

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

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

For the fiscal year ended December 31, 2000

OR

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

For the transition period from _____ to _____

Commission file number 0-15341

DONEGAL GROUP INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

1195 River Road, Marietta, Pennsylvania
(Address of principal executive offices)

17547
(Zip code)

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

Securities registered pursuant to Section 12(b) of the Act: None.

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$1.00 par value
(Title of class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

On March 15, 2001, the aggregate market value (based on the closing sales price on that date) of the voting stock held by non-affiliates of the Registrant was \$33,698,644.

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date: 8,902,015 shares of Common Stock outstanding on March 15, 2001.

DOCUMENTS INCORPORATED BY REFERENCE:

- i. Portions of the Registrant's annual report to stockholders for the fiscal year ended December 31, 2000 are incorporated by reference into Parts I, II and IV of this report.
- ii. Portions of the Registrant's proxy statement relating to the annual meeting of stockholders to be held April 19, 2001 are incorporated by reference into Part III of this report.

DONEGAL GROUP INC.

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PART I

Item 1. Business.

(a) General Development of Business.

Donegal Group Inc. is an insurance holding company formed in August 1986, which is headquartered in Pennsylvania and engages, through its subsidiaries, in the property and casualty insurance business in 15 mid-Atlantic and southeastern states. As used herein, "DGI" or the "Company" refers to Donegal Group Inc. and its insurance subsidiaries, Atlantic States Insurance Company ("Atlantic States"), Southern Insurance Company of Virginia ("Southern"), Delaware Atlantic Insurance Company ("Delaware Atlantic"), Pioneer Insurance Company ("Pioneer Ohio"), Southern Heritage Insurance Company ("Southern Heritage") and Pioneer Insurance Company ("Pioneer New York"). DGI is currently 62.2% owned by Donegal Mutual Insurance Company (the "Mutual Company"). DGI and its subsidiaries and the Mutual Company underwrite a broad line of personal and commercial coverages, consisting of private passenger and commercial automobile, homeowners, commercial multi-peril, workers' compensation and other lines of insurance.

The Company's strategy is to seek growth both internally and through acquisitions. Since the formation of the Company and Atlantic States in 1986, the Company has completed the following acquisitions:

Company Acquired -----	Year Acquired -----	Net Premiums Written Year Prior to Acquisition -----	Net Premiums Written Year Ended December 31, 2000 -----
Southern Insurance Company of Virginia	1988	\$ 1,128,843	\$14,814,884
Delaware Atlantic Insurance Company	1995	2,824,398	6,179,670
Pioneer Insurance Company (Ohio)	1997	4,499,273	4,697,082
Southern Heritage Insurance Company	1998	32,002,540	15,879,768
Pioneer Insurance Company (New York)	2001	1,917,723	1,917,723

The Company evaluates other acquisition candidates on a continuing basis. However, there can be no assurance as to whether or when the Company will effect any additional acquisitions.

Atlantic States, which DGI organized in September 1986, participates in an underwriting pool whereby it cedes to the Mutual Company the premiums, losses and loss expenses from all of its insurance business and assumes from the Mutual Company a specified portion of the pooled business, which also includes substantially all of the Mutual

Company's property and casualty insurance business. Effective as of October 1, 1986, DGI entered into a pooling agreement with the Mutual Company whereby Atlantic States assumed 35% of the pooled business written or in force on or after October 1, 1986, with the Mutual Company remaining solely responsible for any losses in the pooled business with dates of loss on or before the close of business on September 30, 1986. Pursuant to amendments to the pooling agreement subsequent to October 1, 1986, the Mutual Company has increased the percentage of retrocessions of the pooled business to Atlantic States, and, since July 1, 2000, 70% of the pooled business has been retroceded to Atlantic States. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 hereof and Note 3 to the Consolidated Financial Statements incorporated by reference herein.

