securities for an offering pursuant to Section 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Section 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

EXPLANATORY NOTE

This Registration Statement is being filed in connection with the recent changes to Donegal Group Inc.'s capital structure and to reflect the effects of those changes on the Donegal Group Inc. Agency Stock Purchase Plan.

Pursuant to a Form S-2 Registration Statement (File No. 333-06787) filed with the SEC on June 25, 1996, Donegal Group registered 300,000 shares of its previously authorized common stock in connection with its Agency Stock Purchase Plan. On April 19, 2001, Donegal Group (1) reclassified its previously authorized common stock into Class B common stock, (2) effected a reverse stock split, as the result of which each three shares of previously authorized common stock were converted into one share of Class B common stock, (3) authorized 30,000,000 shares of a new class of common stock with one-tenth of a vote per share designated as Class A common stock and (4) declared a dividend of two shares of Class A common stock to be paid on each share of Class B common stock outstanding at the close of business on April 19, 2001. The Class A common stock and the Class B common stock are identical, except with respect to voting rights and the payment of dividends.

In connection with the reverse stock split and the stock dividend, the committee appointed by the board of directors to administer the plan adjusted the shares of common stock that remained available for purchase under the plan for the subscription period ending September 30, 2001 so that the same total number of shares of Donegal Group capital stock is purchasable under the plan, but that two-thirds of those shares will be Class A common stock and one-third

of those shares will be Class B common stock. Nevertheless, because the dividend rate we are permitted to pay on shares of Class A common stock outstanding when we declare a cash dividend or other distribution is greater than the dividend rate we are permitted to pay on shares of our Class B common stock, the committee also determined that each participant may elect, for the subscription period ending September 30, 2001, to purchase only shares of Class A common stock, in lieu of purchasing two-thirds of Class A common stock and one-third of Class B common stock.

Upon effectiveness of this Registration Statement, the Company intends to degregister the 173,000 shares of previously authorized common stock registered under Registration Statement No. 333-06787 that remain unsold as of April 19, 2001.

PROSPECTUS

DONEGAL GROUP INC.

AGENCY STOCK PURCHASE PLAN

120,000 SHARES OF CLASS A COMMON STOCK
115,710 SHARES OF CLASS B COMMON STOCK

Donegal Group is offering 120,000 shares of Class A common stock and 115,710 shares of Class B common stock to eligible insurance agencies under its Agency Stock Purchase Plan. Our Class A common stock is listed for trading on the Nasdaq Stock Market under the symbol "DGICA" and our Class B common stock is listed for trading on the Nasdaq Stock Market under the symbol "DGICB." On , 2001, the last reported sale price of our Class A common stock on the Nasdaq National Market System was $ per share. On , 2001, the last reported sale price of our Class B common stock on the Nasdaq National Market System was $ per share.

We will offer the shares of Class A common stock and Class B common stock under the plan directly to eligible agencies through our officers and will not use a broker or a dealer. In addition, we will not pay commissions, discounts or any other payments to any person for services in connection with the offer or sale of shares of Class A common stock or Class B common stock under the plan. We will pay all costs of administering the plan. Participants will not incur brokerage commissions or service charges for the purchase of shares under the plan. Donegal Group will retain all proceeds from the sale of shares of Class A common stock and Class B common stock under the plan.

Donegal Group's principal executive offices are located at 1195 River Road, Marietta, PA 17547; telephone (888) 877-0600. A copy of our 2000 Annual Report to Stockholders accompanies this prospectus. You should retain this prospectus for future reference.

SEE "RISK FACTORS" BEGINNING ON PAGE FOR A DISCUSSION OF CERTAIN

FACTORS THAT YOU SHOULD CONSIDER BEFORE YOU INVEST IN OUR CLASS A COMMON STOCK AND CLASS B COMMON STOCK.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is , 2001

TABLE OF CONTENTS

	Page
PROSPECTUS SUMMARY	
RISK FACTORS	
DESCRIPTION OF THE AGENCY STOCK PURCHASE PLAN	
Purpose and Advantages of the Plan	
The Recapitalization and Adjustment	
Administration	
Participation	
Costs and Expenses	
Purchases	
Shares; Certificates for Shares	
Withdrawal from the Plan	
Other Information	
DESCRIPTION OF CAPITAL STOCK	
General	
Certain Charter and By-law Provisions; Delaware Anti-Takeover Provisions	
Limitation of Liability; Indemnification	
PLAN OF DISTRIBUTION	
USE OF PROCEEDS	
EXPERTS	
LEGAL OPINION	
AVAILABLE INFORMATION	
INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE	

PROSPECTUS SUMMARY

This summary highlights some information from this prospectus. It

may not contain all of the information that is important to you. To understand this offering fully, you should read the entire prospectus carefully, including the risk factors.

We are an insurance holding company that offers property and casualty insurance through our wholly owned subsidiaries and participates in a pooling agreement with our affiliate, Donegal Mutual Insurance Company, known as the Mutual Company. Our operations are interrelated with the operations of the Mutual Company, and various reinsurance arrangements exist between our insurance subsidiaries and the Mutual Company. In addition, the Mutual Company provides us and some of our insurance subsidiaries with all of our personnel.

Donegal Group is authorized to issue 30,000,000 shares of Class A common stock, 10,000,000 shares of Class B common stock and 2,000,000 shares of preferred stock. The Mutual Company currently owns approximately 62.2% of our Class A common stock and 62.2% of our Class B common stock.

We adopted the Agency Stock Purchase Plan on July 20, 1995 to foster the common interests of us and our agencies in achieving long-term profitable growth for the Donegal Group of companies. We offered to eligible independent insurance agencies of our subsidiaries and affiliated insurance companies, including the Mutual Company, an opportunity to acquire a proprietary interest in us through the plan.

We originally reserved 300,000 shares of our common stock to be offered and sold under the plan for the five-year period ending September 30, 2001. On April 19, 2001, we changed our capital structure by amending our certificate of incorporation to effect a one-for-three stock split of our then existing common stock and to reclassify the common stock as Class B common stock. The amendment also authorized the issuance of a new class of common stock, the Class A common stock. In connection with the amendment, we declared a dividend of two shares of Class A common stock for each share of Class B common stock held of record as of the close of business on April 19, 2001. The Class A common stock and the Class B common stock are identical, except with respect to voting rights and the payment of dividends.

As part of the change in our capital structure, the committee appointed by our board of directors to administer the plan adjusted each share of common stock that remained available for purchase under the plan for the subscription period ending September 30, 2001, known as the current subscription period. The result of this adjustment is that the total number of shares of our capital stock purchasable under the plan during the current subscription period remains the same, but two-thirds of those shares are shares of Class A common stock and one-third of those shares are shares of Class B common stock. Nevertheless, because the dividend rate we are permitted to pay on shares of Class A common stock outstanding when we declare a cash dividend or other distribution is greater than the dividend rate we are permitted to pay on shares of our Class B common stock, each eligible agency may elect, for the current subscription period, to purchase only shares of Class A common stock, in lieu of purchasing two-thirds of Class A common stock and one-third of Class B common stock.

The purchase price for shares of Class A common stock purchased under the plan for the current subscription period will be 90% of the average of the closing prices of the Class A common stock on the Nasdaq National Market System on the last ten trading days of the current subscription period. The purchase

price for shares of Class B common stock purchased under the plan for the current subscription period will be 90% of the average of the closing prices of the Class B common stock on the Nasdaq National Market System on the last ten trading days of the current subscription period.

We are offering the shares of Class A common stock and Class B common stock under the plan directly to eligible agencies through our officers and will not use a broker or a dealer. In addition, we will not pay commissions, discounts or any other payments to any person for services in connection with the offer or sale of shares of Class A common stock or Class B common stock under the plan. We will pay all costs of administering the plan. Participants will not incur brokerage commissions or service charges for the purchase of shares under the plan.

The plan will terminate at the end of the current subscription period. The plan will be replaced by our 2001 Agency Stock Purchase Plan, which will continue to provide current and future selected independent insurance agencies an opportunity to acquire a long-term proprietary interest in Donegal Group through the purchase of our Class A common stock.

RISK FACTORS

YOU SHOULD CONSIDER CAREFULLY THE FACTORS SET FORTH BELOW, AS WELL AS ALL OTHER INFORMATION CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS, BEFORE YOU DECIDE TO PURCHASE SHARES OF CLASS A COMMON STOCK AND CLASS B COMMON STOCK.

THE CYCLICAL NATURE OF THE PROPERTY AND CASUALTY INSURANCE INDUSTRY MAY REDUCE OUR REVENUES AND PROFIT MARGINS.

The property and casualty insurance industry is highly cyclical, and individual lines of business experience their own cycles within the overall industry cycle. Premium rate levels are related to the availability of insurance coverage, which varies according to the level of surplus in the industry. The level of surplus in the industry varies with returns on invested capital and regulatory barriers to withdrawal of surplus. Increases in surplus have generally been accompanied by increased price competition among property and casualty insurers. If we find it necessary to reduce premiums or limit premium increases due to these competitive pressures on pricing, it may cause a reduction in our profit margins and revenues, increase our ratios of claims and expenses to premiums and result in lower profitability for us.

Volatile and unpredictable developments also offset significantly the cyclical trends in the industry and the industry's profitability. These developments include natural disasters (such as storms, earthquakes, hurricanes, floods and fires), fluctuations in interest rates and other changes in the investment environment that affect the market prices of our investments and the income from those investments, inflationary pressures that affect the size of losses and judicial decisions that affect our liabilities. The occurrence of these developments may adversely affect our business and financial condition.

THE NATURE OF THE INSURANCE INDUSTRY LIMITS OUR ABILITY TO CHANGE PRICES TO REFLECT RISKS AND TO ESTIMATE OUR RESERVES ACCURATELY.

One of the distinguishing features of the property and casualty industry is that its products generally are priced before its costs are known. Our products

are priced in this manner because premium rates usually are determined at the time the policy is issued and before losses are reported. Changes in statutory and case law can also dramatically affect the liabilities associated with known risks after the insurance policy is issued. The number of competitors and the similarity of products offered, as well as regulatory constraints, limit our ability to increase prices in response to declines in profitability. Our reported profits and losses are also determined, in part, by the establishment and adjustment of reserves reflecting estimates made by management as to the amount of losses and loss adjustment expenses that will ultimately be incurred in the settlement of claims. Our ultimate liability for all losses and loss adjustment expenses reserved at any given time will likely be greater or less than these estimates, and material shortfalls in the estimates may have a material adverse effect on us in future periods.

WE COMPETE WITH MANY INSURERS THAT ARE FINANCIALLY STRONGER THAN WE ARE.

The property and casualty insurance industry is intensely competitive. Competition is based on many factors, including the perceived financial strength of the insurer, premiums charged, policy terms and conditions, policyholder service, reputation and experience. We compete with many regional and national property and casualty insurance companies, including direct sellers of insurance products, insurers having their own agency organizations and other insurers represented by independent agents. Many of these insurers are better capitalized than we are, have substantially greater financial, technical and operating resources and have equal or higher ratings from A.M. Best Company, Inc.

The superior capitalization of many of our competitors enables them to withstand lower profit margins and, therefore, to market their products more aggressively, to take advantage more quickly of new marketing opportunities and offer lower premium rates. Moreover, if our competitors price their premiums more aggressively and we meet their pricing, our profit margins and revenues may be reduced and our ratios of claims and expenses to premiums may increase.

Our competition may become increasingly better capitalized in the future as the traditional barriers between insurance companies and banks and other financial institutions erode and as the property and casualty industry continues to consolidate. Our ability to compete against our larger, better capitalized competitors depends largely on our ability to provide superior policyholder service and to maintain our historically strong relationships with independent insurance agents, on whom we are entirely dependent to generate premium volume.

We cannot assure you that we will maintain our current competitive position in the markets in which we operate, or that we will be able to expand our operations into new markets. If we fail to do so, our business could be materially adversely affected.

WE ARE A REGIONAL INSURANCE COMPANY THAT OFFERS INSURANCE PRODUCTS IN A LIMITED NUMBER OF STATES.

We are headquartered in Pennsylvania and engage in the insurance business in approximately 15 Middle Atlantic and Southern states. In 2000, the majority of our direct premiums written, including those of the Mutual Company and our insurance subsidiaries, were geographically dispersed as follows: 63% in Pennsylvania, 15% in Virginia and 6% in Maryland. Any single catastrophic occurrence, destructive weather pattern, general economic trend or other condition disproportionately affecting losses or business conditions in these states could adversely affect our results of operations, although we and the

Mutual Company maintain reinsurance against catastrophic losses in excess of $3,000,000 per occurrence and our insurance subsidiaries maintain various catastrophe reinsurance agreements with the Mutual Company that limit the maximum liability under any one catastrophe.

THE REINSURANCE AGREEMENTS ON WHICH WE RELY ON DO NOT RELIEVE US FROM LIABILITY TO OUR POLICYHOLDERS.

We rely on reinsurance agreements to limit our maximum net loss from large single risks or risks in concentrated areas, and to increase our capacity to write insurance. Each reinsurance agreement satisfies all applicable regulatory requirements. Reinsurance, however, does not relieve us from liability to our policyholders. To the extent that a reinsurer may be unable to pay losses for which it is liable under the terms of its reinsurance agreement with us, we remain liable for such losses. However, in an effort to reduce the risk of non-payment, we require all of our reinsurers to have an A.M. Best rating of A or better or, with respect to foreign reinsurers, to have a financial condition that, in the opinion of our management, is equivalent to a company with at least an A rating. If our reinsurers incur losses from their reinsurance arrangements with us, it is probable that the reinsurance premiums payable by us in the future could increase.

WE ARE SUBJECT TO EXTENSIVE STATE INSURANCE REGULATION.

We are subject to the laws and regulations of the states in which we conduct business. These laws and regulations address many aspects of our business and financial condition, including licensure, the payment of dividends, the establishment of premium rates, the settlement of claims, the transfer of control and the requirement that we participate in assigned risk pools. Certain of the following laws and regulations could have a material adverse effect on our results of operations:

- state insurance regulations that require us to file proposed premium rates in advance of premium rate increases;
- state insurance regulations that mandate required levels of statutory surplus;
- private rating organization review of our levels of statutory surplus and claims-paying ability; and
- National Association of Insurance Commissioners, known as the NAIC, and state insurance department review of our risk-based capital levels.

Changes in the level of regulation of the insurance industry and laws or regulations themselves or interpretations by regulatory authorities could also have a material adverse effect on our operations. Specific regulatory developments that could have a material adverse effect on our operations include the potential repeal of the McCarran-Ferguson Act, which exempts insurance companies from a variety of federal regulatory requirements, possible rate rollback regulation and legislation to control premiums, policy terminations and other policy terms.

THE MUTUAL COMPANY IS OUR LARGEST SHAREHOLDER AND PROVIDES US WITH OUR FACILITIES AND SERVICES.

The Mutual Company currently owns approximately 62.2% of our outstanding Class A common stock and 62.2% of our outstanding Class B common stock and will continue to own approximately the same percentages of these classes of stock after completion of this offering. Accordingly, the Mutual Company will continue to control the election of members of our board of directors. Although the Mutual Company could exercise its control in ways that are contrary to the interests of our stockholders other than the Mutual Company, we and the Mutual Company have established a coordinating committee consisting of two outside directors from each company who do not also serve as directors of the other company. Subsequent to approval of a matter by the separate boards of directors of Donegal Group and the Mutual Company, this committee is responsible for reviewing and approving all matters involving actual or potential conflicts of interest, including any changes to the pooling and other agreements between us and the Mutual Company, and this committee's decisions are binding on both us and the Mutual Company. In order for an intercompany transaction to be approved, our representatives on the committee must conclude that the transaction is fair and equitable to us.

We are dependent upon the Mutual Company for the retention of agents and the underwriting of insurance, the servicing of policyholder claims and all other aspects of our operations. All of our officers are officers and employees of the Mutual Company. The Mutual Company also provides all of the facilities and data processing and administrative services required to conduct our business, for which we pay a pro rata portion of the cost.

OUR BUSINESS DEPENDS IN PART ON THE MARKETING EFFORTS OF INDEPENDENT INSURANCE AGENTS, AND IT IS POSSIBLE THAT THESE AGENTS MAY NOT MARKET OUR PRODUCTS SUCCESSFULLY OR SELL OUR PRODUCTS WITHIN THE GUIDELINES WE SPECIFY.

We market and sell almost all of our insurance products through independent, non-exclusive insurance agents. These agents are not obligated to promote our insurance products exclusively and they also sell our competitors' insurance products. Our business depends in part on the marketing efforts of these agents and we must offer insurance products and services that meet the requirements of these independent agencies. If these agencies do not market our products successfully or give priority to other insurers, our business may be adversely impacted.

We also grant certain agents the authority to bind insurance without our prior approval within underwriting and pricing limits that we specify. However, we generally review all coverages placed by our agents and may cancel the coverage if it is inconsistent with our guidelines and permissible to cancel under applicable insurance regulations. If we are unable to cancel the coverage placed by an agent prior to a claim being placed by the insured, our risk may be increased and our profitability may suffer.

OUR ESTABLISHED RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES ARE BASED ON ESTIMATES, AND IT IS POSSIBLE THAT OUR ULTIMATE LIABILITY WILL EXCEED THESE ESTIMATES.

We establish reserves for losses and loss adjustment expenses based on estimates of amounts needed to pay reported and unreported claims and related loss adjustment expenses. These estimates are based on facts and circumstances then known to us. Reserves are based on estimates of future trends and claims

severity, judicial theories of liability and other factors.