On December 29, 1988, DGI acquired all of the outstanding capital stock of Southern in exchange for a \$3,000,000 equity contribution to Southern. Since January 1, 1991, Southern has ceded to the Mutual Company 50% of its direct premiums written and 50% has been retained by Southern. Because the Mutual Company places substantially all of the business assumed from Southern in the pool, in which DGI has a 70% allocation, DGI's results of operations include approximately 85% of the business written by Southern. See Note 3 to the Consolidated Financial Statements incorporated by reference herein.

As of December 31, 1995, the Company acquired all of the outstanding capital stock of Delaware Atlantic pursuant to a Stock Purchase Agreement dated as of December 21, 1995 between the Company and the Mutual Company.

As of March 31, 1997, the Company acquired all of the outstanding capital stock of Pioneer Ohio pursuant to a Stock Purchase Agreement dated as of April 7, 1997 between the Company and the Mutual Company.

On November 17, 1998, DGI purchased all of the outstanding capital stock of Southern Heritage, a Georgia-domiciled property and casualty insurance company, from Southern Heritage Limited Partnership for a purchase price, as finally settled, of \$18,824,950 in cash.

As of January 1, 2001, DGI purchased all of the outstanding capital stock of Pioneer New York from the Mutual Company pursuant to a Stock Purchase Agreement dated as of July 20, 2000.

The Mutual Company is currently a party to retrocessional reinsurance contracts with each of the Company's subsidiaries, Southern, Delaware Atlantic, Pioneer Ohio, Southern Heritage and Pioneer New York, whereby the Mutual Company reinsures each such subsidiary in respect of 100% of the net liability that may accrue to such subsidiary from its insurance operations and retrocedes 100% of the net liability back to such subsidiary, with the exception of Pioneer New York, as to which it retrocedes, effective January 1, 2000, 90% of the net liability, and each such subsidiary assumes the retroceded liability.

DGI and the Mutual Company jointly own Donegal Financial Services Corporation ("Donegal Financial"), the holding company for Province Bank FSB ("Province Bank"), a federal savings bank headquartered in Marietta, Pennsylvania, the deposits of which are insured by the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation. In connection with the initial capitalization of Province Bank, which opened for business in September 2000, the Mutual Company purchased 55%, for \$3,575,000, and the Company purchased 45%, for \$2,925,000, of the capital stock of Donegal Financial. The Company provided additional cash, in the amount of \$117,000, to Donegal Financial subsequent to September 2000.

Unless otherwise stated, all information in this report gives retroactive effect to the four-for-three split of the Company's Common Stock effected through a stock dividend of one share of Common Stock for each three shares outstanding, which was paid on June 25, 1998 to stockholders of record on June 10, 1998.

(b) Financial Information about Industry Segments.

The Company has three segments, which consist of the investment function, the personal lines of insurance and the commercial lines of insurance. Financial information about these segments is set forth in Note 17 to the Consolidated Financial Statements incorporated by reference herein.

(c) Narrative Description of Business.

Relationship with the Mutual Company

DGI's insurance operations are interrelated with the insurance operations of the Mutual Company and, because of the percentage of the pooled business assumed by DGI, DGI's results of operations are dependent to a material extent upon the success of the Mutual Company. In addition, various reinsurance agreements exist between the Company's insurance subsidiaries and the Mutual Company. The Mutual Company is responsible for underwriting and marketing the pooled business and provides facilities, employees and services required to conduct the business of DGI on a cost-allocated basis. The Mutual Company owned 62.2% of DGI as of March 15, 2001.

Through the pool and through its insurance subsidiaries, DGI writes personal and commercial property and casualty insurance lines, including automobile, homeowners, commercial multi-peril, workers' compensation and other lines of business.

The Mutual Company provides all personnel for the Company and certain of its insurance subsidiaries, including Atlantic States, Delaware Atlantic, Southern and Pioneer Ohio. Expenses are allocated to the Company, Delaware Atlantic, Southern and Pioneer Ohio according to a time allocation and estimated usage agreement, and to Atlantic States in

relation to the relative participation of the Mutual Company and Atlantic States in the pooling agreement described herein. Expenses allocated to the Company under such agreement were \$26,677,399 in 2000.

The Mutual Company leases office equipment and automobiles from the Company, under a lease dated January 1, 2000. The Mutual Company made lease payments to the Company of \$836,997 in 2000.

Under the terms of the intercompany pooling agreement, Atlantic States cedes to the Mutual Company the premiums, losses and loss expenses on all of its insurance business. Substantially all of the Mutual Company's property and casualty insurance business written or in force on or after October 1, 1986 is included in the pooled business, with the Mutual Company remaining solely responsible for any losses in the pooled business with dates of loss on or before the close of business on September 30, 1986. Pursuant to amendments to the pooling agreement subsequent to October 1, 1986, the Mutual Company has increased the percentage of retrocessions of the pooled business to Atlantic States, and, as most recently amended, effective as of July 1, 2000, 70% of the pooled business has been retroceded to Atlantic States. All premiums, losses, loss expenses and other underwriting expenses are prorated among the parties on the basis of their participation in the pool. The pooling agreement may be amended or terminated at the end of any calendar year by agreement of the parties. The allocations of pool participation percentages between the Mutual Company and Atlantic States are based on the pool participants' relative amounts of capital and surplus, expectations of future relative amounts of capital and surplus and the ability of the Company to raise capital for Atlantic States. The Company does not currently anticipate a further increase in Atlantic States' percentage of participation in the pool, nor does the Company intend to terminate the participation of Atlantic States in the pooling agreement.

The underwriting pool is intended to produce a more uniform and stable underwriting result from year to year for the participants in the pool than they would experience individually and to spread the risk of loss among all the participants. Each company participating in the pool has at its disposal the capacity of the entire pool, rather than being limited to policy exposures of a size commensurate with its own capital and surplus. The additional capacity exists because such policy exposures are spread among the pool participants, each of which has its own capital and surplus.

In addition to the underwriting pool, through the retrocessional reinsurance agreements with each of the Company's subsidiaries, Southern, Delaware Atlantic, Pioneer Ohio, Southern Heritage and Pioneer New York, the Mutual Company reinsures each such subsidiary in respect of 100% of the net liability that may accrue to such subsidiary from its insurance operations and retrocedes 100% of the net liability back to such subsidiary, with the exception of Pioneer New York, as to which it retrocedes, effective January 1, 2000, 90% of the net liability, and each such subsidiary assumes the retroceded liability.

DGI and the Mutual Company jointly own Donegal Financial, the holding company for Province Bank, a federal savings bank headquartered in Pennsylvania, the deposits of which are insured by the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation. In connection with the initial capitalization of Province Bank, which opened for business in September 2000, the Mutual Company purchased 55%, for \$3,575,000, and the Company purchased 45%, for \$2,925,000, of the capital stock of Donegal Financial. The Company provided additional cash, in the amount of \$117,000, to Donegal Financial subsequent to September 2000.

The Mutual Company and Province Bank are parties to a lease dated September 1, 2000 whereby Province Bank leases from the Mutual Company 3,600 square feet of a building located in Marietta, Pennsylvania for an annual rent based on an independent appraisal. The Mutual Company and Province Bank are also parties to an Administrative Services Agreement dated September 1, 2000 whereby the Mutual Company is obligated to provide various human resource services, principally payroll and employee benefits administration, administrative support, facility and equipment maintenance services and purchasing, to Province Bank, subject to the overall limitation that the costs to be charged by the Mutual Company may not exceed the costs of independent vendors for similar services and further subject to annual maximum cost limitations specified in the Administrative Services Agreement.