The establishment of appropriate reserves is an inherently uncertain process, and there can be no assurance that the ultimate liability will not exceed our loss and loss adjustment expense reserves and have an adverse effect on our results of operations and financial condition. As is the case for most property and casualty insurance companies, we have found it necessary in the past to revise estimated liabilities as reflected in our loss and loss adjustment expense reserves, and further adjustments could be required in the future. However, our management believes that adequate provision has been made for our loss and loss adjustment expense reserves. This belief is based on our internal procedures, which analyze our experience with similar cases and historical trends such as reserving patterns, loss payments, pending levels of unpaid claims and product mix, as well as court decisions, economic conditions and public attitudes.

OUR SUBSIDIARIES ARE RESTRICTED IN PAYING US DIVIDENDS, ON WHICH WE DEPEND FOR THE PAYMENT OF CORPORATE EXPENSES.

As a holding company, we rely primarily on our subsidiaries for dividends and other permitted payments to meet our obligations for corporate expenses. Payment of dividends to us by our subsidiaries is subject to regulatory restrictions and depends on the surplus of our subsidiaries. From time to time, the NAIC and various state insurance regulators consider modifying the method of determining the amount of dividends that may be paid by an insurance company without prior regulatory approval.

OUR CHARTER DOCUMENTS, DELAWARE CORPORATE LAW AND PENNSYLVANIA INSURANCE LAW MAY INHIBIT A TAKEOVER.

Certain provisions of our certificate of incorporation and by-laws and Delaware and Pennsylvania law may discourage a future unsolicited takeover of Donegal Group. These provisions could have the effect of discouraging certain attempts to acquire us or remove current management, including current members of our board of directors, even if some of our stockholders deemed these attempts to be in their best interests.

Our certificate of incorporation authorizes us to issue two classes of common stock, Class A common stock and Class B common stock. The holders of the Class A common stock are entitled to one-tenth of one vote per share, while the holders of the Class B common stock are entitled to one vote per share, on all matters submitted to a vote of our stockholders. In addition, our certificate of incorporation does not grant any holder of our stock the right to cumulate votes in the election of directors. The Mutual Company currently owns approximately 62.2% of our Class A common stock and 62.2% of our Class B common stock and has effective voting control

over us. This ownership by the Mutual Company could avert or prevent a change in control of us unless the Mutual Company, after consideration of all relevant factors including the interests of our stockholders other than the Mutual Company, is in favor of such a change.

Our board of directors, without stockholder approval, has the authority to issue preferred stock with voting and conversion rights that could adversely affect the voting power of the Class A common stock and the Class B common stock. The issuance of preferred stock could have the effect of delaying, averting or preventing a change in control of us. No preferred stock has been

issued, and our board of directors does not intend to issue any preferred stock at the present time.

Our by-laws provide for a classified board of directors, consisting of three classes as nearly equal in size as possible. The classification of our board of directors could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from acquiring, control of us.

As a Delaware corporation we are subject to certain anti-takeover provisions of Delaware law, including certain business combination transaction prohibitions. In addition, we are subject to Pennsylvania insurance laws and regulations that prohibit any person from acquiring a greater than 10% interest in us without the prior approval of the Insurance Commissioner of the Commonwealth of Pennsylvania. These provisions could make it more difficult for a third party to gain control of us, deny stockholders the receipt of a premium on their Class A common stock and Class B common stock and have a depressive effect on the market price of the Class A common stock and the Class B common stock.

CAUTIONARY NOTICE REGARDING FORWARD LOOKING STATEMENTS

Certain statements contained in, or incorporated by reference in, this prospectus are forward-looking in nature. These statements can be identified by the use of forward-looking words such as "believes," "expects," "may," "will," "should," "intends," "plans" or "anticipates," or the negative thereof or comparable terminology, or by discussions of strategy. You are cautioned that our business and operations are subject to a variety of risks and uncertainties and, consequently, our actual results may materially differ from those projected by any forward-looking statements. Certain of these risks and uncertainties are discussed under the heading "Risk Factors."

DESCRIPTION OF THE AGENCY STOCK PURCHASE PLANAGENCY STOCK PURCHASE PLAN

We describe the provisions of the plan below, in question and answer form. As used in the plan, the term "subsidiary and affiliated insurance companies" means insurance companies that are our subsidiaries and the Mutual Company. The plan was approved by our board of directors on July 20, 1995.

PURPOSE AND ADVANTAGES OF THE PLAN

1. What is the purpose of the plan?

The plan provides an eligible agency, as described in Question and Answer 7, an opportunity to acquire a long-term proprietary interest in us through the purchase of our capital stock at a discount from current market prices. In offering the plan, we seek to foster the common interests of Donegal Group and the eligible agencies in achieving long-term profitable growth for us. Accordingly, we have created the plan for the purpose of facilitating the purchase of and long-term investment in shares of our capital stock by an eligible agency. We expect that an eligible agency that purchases shares under the plan will hold these shares on a long-term basis, as the plan is not intended to benefit an agency that demonstrates a pattern of immediate resale of shares acquired. As discussed in Question and Answer 7 below regarding eligibility, immediate resale of shares will be a factor in our determination

whether an otherwise eligible agency should remain eligible for continued participation in the plan.

2. What are the advantages of the plan?

Under the plan, each eligible agency can utilize three convenient payment methods for the purchase of our capital stock at a 10% discount from the current market price. You will not pay any brokerage commissions or service charges in connection with your purchase.

Each eligible agency previously chose a payment method by completing and filing a subscription agreement, as described in Question and Answer 9, with us. The committee's adjustment to the plan will not effect the payment method previously chosen by an eligible agency to purchase shares of our capital stock under the plan.

THE RECAPITALIZATION AND ADJUSTMENT

3. What are the effects of the recapitalization and the adjustment on an eligible agency that participates in the plan?

Prior to the recapitalization and the adjustment, participants could purchase only shares of our previously authorized common stock under the plan. As a result of the recapitalization the previously authorized common stock no longer exists, and an eligible agency will no longer be able to purchase shares of common stock under the plan. Instead, participants can purchase our Class A common stock and Class B common stock under the plan during the current subscription period.

In general, two-thirds of each participant's total purchase will be shares of Class A common stock and one-third will be shares of Class B common stock. The Class A common stock and the Class B common stock are identical, except with respect to voting rights and payment of dividends. See "Description of Capital Stock" below. Nevertheless, because the dividend rate we are permitted to pay on shares of Class A common stock outstanding when we declare a cash dividend or other distribution is greater than the dividend rate we are permitted to pay on shares of our Class B common stock, each eligible agency may elect, for the current subscription period, to have its total share purchase consist only of shares of Class A common stock, in lieu of its total share purchase consisting two-thirds of Class A common stock and one-third of Class B common stock. In order to make this election, each eligible agency must complete and file an election form with us, as described in Question and Answer 11, to designate the class or classes of shares the eligible agency intends to purchase for the current subscription period.

ADMINISTRATION

4. Who administers the plan for participants?

A committee consisting of three persons appointed from time to time by our board of directors administers the plan. The committee may adopt rules and regulations for carrying out the plan. The committee's interpretations or constructions of the provisions of the plan are final and conclusive unless our board of directors takes contrary action. We do not compensate members of the committee for administering the plan.

Our board of directors appointed Donald H. Nikolaus, Ralph G. Spontak and

Frank J. Wood to serve on the committee. Upon the retirement of Frank J. Wood, our board of directors appointed Daniel J. Wagner to serve on the committee. Donald H. Nikolaus is President, Chief Executive Officer and a director of Donegal Group and the Mutual Company. Ralph G. Spontak is Senior Vice President, Chief Financial Officer and Secretary of Donegal Group and the Mutual Company. Mr. Spontak is also a director of the Mutual Company. Daniel J. Wagner is Treasurer of Donegal Group and the Mutual Company. The address and telephone number of each member of the committee is c/o Donegal Group Inc., 1195 River Road, Marietta, PA 17547; telephone (888) 877-0600.

5. Where can I obtain additional information about the plan and its administrators?

You can obtain additional information about the plan and its administrators by contacting Ralph G. Spontak, our Senior Vice President, Chief Financial Officer and Secretary, at (888) 877-0600.

6. What is the term of the plan?

The plan will be in effect until September 30, 2001, at which time the plan will terminate and be replaced with our 2001 Agency Stock Purchase Plan. During the term of the plan there were ten consecutive semi-annual subscription periods, nine of which have been completed. The last subscription period ends on September 30, 2001.

PARTICIPATION

7. What agencies are eligible to participate?

An eligible agency is an independent insurance agency that brings value to Donegal Group, the Mutual Company and our subsidiary and affiliated insurance companies, directly or indirectly, as determined by us in our discretion, and with which we seek a long-term relationship. Only eligible agencies may participate in the plan. The eligibility criteria we will consider includes the agency's volume of direct premiums written, the ability of the agency to increase sales and grow the volume of direct premiums written, the historic loss ratio of the agency's direct premiums written and whether the agency has been placed on rehabilitation by us, meaning that we notify the agency of operational deficiencies, or had its binding authority revoked. We may base eligibility on agency segmentation class or any other factors that indicate value to the companies, directly or indirectly, in our discretion.