All of the Company's officers are officers of the Mutual Company, five of the Company's seven directors are directors of the Mutual Company and three of the Company's executive officers are directors of the Mutual Company. The Company and the Mutual Company maintain a Coordinating Committee, which consists of two outside directors from each of the Company and the Mutual Company, none of whom holds seats on both Boards, to review and evaluate the pooling agreement between the Company and the Mutual Company and to be responsible for matters involving actual or potential conflicts of interest between the Company and the Mutual Company. The decisions of the Coordinating Committee are binding on the Company and the Mutual Company. The Company's Coordinating Committee members must conclude that intercompany transactions are fair and equitable to the Company. The purpose of this provision is to protect the interests of the stockholders of the Company other than the Mutual Company. The Coordinating Committee meets on an as-needed basis.

DGI's Business Strategy

DGI, in conjunction with the Mutual Company, has multiple strategies which the management of DGI believes have resulted in underwriting results that are favorable when compared to those of the property and casualty insurance industry in general over the past five years. The principal strategies comprise the following:

- o A regional company concept designed to provide the advantages of local marketing, underwriting and claims servicing with the economies of

scale from centralized accounting, administrative, investment, data processing and other services.

- o An underwriting program and product mix designed to produce a Company-wide underwriting profit, i.e., a combined ratio of less than 100%, from careful risk selection and adequate pricing.
- o A goal of a closely balanced ratio between commercial business and personal business.
- o An agent selection process that focuses on appointing agencies with proven market strategies for the development of profitable business and an agent compensation plan providing for additional commissions based upon premium volume and profitability and the right to participate in the Company's Agency Stock Purchase Plan.
- o A continuing effort to attract and retain qualified employees who receive incentive compensation based upon historical results.
- o A goal of expanding operations in current and adjacent states.

Property and Casualty Insurance Products and Services

The following table indicates the percentage of DGI's net premiums written represented by commercial lines and by personal lines for the years ended December 31, 2000, 1999 and 1998:

	Year Ended December 31,		
	2000	1999	1998
Net Premiums Written:			
Commercial.....	37.6%	35.6%	38.2%
Personal.....	62.4%	64.4%	61.8%

The commercial lines consist primarily of automobile, multi-peril and workers' compensation insurance. The personal lines consist primarily of automobile and homeowners insurance. These types of insurance are described in greater detail below:

Commercial

- o Commercial automobile -- policies that provide protection against liability for bodily injury and property damage arising from automobile accidents, and provide protection against loss from damage to automobiles owned by the insured.

- o Workers' compensation -- policies purchased by employers to provide benefits to employees for injuries sustained during employment. The extent of coverage is established by the workers' compensation laws of each state.
- o Commercial multi-peril -- policies that provide protection to businesses against many perils, usually combining liability and physical damage coverages.

Personal

- o Private passenger automobile -- policies that provide protection against liability for bodily injury and property damage arising from automobile accidents, and provide protection against loss from damage to automobiles owned by the insured.
- o Homeowners -- policies that provide coverage for damage to residences and their contents from a broad range of perils, including, fire, lightning, windstorm and theft. These policies also cover liability of the insured arising from injury to other persons or their property while on the insured's property and under other specified conditions.

The following table sets forth the combined ratios of DGI, prepared in accordance with generally accepted accounting principles and statutory accounting principles prescribed or permitted by state insurance authorities. The combined ratio is a traditional measure of underwriting profitability. When the combined ratio is under 100%, underwriting results are generally considered profitable. Conversely, when the combined ratio is over 100%, underwriting results are generally considered unprofitable. The combined ratio does not reflect investment income, federal income taxes or other non-operating income or expense. DGI's operating income depends on income from both underwriting operations and investments. DGI's combined ratio for 1999 was adversely impacted by restructuring charges of approximately \$2.2 million.

	Year Ended December 31,		
	2000	1999	1998
GAAP combined ratio	101.5%	106.5%	99.8%
Statutory operating ratios:			
Loss ratio	69.1	68.8	64.0
Expense ratio	30.5	37.1	35.4
Dividend ratio	0.9	0.9	1.4
Statutory combined ratio	100.5%	106.8%	100.8%
Industry statutory combined ratio(1)	110.5%	107.5%	105.6%

(1) Source: A.M. Best Co.