We will periodically review an eligible agency's continued eligibility. A pattern of immediate resale of shares acquired under the plan by an eligible agency will be a factor in our determination whether an agency should remain eligible for continued participation in the plan. Immediate resales would tend to indicate that an agency is not seeking to share in the long-term profitable growth of the companies. If Donegal Group determines to discontinue an agency's participation in the plan, the agency will receive written notice from us that its eligibility to participate in the plan has been discontinued. This notice will be sent to the agency as promptly as possible, but in no event later than 30 days after the end of the subscription period during which the decision was made. A decision by us, in our discretion, to discontinue the eligibility of an agency under the plan will be treated as an automatic withdrawal from the plan.

See Questions and Answers 25 and 26 below.

8. How did an eligible agency enroll in the plan?

An eligible agency enrolled in the plan by completing and filing a subscription agreement, as described in Question and Answer 9, with us. We sent to each eligible agency a subscription agreement, a copy of a prospectus and any prospectus supplements and a copy of our most recent Annual Report to Stockholders prior to the beginning of the first enrollment period following the agency's designation as an eligible agency. Eligible agencies that are current participants in the plan will not receive a new subscription agreement relating to the committee's adjustment to the plan. However, eligible agencies that are current participants in the plan will receive an election form, as described in Question and Answer 11, relating to the committee's adjustment to the plan.

9. What does a subscription agreement provide?

A subscription agreement allowed each eligible agency to decide and identify the date on which the agency desired to become enrolled in the plan, the amounts of contribution and the payment method(s) selected for purchases under the plan. A participant's completion and filing of an election form with us, as described in Question and Answer 11, will not alter or change the date of enrollment, the amounts of contribution or the payment method(s) selected for purchases under the plan, as designated by the participant in a subscription agreement or any supplemental subscription agreement previously filed with us.

10. When did eligible agencies enroll in the plan?

If an eligible agency chose the direct bill commission payment method, as explained in Question and Answer 17, enrollment in the plan occurred only during the enrollment period preceding each subscription period. An eligible agency that desired to subscribe for the purchase of shares through withholding from direct bill commissions returned a duly executed and completed subscription agreement during the applicable enrollment period.

If an eligible agency chose the lump-sum payment method, as explained in Question and Answer 18, an eligible agency enrolled by submitting a supplemental subscription agreement to us and making a lump-sum payment by the last day of the applicable subscription period, or in the case of the current subscription period, by October 31, 2001. An eligible agency that chose the lump-sum payment method and intends to purchase shares under the plan for the current subscription period using the lump-sum payment method, may submit a supplemental subscription agreement and make a lump-sum payment to us by October 31, 2001.

If an eligible agency chose the contingent commission payment method, as explained in Question and Answer 19, an eligible agency enrolled by submitting a subscription agreement during the enrollment period immediately preceding the applicable subscription period.

11. What does an election form provide?

An election form allows each eligible agency that participates in the plan to designate the class or classes of shares the agency intends to purchase under the plan for the current subscription period. The election form provides each

eligible agency with two alternatives for the purchase of shares during the current subscription period. An eligible agency may elect to have its total purchase of shares for the current subscription period consist two-thirds of Class A common stock and one-third of Class B common stock. In the alternative, an eligible agency may elect to have its total purchase of shares for the current subscription period consist only of Class A common stock.

Any eligible agency that fails to make an election by completing and filing an election form with us by October 31, 2001 will be deemed to have made an election to have its total purchase of shares under the plan for the current subscription period consist two-thirds of Class A common stock and one-third of Class B common stock.

12. May an eligible agency transfer its subscription rights to another person or agency?

No. An eligible agency may not assign its subscription payments or rights to subscribe to any other person, and any attempted assignment is void, except for permitted designations as described in Question and Answer 24.

COSTS AND EXPENSES

13. Are there any expenses to participants in connection with purchases under the plan?

No. Eligible agencies are not obligated to pay any brokerage commissions or other charges with respect to the purchase of Class A common stock or Class B common stock under the plan for the current subscription period.

PURCHASES

14. How many shares are available to be purchased under the plan for the current subscription period?

Our board of directors reserved 120,000 shares of Class A common stock and 115,710 shares of Class B common stock for sale under the plan for the current subscription period.

15. What is the price of shares of Class A common stock and Class B common stock purchased under the plan?

The subscription price for each share of Class A common stock purchased under the plan will be 90% of the average of the closing prices of the Class A common stock on the Nasdaq National Market System on the last ten trading days of the current subscription period. The subscription price for each share of Class B common stock purchased under the plan will be 90% of the average of the closing prices of the Class B common stock on the Nasdaq National Market System on the last ten trading days of the current subscription period.

16. How may an eligible agency pay for shares purchased under the plan?

As with past purchases of common stock under the plan, an eligible agency can pay for shares purchased under the plan by means of three payment methods: Direct bill commission deduction, lump-sum payment or contingent commission deduction. The committee's adjustment to the plan will not effect the payment

method previously chosen by an eligible agency to purchase shares of capital stock under the plan.

17. What is the direct bill commission payment method?

Under the direct bill commission payment method, an eligible agency elected to purchase shares under the plan through deductions from its monthly direct bill commission payment by designating that a minimum of 1% and up to a maximum of 10% of the eligible agency's

monthly direct bill commission payments be withheld from the eligible agency's direct bill commission payments. Direct bill commission payments are subject to the total subscription limit under all payment methods of $12,000 per subscription period. "Direct bill commission payments" means those commissions that are earned and actually available for payment in a monthly period to an eligible agency for personal and commercial direct bill policies after all offsetting debits and credits are applied, as determined solely from our records.

18. What is the lump-sum payment method?

Under the lump-sum payment method, an eligible agency may elect to make lump-sum cash payments for the purchase of shares under the plan by October 31 of the current subscription period. Lump-sum cash payments may not be less than $1,000 for the current subscription period and are subject to the total subscription limit under all methods of $12,000 for the current subscription period.

19. What is the contingent commission payment method?

An eligible agency designated a percentage of the contingent commission payable to the participant under the terms of the applicable agency contingency plan (or its equivalent) to be withheld for the purchase of shares under the plan. Contingent commission payments are subject to the total subscription limit under all payment methods of $12,000 per subscription period.

20. Are there limitations on the amount of contributions or purchases that can be made?

Yes. Each eligible agency's total contributions for purchases from all payment methods (described in Questions and Answers 17, 18 and 19 above) may not exceed $12,000 during the current subscription period. At the close of the current subscription period, we will total each agency's contributions from all payment methods. If at any time throughout the current subscription period, an eligible agency's total payments exceed the $12,000 maximum amount, we will return the excess amount without interest to the Eligible Agency within a reasonable period.

21. How are purchases made under the plan?

We maintain on our books a plan account for each enrolled eligible agency. All contributions made by an eligible agency through deductions from an eligible agency's direct bill commission payments and contingent commission withholding and lump-sum payments during the current subscription period, up to $12,000, are

credited to the eligible agency's plan account. At the end of the current subscription period, the amount credited to each eligible agency's plan account will be divided by the subscription prices for the current subscription period, and the eligible agency's plan account will be credited, consistent with the agency's election form, with the number of whole shares of Class A common stock and Class B common stock that results, or in the alternative, the number of whole shares of Class A common stock that results. Any amount remaining in the plan account at the end of the current subscription period will be returned without interest to the eligible agency. If the number of shares of Class A common stock and Class B common stock subscribed for during the current subscription period exceeds the

number of shares available for sale under the plan, the remaining available shares will be allocated, consistent with the election form, among the participating eligible agencies in proportion to their aggregate plan account balances, exclusive of any amount carried forward from a previous subscription period.

SHARES; CERTIFICATES FOR SHARES

22. May an eligible agency transfer, pledge, hypothecate or assign shares credited to the agency's plan account?

An eligible agency may not transfer, pledge, hypothecate or assign its subscription rights under the plan or shares credited to its plan account, except for permitted designations as described in Question and Answer 24.

23. Are stock certificates issued for shares of Class A common stock and Class B common stock purchased?

We will issue and deliver to each eligible agency stock certificates for the shares of Class A common stock and Class B common stock it has purchased under the plan for the current subscription period within a reasonable time after purchase, but in no event later than 30 days after the end of the subscription period during which the shares were purchased.

24. In whose name are accounts maintained and certificates registered when issued?

Accounts in the plan are maintained in the name of the eligible agency. Consequently, certificates when issued for full shares are registered in the same name. An eligible agency may, upon written request to us, (a) designate that shares be issued to a shareholder, partner, other principal or other licensed employee of an eligible agency or (b) designate that any retirement plan maintained by or for the benefit of an eligible agency or a shareholder, partner, other principal or other licensed employee of the eligible agency may purchase shares instead of the eligible agency through lump-sum payments made by the designee. These permitted designations are subject to the maximum amount limitation of $12,000, compliance with all laws that apply, including the Employee Retirement Income Security Act of 1974, payment by the eligible agency or its designee of any required transfer taxes and satisfaction of our usual requirements for recognition of a transfer of our capital stock.

WITHDRAWAL FROM THE PLAN

25. How and when may an eligible agency withdraw from the plan?

An enrolled eligible agency may withdraw from the plan at any time by

notifying us in writing, signed on behalf of the eligible agency by an authorized representative. We will treat the termination of agency status for any reason as an automatic withdrawal.

26. What happens to any shares held in and amounts credited to an eligible agency's plan account at the time of withdrawal?

Promptly after the time of withdrawal or discontinuance of an agency's eligibility, but in no event later than 30 days after the end of the subscription period during which the withdrawal or termination occurred, we will issue certificates representing the whole shares held under the plan in the name of the agency, and will refund any amount credited to an eligible agency's plan account at the time of withdrawal to the participant in cash without interest.

OTHER INFORMATION

27. What are the federal income tax consequences of an eligible agency's participation in the plan?

At the time of purchase, and where an eligible agency purchases shares of Class A common stock and Class B common stock in its own name, the eligible agency will be treated as having received ordinary income in an amount equal to the difference between the subscription price paid and the then fair market value of the Class A common stock or Class B common stock acquired, as the case may be. At the end of the calendar year, we will mail to each participating agency a Form 1099 reflecting the amount of ordinary income earned under the plan. We will be entitled to a tax deduction at the same time in a corresponding amount. The participating agency's basis in the Class A common stock or Class B common stock purchased under the plan will be equal to the purchase price plus the amount of ordinary income recognized.

When an agency disposes of shares of Class A common stock or Class B common stock purchased under the plan, any amount received in excess of the value of the shares of Class A common stock or Class B common stock on which the agency was previously taxed will be treated as a long-term or short-term capital gain, depending upon the holding period of the shares. If the amount received is less than that value, the loss will be treated as a long-term or short-term capital loss, depending upon the holding period of the shares (which begins on the date after each share is acquired).

You are strongly advised to consult with a tax advisor to determine the tax consequences of a given transaction, particularly if a taxpayer other than you has been designated by you to become a participant in the plan.

28. May the plan be changed or discontinued?

Yes. Our board of directors has the right to amend, modify or terminate the plan at any time without notice if your existing rights are not adversely affected as a result of the amendment, modification or termination. Our board of directors has determined that the plan will be terminated at the end of the current subscription period and replaced with the new 2001 Agency Stock Purchase Plan. Each eligible agency will receive a new prospectus and subscription form relating to the 2001 Agency Stock Purchase Plan.

29. How may eligible agencies sell shares of Class A common stock purchased under the plan?

As discussed in Question and Answer 22, we will issue and deliver to eligible agencies the stock certificates for the shares purchased under the plan after the end of the subscription period during which the shares were purchased. Participants will have the sole discretion as to whether or when to sell their shares and may transfer or dispose of them at any time without restriction after receipt of their stock certificates. An agency may choose to sell shares through the broker of his or her choice.

DESCRIPTION OF CAPITAL STOCK

GENERAL

Our authorized Class A common stock consists of 30,000,000 shares. As of July 31, 2001, 5,973,804 shares of our Class A common stock were issued and outstanding. Our authorized Class B common stock consists of 10,000,000 shares. As of July 31, 2001, 2,978,759 shares of our Class B common stock was issued and outstanding. We also have authorized 2,000,000 shares of preferred stock, issuable in series upon resolution of our board of directors, none of which are outstanding. Except as otherwise required by the Delaware General Corporation Law, known as the DGCL, or as otherwise provided in our certificate of incorporation with respect to dividends and voting rights, each share of Class A common stock and each share of Class B common stock have identical powers, preferences and limitations.

Our certificate of incorporation provides that the holders of shares of Class A common stock are entitled to one-tenth of one vote per share held on any matter to be voted on by our stockholders, while the holders of shares of Class B common stock are entitled to one vote per share. Except as otherwise required under the DGCL or our certificate of incorporation, the holders of Class A common stock and the holders of Class B common stock vote together as a single class on all matters presented to our stockholders for a vote.

At any election of directors, the nominees receiving the highest number of votes cast by the holders of the Class A common stock and the Class B common stock for the number of directors to be elected will be elected as directors.

Under the DGCL and our certificate of incorporation, the affirmative vote of the holders of a majority of the Class A common stock and the Class B common stock, voting as a single class, is sufficient to amend our certificate of incorporation, to authorize additional shares of capital stock of any class, to approve any merger or consolidation of us with or into any other entity or the sale of all or substantially all of our assets or to approve our dissolution.

Under the DGCL, the holders of shares of Class A common stock are entitled to vote as a separate class on any proposal to change the par value of the Class A common stock or to alter or change the rights, preferences and limitations of the Class A common stock in a way that would affect the holders of shares of Class A common stock adversely. Similarly, the holders of shares of Class B common stock are entitled to vote as a separate class on any proposal to change

the par value of the Class B common stock or to alter or change the rights, preferences and limitations of the Class B common stock in a way that would affect the holders of shares of Class B common stock adversely. In addition, under the DGCL, the number of authorized shares of Class A common stock or Class B common stock may be increased or decreased, but not below the number of shares then outstanding, by the affirmative vote of the holders of a majority of the respective class of common stock voting as a separate class.

Our certificate of incorporation provides that each share of Class A common stock outstanding at the time of the declaration of any cash dividend or other distribution payable upon the shares of Class B common stock is entitled to a cash dividend or distribution payable at the

same time and to stockholders of record on the same date in an amount at least 10% greater than any cash dividend declared upon each share of Class B common stock. Each share of Class A common stock and Class B common stock is equal in respect to dividends or other distributions payable in shares of capital stock except that the dividends or distributions may be made (1) in shares of Class A common stock to the holders of Class A common stock and in shares of Class B common stock to the holders of Class B common stock, (2) in shares of Class A common stock to the holders of Class A common stock and to the holders of Class B common stock or (3) in any other authorized class or series of capital stock to the holders of Class A common stock and to the holders of Class B common stock.

There are no redemption or sinking fund provisions applicable to the Class A common stock or to the Class B common stock. All the shares of Class A common stock and Class B common stock offered by us pursuant to this prospectus, when issued and paid for, will be fully paid and non-assessable.

Each holder of Class A common stock and each holder of Class B common stock is entitled to receive the same per share consideration in a merger or consolidation of us into another entity except that, if the consideration paid to our stockholders consists in whole or in part of shares of another entity, the shares of the other entity issued to the holders of our Class B common stock may have greater voting rights than the shares of the other entity issued to the holders of the Class A common stock.

Neither the Class A common stock nor the Class B common stock is convertible into another class of common stock or any other security of Donegal Group.

The transfer agent and registrar for our Class A common stock and Class B common stock is EquiServe.

CERTAIN CHARTER AND BY-LAW PROVISIONS; DELAWARE ANTI-TAKEOVER PROVISIONS

Our certificate of incorporation, by-laws and the DGCL contain certain provisions that may enhance the likelihood of continuity and stability in the composition of our board of directors and may discourage a future unsolicited takeover of Donegal Group. These provisions could have the effect of discouraging certain attempts to acquire us or remove current management, including current members of our board of directors, even if some of our stockholders deemed these attempts to be in their best interests.

Our certificate of incorporation authorizes us to issue two classes of

common stock, Class A common stock and Class B common stock. The holders of the Class A common stock are entitled to one-tenth of one vote per share, while the holders of the Class B common stock are entitled to one vote per share, on all matters submitted to a vote of our stockholders. In addition, our certificate of incorporation does not grant any holder of our stock the right to cumulate votes in the election of directors. The Mutual Company currently owns approximately 62.2% of our Class A common stock and 62.2% of our Class B common stock and has effective voting control over us. This ownership by the Mutual Company could avert or prevent a change in control of us unless the Mutual Company, after consideration of all relevant factors including the interests of our stockholders other than the Mutual Company, is in favor of such a change.

Our board of directors, without stockholder approval, has the authority to issue preferred stock with voting and conversion rights that could adversely affect the voting power of the Class A common stock and the Class B common stock. The issuance of preferred stock could have the effect of delaying, averting or preventing a change in control of us. No preferred stock has been issued, and our board of directors does not intend to issue any preferred stock at the present time.

Our by-laws provide for a classified board of directors consisting of three classes as nearly equal in size as possible. The classification of our board of directors could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from acquiring, control of us.

We are a Delaware corporation that is subject to certain anti-takeover provisions of the DGCL. The business combination provisions contained in Section 203 of the DGCL defines an interested stockholder of a corporation as any person that (1) owns, directly or indirectly, or has the right to acquire, 15% or more of the outstanding voting stock of the corporation or (2) is an affiliate or associate of the corporation and was the owner of 15% or more of the outstanding voting stock of the corporation at any time within the three-year period immediately prior to the date on which it is sought to be determined whether the person is an interested stockholder; and the affiliates and the associates of the person. Under Section 203, a Delaware corporation may not engage in any business combination with any interested stockholder for a period of three years following the date the stockholder became an interested stockholder, unless (1) prior to that date the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder, (2) upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced (excluding, for determining the number of shares outstanding, (a) shares owned by persons who are directors and officers and (b) employee stock plans, in certain instances) or (3) on or after that date the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders by at least 66-2/3% of the outstanding voting stock that is not owned by the interested stockholder.