DGI is required to participate in involuntary insurance programs for automobile insurance, as well as other property and casualty insurance lines, in states in which DGI operates. These programs include joint underwriting associations, assigned risk plans, fair access to insurance requirements (FAIR) plans, reinsurance facilities and windstorm plans. Legislation establishing these programs requires all companies that write lines covered by these programs to provide coverage (either directly or through reinsurance) for insureds who cannot obtain insurance in the voluntary market. The legislation creating these programs usually allocates a pro rata portion of risks attributable to such insureds to each company on the basis of direct premiums written or the number of automobiles insured. Generally, state law requires participation in such programs as a condition to doing business. The loss ratio on insurance written under involuntary programs has traditionally been greater than the loss ratio on insurance in the voluntary market. During 1998, 1999 and 2000, the Company received assessments totaling \$1.3 million, \$726,000 and \$813,000, respectively, from the Pennsylvania Insurance Guaranty Association relating to the insolvency of two medical malpractice insurers.

The following table sets forth the net premiums written and combined ratios by line of insurance for the business of DGI, prepared in accordance with statutory accounting practices prescribed or permitted by state insurance authorities, for the periods indicated.

	Year Ended December 31,		
	2000	1999	1998
	(dollars in thousands)		
Net Premiums Written:			
Commercial:			
Automobile	\$ 15,112	\$ 12,608	\$ 11,120
Workers' compensation	21,174	17,519	15,446
Commercial multi-peril	21,668	18,872	17,046
Other	1,597	1,433	1,473
Total commercial	59,551	50,432	45,085
Personal:			
Automobile	64,288	60,716	46,609
Homeowners	28,823	25,573	21,737
Other	5,542	5,135	4,724
Total personal	98,653	91,424	73,070
Total business	\$ 158,204	\$ 141,856	\$ 118,155

Year Ended December 31,

2000	1999	1998
------	------	------

(dollars in thousands)

Statutory Combined Ratios:

Commercial:

Automobile	99.9%	113.8%	118.2%
Workers' compensation	91.9	96.7	80.4
Commercial multi-peril	102.3	95.7	85.6
Other	39.0	80.6	71.1
	-----	-----	-----
Total commercial	96.2	100.0	91.3
	-----	-----	-----

Personal:

Automobile	99.5	106.8	104.2
Homeowners	110.9	123.9	115.7
Other	104.1	87.1	91.2
	-----	-----	-----
Total personal	103.1	110.6	106.7
	-----	-----	-----

Total business	100.5%	106.8%	100.8%
	=====	=====	=====

Property and Casualty Underwriting

The underwriting department is responsible for the establishment of underwriting and risk selection guidelines and criteria for the various insurance products written by DGI. The underwriting department, in conjunction with the marketing representatives, works closely with DGI's independent insurance agents to insure a comprehensive knowledge on the part of the agents of DGI's underwriting requirements and risk selection process.

DGI's underwriting and pricing strategy is designed to produce an underwriting profit resulting in a Company-wide combined ratio below 100%. DGI and the Mutual Company have a conservative underwriting philosophy, which, in the opinion of management, is one of the prime reasons for DGI's favorable loss ratios relative to the property and casualty insurance industry over the last five years, with the exception of 1999, when DGI's loss ratio was adversely impacted by restructuring charges.

The underwriting department has over time initiated risk inspection procedures and underwriting analyses on a per risk and class of business basis. It has also automated underwriting processing utilizing technology such as bar coding. Management has established monitoring and auditing processes to verify compliance with underwriting requirements and procedures.

The underwriting department and the research and development department are responsible for the development of new insurance products and enhancements of existing

products. Underwriting profitability is enhanced by the creation of niche products focused on classes of business which traditionally have provided underwriting profits.