The restrictions imposed by Section 203 will not apply to a corporation if the corporation, by the action of its stockholders holding a majority of the outstanding stock, adopts an amendment to its certificate of incorporation or by-laws expressly electing not to be governed by Section 203. The amendment will not be effective until 12 months after adoption and will not apply to any business combination between the corporation and any person who became an

interested stockholder of the corporation on or prior to the adoption of the amendment.

We have not elected to opt out of Section 203, and the restrictions imposed by Section 203 apply to us. Section 203 could, under certain circumstances, make it more difficult for a third party to gain control of us, deny stockholders the receipt of a premium on their Class A common stock and Class B common stock and have a depressive effect on the market price of the Class A common stock and the Class B common stock.

In addition, we are subject to Pennsylvania insurance laws and regulations that prohibit any person from acquiring a greater than 10% interest in us without the prior approval of the Insurance Commissioner of the Commonwealth of Pennsylvania. These provisions could make it more difficult for a third party to gain control of us, deny stockholders the receipt of a premium on their Class A common stock and Class B common stock and have a depressive effect on the market price of the Class A common stock and the Class B common stock.

LIMITATION OF LIABILITY; INDEMNIFICATION

As permitted by the DGCL, Article 6 of our certificate of incorporation provides that our directors will not be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to us or our stockholders, (ii) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL, relating to prohibited dividends, distributions and repurchases or redemptions of stock or (iv) for any transaction from which the director derives an improper personal benefit.

Article 5 of our by-laws includes provisions for indemnification of our directors and officers to the fullest extent permitted by the DGCL as now in effect or as in effect at a later date. Insofar as indemnification for liabilities arising under the federal securities laws may be permitted to directors, officers and persons controlling us under these provisions, we have been informed that in the opinion of the SEC this indemnification is against public policy as expressed in federal securities laws and is unenforceable.

PLAN OF DISTRIBUTION

We have reserved 120,000 shares of Class A common stock and 115,710 shares of Class B common stock for sale to eligible agencies under the plan for the current subscription period. We will offer the shares of Class A common stock and Class B common stock under the plan directly to eligible agencies through our officers and will not use a broker or a dealer. In addition, we will not pay commissions, discounts or any other payments to any person for services in connection with the offer or sale of shares of Class A common stock and Class B common stock under the plan. We will pay all costs of administering the plan. Participants will not incur brokerage commissions or service charges for the purchase of shares under the plan.

USE OF PROCEEDS

No minimum amount of proceeds is required to be received by Donegal Group in this offering. Donegal Group will retain all proceeds from the sale of shares of Class A common stock and Class B common stock under the plan. We intend to

use the proceeds from sales of these shares for general corporate purposes, including making investments in and advances to our subsidiaries.

EXPERTS

The consolidated financial statements and schedules of Donegal Group as of December 31, 2000 and 1999, and for each of the years in the three-year period ended December 31, 2000, have been incorporated by reference in this prospectus and in the registration statement in reliance upon the reports of KPMG LLP, independent certified public accountants, incorporated by reference in this prospectus, and upon the authority of that firm as experts in accounting and auditing.

LEGAL OPINION

The validity of the issuance of the shares of Class A common stock and Class B common stock offered hereby will be passed upon for us by Duane, Morris & Heckscher LLP, Philadelphia, Pennsylvania. As of April 20, 2001, persons who are partners of or of counsel to Duane, Morris & Heckscher LLP beneficially owned 25,594 shares of our outstanding Class A common stock, and 12,797 shares of our outstanding Class B common stock, of which 5,926 shares represent shares of Class A common stock purchasable under currently exercisable stock options and 2,963 shares represent shares of Class B common stock purchasable under currently exercisable stock options. In addition, Frederick W. Dreher, a partner of Duane, Morris & Heckscher LLP, is a director of the Mutual Company and is one of its members on the coordinating committee. The Mutual Company is a holder of approximately 62.2% of our Class A common stock and 62.2% of our Class B common stock.

AVAILABLE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any reports, statements or other information we file at the SEC's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our filings with the SEC are also available to the public from commercial document retrieval services and at the worldwide web site maintained by the SEC at "http://www.sec.gov."

We filed with the SEC in Washington, D.C. a registration statement on Form S-2 under the Securities Act with respect to the securities covered by this prospectus. As permitted by the rules and regulations of the SEC, this prospectus does not contain all of the information set forth in the registration statement. For further information with respect to Donegal Group and the securities covered by this prospectus, reference is made to the registration statement, including the exhibits filed or incorporated in the registration statement. Statements contained in this prospectus concerning the provisions of documents filed with, or incorporated by reference in, the registration statement as exhibits are necessarily summaries of those documents and each statement is qualified in its entirety by reference to the copy of the applicable documents filed with the SEC. Copies of the registration statement and the exhibits are on file at the offices of the SEC and may be obtained upon payment of the prescribed fee or may be examined without charge at the public reference facilities of the SEC described above or at the worldwide web site maintained by the SEC described above.

23

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

We incorporate the following documents in this prospectus by reference:

(a) Our Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the SEC on March 29, 2001;

(b) Our Quarterly Report on Form 10-Q for the quarter ended March 31, 2001, as filed with the SEC on May 14, 2001;

(c) Our Quarterly Report on Form 10-Q for the quarter ended June 30, 2001, as filed with the SEC on August 14, 2001; and

(d) Our 2000 Annual Report to Stockholders (only those portions consisting of the following are incorporated by reference in this Registration Statement: (i) the description of the business of Donegal Group included as part of the Management's Discussion and Analysis of Results of Operation and Financial Condition on page 10 thereof; (ii) the consolidated financial statements, notes thereto and independent auditors' report thereon on pages 13 through 28 thereof; (iii) the information set forth under "Market Information" on the inside back cover thereof; (iv) the selected financial data set forth under "Financial Highlights" on the inside front cover thereof; and (iv) the "Management's Discussion and Analysis of Results of Operations and Financial Condition" on pages 10 through 12 thereof) included as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the SEC on March 29, 2001). The remaining portions of the 2000 Annual Report to Stockholders are not incorporated by reference herein, consisting of pages 1, 2, 3, 4, 5, 6, 7, 8, 29 and 30, inclusive, the information on the inside back cover other than the information under "Market Information" and the front and back outside cover pages of the 2000 Annual Report to Stockholders, and are not part of this registration statement.

All documents filed by us pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus and prior to the filing of a post-effective amendment that indicates that all securities offered have been sold or that deregisters all securities then remaining unsold, shall be deemed to be incorporated by reference in this prospectus and to be a part hereof from the date of filing of such documents. Any statement incorporated in this prospectus shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus or in any other subsequently filed document which also is or is deemed to be incorporated by reference in this prospectus modifies or supersedes such statement and any statement contained in this prospectus shall be deemed to be modified or superseded for all purposes to the extent that a statement contained in any subsequently filed document that is deemed to be incorporated by reference modifies or supersedes such statement.

24

We will provide without charge to each person, including any beneficial owner, to whom this prospectus is delivered, on request, a copy of any or all documents incorporated in this prospectus by reference, other than exhibits to

those documents unless the exhibits are specifically incorporated by reference therein. Requests should be directed to:

Ralph G. Spontak
Senior Vice President and Chief Financial Officer
Donegal Group Inc.
1195 River Road
Marietta, PA 17547
(888) 877-0600

25

DONEGAL GROUP INC.

AGENCY STOCK PURCHASE PLAN

120,000
SHARES OF
CLASS A COMMON STOCK

115,710
SHARES OF
CLASS B COMMON STOCK

PROSPECTUS

DATED: , 2001

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH DIFFERENT INFORMATION.

WE DO NOT CLAIM THE ACCURACY OF THE INFORMATION IN THIS PROSPECTUS AS OF ANY DATE OTHER THAN THE DATE STATED ON THE COVER PAGE OF THE PROSPECTUS.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

Item	Amount
Registration Fee	$ 750
Accounting Fees and Expenses	1,000*
Legal Fees and Expenses	4,500*
Printing and Duplicating	650*
Miscellaneous Expenses	500*
Total	$7,400*

*Estimated

ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Section 145 of the General Corporation Law of the State of Delaware empowers a Delaware corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that such person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe such person's conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon plea of nolo contendere or its equivalent, does not, of itself, create a presumption that the person did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that such person's conduct was unlawful.

In the case of an action or suit by or in the right of the corporation to procure a judgment in its favor, Section 145 empowers a corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by reason of the fact that such person is or was acting in any of the capacities set forth above against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation, except that indemnification is not permitted in respect of any claim, issue or matter as to which such person is adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit

was brought determines upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court deems proper.