Marketing

DGI's insurance products, together with the products of the Mutual Company and their respective subsidiaries, are marketed through approximately 3,300 independent insurance agents associated with approximately 1,200 insurance agencies. Business is written by either DGI or the Mutual Company depending upon geographic location, agency license and product. Management has developed an agency appointment procedure that focuses on appointing agencies with proven marketing strategies for the development of profitable business. DGI regularly evaluates its agency force and continues to strive to obtain and retain a significant position within each agency relative to the amount of business similar to that of DGI placed by the agency with other insurers. DGI and the Mutual Company have developed a successful contingent commission plan for agents under which additional commissions are payable based upon the volume of premiums produced and the profitability of the business of the agency written by DGI and the Mutual Company. Management believes the contingent commission program and the Company's Agency Stock Purchase Plan have enhanced the ability of DGI and the Mutual Company to write profitable business.

DGI has granted certain agents the authority to bind insurance within underwriting and pricing limits specified by DGI without the prior approval of DGI. However, DGI generally reviews all coverages placed by its agents and, subject to applicable insurance regulations, may cancel the coverage if it is inconsistent with DGI's guidelines.

DGI believes that its regional structure enables it to compete effectively with large national companies. This regional structure permits DGI to take advantage of its knowledge of local operating territories and the opportunity to form strong, long-term relationships with the agents that represent DGI and the Mutual Company.

DGI and the Mutual Company have developed comprehensive growth strategies for each of the commercial and personal lines of insurance business. DGI has focused on the small-to medium-sized commercial insurance markets, which have traditionally been a more stable and profitable segment of the property and casualty insurance business than the large commercial insurance markets, which have become increasingly competitive in the past several years. Commercial lines marketing is characterized by account selling, in which multiple lines of insurance are offered to a single policyholder.

DGI believes that competitive and comprehensive products targeted to selected classes of personal lines business, along with excellent service to agents and policyholders, provides a foundation for growth and profitability. As is customary in the industry, insureds are encouraged to place both their homeowners and personal automobile insurance with DGI or the Mutual Company and are offered a discount for doing so.

Claims

The claims department develops and implements policies and procedures for the establishment of claim reserves and the timely resolution and payment of claims. The management and staff of the claims department resolve policy coverage issues, manage and process reinsurance recoveries and handle salvage and subrogation matters.

Insurance claims are normally investigated and adjusted by internal claims adjusters and supervisory personnel. Independent adjusters are employed as needed to handle claims in territories in which the volume of claims is not sufficient to justify hiring internal claims adjusters. The litigation and personal injury sections manage all claims litigation, and all claims above \$25,000 require home office review and settlement authorization.

Field office staffs are supported by home office technical, litigation, material damage, subrogation and medical audit personnel who provide specialized claims support. An investigative unit attempts to prevent fraud and abuse and to control losses.

Liabilities for Losses and Loss Expenses

Liabilities for losses and loss expenses are estimates at a given point in time of what the insurer expects to pay to claimants, based on facts and circumstances then known, and it can be expected that the ultimate liability will exceed or be less than such estimates. Liabilities are based on estimates of future trends and claims severity, judicial theories of liability and other factors. However, during the loss adjustment period, additional facts regarding individual claims may become known, and consequently it often becomes necessary to refine and adjust the estimates of liability. Any adjustments are reflected in operating results in the year in which the changes are made.

DGI maintains liabilities for the eventual payment of losses and loss expenses with respect to both reported and unreported claims. Liabilities for loss expenses are intended to cover the ultimate costs of settling all losses, including investigation and litigation costs from such losses. The amount of liability for reported losses is primarily based upon a case-by-case evaluation of the type of risk involved and knowledge of the circumstances surrounding each claim and the insurance policy provisions relating to the type of loss. The amount of liability for unreported claims and loss expenses is determined on the basis of historical information by line of insurance. Inflation is implicitly provided for in the reserving function through analysis of costs, trends and reviews of historical reserving results. Liabilities are closely monitored and are recomputed periodically by the Company and the Mutual Company using new information on reported claims and a variety of statistical techniques. Liabilities for losses are not discounted.