Section 145 further provides that a Delaware corporation is required to indemnify a director, officer, employee or agent against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with any action, suit or proceeding or in defense of any claim, issue or matter therein as to which such person has been successful on the merits or otherwise; that indemnification provided for by Section 145 shall not be deemed exclusive of any other rights to which the indemnified party may be entitled; that indemnification provided for by Section 145 shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of such person's heirs, executors and administrators; and empowers the corporation to purchase and maintain insurance on behalf of a director or officer against any liability asserted against such person and incurred by such person in any such capacity or arising out of such person's status as such whether or not the corporation would have the power to indemnify such person against such liability under Section 145. A Delaware corporation may provide indemnification only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because such person has met the applicable standard of conduct. Such determination is to be made (i) by a majority vote of the directors who were not parties to such action, suit or proceeding, or (ii) by a committee of such directors designated by the majority vote of such directors, or (iii) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion or (iv) by the stockholders.

Article 5 of Donegal Group's By-laws provides for indemnification of directors and officers of Donegal Group to the fullest extent permitted by the General Corporation Law of the State of Delaware, as presently or hereafter in effect. The By-laws of the Mutual Company also provide that the Mutual Company shall indemnify to the full extent authorized by law any director or officer of the Mutual Company who is made, or threatened to be made, a party to any action or proceeding, whether criminal, civil, administrative or investigative, by reason of the fact that such person is or was serving as a director, officer, employee or agent of Donegal Group, or is or was serving as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise at the request of the Mutual Company.

Donegal Group provides liability insurance for directors and officers for certain losses arising from claims or charges made against them while acting in their capacities as directors or officers of Donegal Group up to an aggregate of $5,000,000 inclusive of defense costs, expenses and charges.

Additionally, as permitted by the General Corporation Law of the State of Delaware, Article 6 of Donegal Group's Certificate of Incorporation provides that no director of Donegal Group shall incur personal liability to Donegal Group or its stockholders for monetary damages for breach of such person's fiduciary duty as a director; provided, however, that the provision does not eliminate or limit the liability of a director for (i) any breach of the director's duty of loyalty to Donegal Group or its stockholders; (ii) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (iii) the unlawful payment of dividends or unlawful purchase

or redemption of stock under Section 174 of the General Corporation Law of the State of Delaware; or (iv) any transaction from which the director derived an improper personal benefit.

ITEM 16. EXHIBITS.

EXHIBIT NUMBER	DESCRIPTION OF EXHIBITS
4.1	Form of Subscription Agreement Under the Donegal Group Inc. Agency Stock Purchase Plan
4.2	Election Form Under the Donegal Group Inc. Agency Stock Purchase Plan
5.1	Opinion of Duane, Morris & Heckscher LLP
10.1	Tax Sharing Agreement dated September 29, 1986 between Donegal Group Inc. and Atlantic States Insurance Company
10.2	Services Allocation Agreement dated September 29, 1986 between Donegal Mutual Insurance Company, Donegal Group Inc. and Atlantic States Insurance Company
10.3	Proportional Reinsurance Agreement dated September 29, 1986 between Donegal Mutual Insurance Company and Atlantic States Insurance Company
10.4	Amendment dated October 1, 1988 to Proportional Reinsurance Agreement between Donegal Mutual Insurance Company and Atlantic States Insurance Company

EXHIBIT NUMBER	DESCRIPTION OF EXHIBITS
10.5	Multi-Line Excess of Loss Reinsurance Agreement effective January 1, 1993 between Donegal Mutual Insurance Company, Southern Insurance Company of Virginia, Atlantic States Insurance Company and Pioneer Mutual Insurance Company, and Christiana General Insurance Corporation of New York, Cologne Reinsurance Company of America, Continental Casualty Company, Employers Reinsurance Corporation and Munich American Reinsurance Company
10.6	Amendment dated July 16, 1992 to Proportional Reinsurance Agreement between Donegal Mutual Insurance Company and Atlantic States Insurance Company
10.7	Donegal Group Inc. 1996 Employee Stock Purchase Plan
10.8	Donegal Group Inc. Agency Stock Purchase Plan

10.9	Amendment effective September 17, 2001 to Donegal Group Inc. Agency Stock Purchase Plan
10.10	Donegal Group Inc. Amended and Restated 1996 Equity Incentive Plan
10.11	Donegal Group Inc. Amended and Restated 1996 Equity Incentive Plan for Directors
10.12	Donegal Mutual Insurance Company Executive Restoration Plan
10.13	Donegal Mutual Insurance Company 401(k) Plan
10.14	Amendment No. 1 effective January 1, 2000 to Donegal Mutual Insurance Company 401(k) Plan
10.15	Donegal Group Inc. 2001 Equity Incentive Plan for Employees
10.16	Donegal Group Inc. 2001 Equity Incentive Plan for Directors
10.17	Donegal Group Inc. 2001 Employee Stock Purchase Plan, as amended

EXHIBIT NUMBER	DESCRIPTION OF EXHIBITS
10.18	Donegal Group Inc. Amended and Restated 2001 Agency Stock Purchase Plan
10.19	Amendment dated as of December 21, 1995 to Proportional Reinsurance Agreement between Donegal Mutual Insurance Company and Atlantic States Insurance Company
10.20	Stock Purchase Agreement dated as of December 21, 1995 between Donegal Mutual Insurance Company and Donegal Group Inc.
10.21	Reinsurance and Retrocession Agreement dated May 21, 1996 between Donegal Mutual Insurance Company and Pioneer Insurance Company
10.22	Reinsurance and Retrocession Agreement dated May 21, 1996 between Donegal Mutual Insurance Company and Delaware American Insurance Company
10.23	Reinsurance and Retrocession Agreement dated May 21, 1996 between Donegal Mutual Insurance Company and Southern Insurance Company of Virginia
10.24	Reinsurance and Retrocession Agreement effective January 1, 2000 between Donegal Mutual Insurance Company and Southern Heritage Insurance Company
10.25	Property Catastrophe Excess of Loss Reinsurance Agreement effective January 1, 2000 between Donegal Mutual Insurance Company and Southern Heritage Insurance Company
10.26	Stock Purchase Agreement dated as of May 14, 1998 between Donegal Group Inc. and Southern Heritage Limited Partnership

10.27	Amendment dated November 17, 1998 to Stock Purchase Agreement dated as of May 14, 1998 between Donegal Group Inc. and Southern Heritage Limited Partnership
10.28	Amended and Restated Credit Agreement dated as of July 27, 1998 among Donegal Group Inc., the banks and other financial institutions from time to time party thereto and Fleet National Bank, as agent

EXHIBIT NUMBER	DESCRIPTION OF EXHIBITS
10.29	First Amendment and Waiver to the Amended and Restated Credit Agreement dated as of December 31, 1999
10.30	Stock Purchase Agreement dated as of July 20, 2000 between Donegal Mutual Insurance Company and Donegal Group Inc.
10.31	Amendment dated as of April 20, 2000 to Proportional Reinsurance Agreement between Donegal Mutual Insurance Company and Atlantic States Insurance Company
10.32	Lease Agreement dated as of September 1, 2000 between Donegal Mutual Insurance Company and Province Bank FSB
10.33	Aggregate Excess of Loss Reinsurance Agreement dated as of January 1, 2001 between Donegal Mutual Insurance Company and Pioneer Insurance Company
13.1	2000 Annual Report to Stockholders
23.1	Consent of KPMG LLP
23.2	Consent of Duane, Morris & Heckscher LLP (included in its opinion)
24.1	Powers of Attorney (included on Signature Page)

(a) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form S-2 Registration Statement No. 333-06787 declared effective August 1, 1996.

(b) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form S-1 Registration Statement No. 33-8533 declared effective October 29, 1986.

(c) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form 10-K Report for the year ended December 31, 1988.

(d) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form S-2 Registration Statement No. 33-67346 declared effective September 29, 1993.

(e) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form 10-K Report for the year ended December 31, 1992.

(f) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form S-8 Registration Statement No. 333-01287 filed with the SEC on February 28, 1996.

(g) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form 10-K Report for the year ended December 31, 1996.

(h) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form 10-K Report for the year ended December 31, 1997.

(i) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form 10-K Report for the year ended December 31, 1999.

(j) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form 10-K Report for the year ended December 31, 2000.

(k) Such exhibit is hereby incorporated by reference to the liked-described exhibit in Registrant's Form 8-K Report dated December 21, 1995.

(l) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form 8-K Report dated November 17, 1998.

(m) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form 8-K Report dated June 19, 2000.

(n) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form S-8 Registration Statement No. 333-62974 filed with the SEC on June 14, 2001.

(o) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form 10-K Report for the year ended December 31, 1998.

(p) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Amendment No. 3 to Form S-2 Registration Statement No. 333-63102 filed with the SEC on September 26, 2001.

(q) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form S-2 Registration Statement No. 333-68748 filed with the SEC on August 30, 2001.

ITEM 17. UNDERTAKINGS.

The undersigned Registrant hereby undertakes:

(a) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) to include any prospectus required by section 10(a)(3) of the Securities Act;

(ii) to reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the SEC pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective Registration Statement; and

(iii) to include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement.

provided, however, that paragraphs (a)(i) and (a)(ii) of this section do not apply if the registration statement is on Form S-3 or Form S-8 and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the SEC by the Registrant pursuant to Section 13 or Section 15(d) of the Exchange Act that are incorporated by reference in the Registration Statement.

(b) For the purpose of determining any liability under the Securities Act, to treat each post-effective amendment as a new registration statement relating to the securities offered therein, and the offering of such securities at that time to be the initial bona fide offering thereof.

(c) To file a post-effective amendment to remove from registration any of the securities being registered that remain unsold at the termination of the offering.

(d) That, for the purpose of determining any liability under the Securities Act, each filing of the Registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in the Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

The undersigned Registrant hereby further undertakes to deliver or cause to be delivered with the prospectus, to each person to whom the prospectus is sent or given, the latest annual report to security holders that is incorporated by reference in the prospectus and furnished pursuant to and meeting the requirements of Rule 14a-3 or Rule 14c-3 under the Exchange Act; and, where

interim financial information required to be presented by Article 3 of Regulation S-X is not set forth in the prospectus, to deliver, or cause to be delivered, to each person to whom the prospectus is sent or given, the latest quarterly report that is specifically incorporated by reference in the prospectus to provide such interim financial information.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-2 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Marietta, Pennsylvania, on September 24, 2001.

DONEGAL GROUP INC.

By: /s/ Donald H. Nikolaus

Donald H. Nikolaus, President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date

/s/ Donald H. Nikolaus Donald H. Nikolaus	President, Chief Executive Officer and a Director (principal executive officer)	September 24, 200
/s/ Ralph G. Spontak Ralph G. Spontak	Senior Vice President, Chief Financial Officer and Secretary (principal financial and accounting officer)	September 24, 200
C. Edwin Ireland	Director	September , 200
* Patricia A. Gilmartin	Director	September 24, 200
* Philip H. Glatfelter, II	Director	September 24, 200

Signature	Title	Date
* R. Richard Sherbahn	Director	September 24, 200
Thomas J. Finley, Jr.	Director	September , 200
* Robert S. Bolinger	Director	September 24, 200

----------	Director	September , 200
John J. Lyons		---

By: /s/ Ralph G. Spontak

Ralph G. Spontak, as attorney-in-fact

*Signed pursuant to power of attorney

EXHIBIT INDEX

(Pursuant to Item 601 of Regulation S-K)

EXHIBIT NUMBER	DESCRIPTION OF EXHIBITS
4.1	Form of Subscription Agreement Under the Donegal Group Inc. Agency Stock Purchase Plan
4.2	Election Form Under the Donegal Group Inc. Agency Stock Purchase Plan
5.1	Opinion of Duane, Morris & Heckscher LLP
10.1	Tax Sharing Agreement dated September 29, 1986 between Donegal Group Inc. and Atlantic States Insurance Company
10.2	Services Allocation Agreement dated September 29, 1986 between Donegal Mutual Insurance Company, Donegal Group Inc. and Atlantic States Insurance Company
10.3	Proportional Reinsurance Agreement dated September 29, 1986 between Donegal Mutual Insurance Company and Atlantic States Insurance Company
10.4	Amendment dated October 1, 1988 to Proportional Reinsurance Agreement between Donegal Mutual Insurance Company and Atlantic States Insurance Company
10.5	Multi-Line Excess of Loss Reinsurance Agreement effective January 1, 1993 between Donegal Mutual Insurance Company, Southern Insurance Company of Virginia, Atlantic States Insurance Company and Pioneer Mutual Insurance Company, and Christiana General Insurance Corporation of New York, Cologne Reinsurance Company of America, Continental Casualty Company, Employers Reinsurance Corporation and Munich American

	Reinsurance Company
10.6	Amendment dated July 16, 1992 to Proportional Reinsurance Agreement between Donegal Mutual Insurance Company and Atlantic States Insurance Company
10.7	Donegal Group Inc. 1996 Employee Stock Purchase Plan

EXHIBIT NUMBER	DESCRIPTION OF EXHIBITS
10.8	Donegal Group Inc. Agency Stock Purchase Plan
10.9	Amendment effective September 17, 2001 to Donegal Group Inc. Agency Stock Purchase Plan
10.10	Donegal Group Inc. Amended and Restated 1996 Equity Incentive Plan
10.11	Donegal Group Inc. Amended and Restated 1996 Equity Incentive Plan for Directors
10.12	Donegal Mutual Insurance Company Executive Restoration Plan
10.13	Donegal Mutual Insurance Company 401(k) Plan
10.14	Amendment No. 1 effective January 1, 2000 to Donegal Mutual Insurance Company 401(k) Plan
10.15	Donegal Group Inc. 2001 Equity Incentive Plan for Employees
10.16	Donegal Group Inc. 2001 Equity Incentive Plan for Directors
10.17	Donegal Group Inc. 2001 Employee Stock Purchase Plan, as amended
10.18	Donegal Group Inc. Amended and Restated 2001 Agency Stock Purchase Plan
10.19	Amendment dated as of December 21, 1995 to Proportional Reinsurance Agreement between Donegal Mutual Insurance Company and Atlantic States Insurance Company
10.20	Stock Purchase Agreement dated as of December 21, 1995 between Donegal Mutual Insurance Company and Donegal Group Inc.
10.21	Reinsurance and Retrocession Agreement dated May 21, 1996 between Donegal Mutual Insurance Company and Pioneer Insurance Company

EXHIBIT NUMBER	DESCRIPTION OF EXHIBITS
10.22	Reinsurance and Retrocession Agreement dated May 21, 1996 between

	Donegal Mutual Insurance Company and Delaware American Insurance Company
10.23	Reinsurance and Retrocession Agreement dated May 21, 1996 between Donegal Mutual Insurance Company and Southern Insurance Company of Virginia
10.24	Reinsurance and Retrocession Agreement effective January 1, 2000 between Donegal Mutual Insurance Company and Southern Heritage Insurance Company
10.25	Property Catastrophe Excess of Loss Reinsurance Agreement effective January 1, 2000 between Donegal Mutual Insurance Company and Southern Heritage Insurance Company
10.26	Stock Purchase Agreement dated as of May 14, 1998 between Donegal Group Inc. and Southern Heritage Limited Partnership
10.27	Amendment dated November 17, 1998 to Stock Purchase Agreement dated as of May 14, 1998 between Donegal Group Inc. and Southern Heritage Limited Partnership
10.28	Amended and Restated Credit Agreement dated as of July 27, 1998 among Donegal Group Inc., the banks and other financial institutions from time to time party thereto and Fleet National Bank, as agent
10.29	First Amendment and Waiver to the Amended and Restated Credit Agreement dated as of December 31, 1999
10.30	Stock Purchase Agreement dated as of July 20, 2000 between Donegal Mutual Insurance Company and Donegal Group Inc.
10.31	Amendment dated as of April 20, 2000 to Proportional Reinsurance Agreement between Donegal Mutual Insurance Company and Atlantic States Insurance Company
10.32	Lease Agreement dated as of September 1, 2000 between Donegal Mutual Insurance Company and Province Bank FSB

EXHIBIT NUMBER	DESCRIPTION OF EXHIBITS
10.33	Aggregate Excess of Loss Reinsurance Agreement dated as of January 1, 2001 between Donegal Mutual Insurance Company and Pioneer Insurance Company
13.1	2000 Annual Report to Stockholders
23.1	Consent of KPMG LLP
23.2	Consent of Duane, Morris & Heckscher LLP (included in its opinion)
24.1	Powers of Attorney (included on Signature Page)

(a) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form S-2 Registration Statement No. 333-06787 declared effective August 1, 1996.

(b) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form S-1 Registration Statement No. 33-8533 declared effective October 29, 1986.

(c) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form 10-K Report for the year ended December 31, 1988.

(d) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form S-2 Registration Statement No. 33-67346 declared effective September 29, 1993.

(e) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form 10-K Report for the year ended December 31, 1992.

(f) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form S-8 Registration Statement No. 333-01287 filed with the SEC on February 28, 1996.

(g) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form 10-K Report for the year ended December 31, 1996.

(h) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form 10-K Report for the year ended December 31, 1997.

(i) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form 10-K Report for the year ended December 31, 1999.

(j) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form 10-K Report for the year ended December 31, 2000.

(k) Such exhibit is hereby incorporated by reference to the liked-described exhibit in Registrant's Form 8-K Report dated December 21, 1995.

(l) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form 8-K Report dated November 17, 1998.

(m) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form 8-K Report dated June 19, 2000.

(n) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form S-8 Registration Statement No. 333-62974 filed with the SEC on June 14, 2001.

(o) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form 10-K Report for the year ended December 31, 1998.

(p) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Amendment No. 3 to Form S-2 Registration Statement No. 333-63102 filed with the SEC on September 26, 2001.

(q) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form S-2 Registration Statement No. 333-68748 filed with the SEC on August 30, 2001.