The establishment of appropriate liabilities is an inherently uncertain process, and there can be no assurance that the ultimate liability will not exceed DGI's loss and loss expense reserves and have an adverse effect on DGI's results of operations and financial condition. As is the case for virtually all property and casualty insurance companies, DGI has found it necessary in the past to revise estimated future liabilities for losses and loss expenses and further adjustments could be required in the future. However, on the basis of DGI's internal procedures, which analyze, among other things, DGI's 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, management of DGI believes that adequate provision has been made for DGI's liability for losses and loss expenses.

Differences between liabilities reported in DGI's financial statements prepared on the basis of generally accepted accounting principles ("GAAP") and financial statements prepared on a statutory accounting basis result from reducing statutory liabilities for anticipated salvage and subrogation recoveries. These differences amounted to \$8,042,860, \$7,736,942 and \$7,963,559 at December 31, 2000, 1999 and 1998, respectively.

The following tables set forth a reconciliation of the beginning and ending net liability for unpaid losses and loss expenses for the periods indicated on a GAAP basis for the Company.

	Year Ended December 31,		
	2000	1999	1998
	(in thousands)		
Net liability for unpaid losses and loss expenses at beginning of year	\$ 97,494	\$ 93,863	\$ 77,474
Net liabilities of acquired company	--	--	14,967
Net beginning balance as adjusted	97,494	93,863	92,441
Provision for net losses and loss expenses for claims incurred in the current year	102,222	99,659	75,463
Decrease in provision for estimated net losses and loss expenses for claims incurred in prior years	920	(454)	(2,296)
Total incurred	103,142	99,205	73,167
Net losses and loss payments for claims incurred during:			
The current year	60,865	58,906	44,389
Prior years	38,477	36,668	27,356
Total paid	99,342	95,574	71,745
Net liability for unpaid losses and loss expenses at end of year	\$101,294	\$ 97,494	\$ 93,863

The following table sets forth the development of the liability for net unpaid losses and loss expenses for DGI on a GAAP basis from 1990 to 2000, with supplemental loss data for 2000 and 1999.

"Net liability at end of year for unpaid losses and loss expenses" sets forth the estimated liability for net unpaid losses and loss expenses recorded at the balance sheet date for each of the indicated years. This liability represents the estimated amount of net losses and loss expenses for claims arising in the current and all prior years that are unpaid at the balance sheet date including losses incurred but not reported.

The "Liability reestimated as of" portion of the table shows the reestimated amount of the previously recorded liability based on experience for each succeeding year. The estimate is increased or decreased as payments are made and more information becomes known about the severity of the remaining unpaid claims. For example, the 1991 liability has developed an excess after nine years, in that reestimated net losses and loss expenses are expected to be \$4.7 million less than the estimated liability initially established in 1991 of \$36.2 million.

The "Cumulative excess" shows the cumulative excess at December 31, 2000 of the liability estimate shown on the top line of the corresponding column. An excess in liability means that the liability established in prior years exceeded actual net losses and loss expenses or were reevaluated at less than the original amount. A deficiency in liability would mean that the liability established in prior years was less than actual net losses and loss expenses or were reevaluated at more than the original amount.

The "Cumulative amount of liability paid through" portion of the table shows the cumulative net losses and loss expense payments made in succeeding years for net losses incurred prior to the balance sheet date. For example, the 1991 column indicates that as of December 31, 2000 payments equal to \$31.6 million of the currently reestimated ultimate liability for net losses and loss expenses of \$31.5 million had been made.

	Year Ended December 31										
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
	(in thousands)										
Net liability at end of year for unpaid losses and loss expenses	\$31,898	\$36,194	\$44,339	\$ 52,790	\$ 63,317	\$ 71,155	\$75,428	\$77,474	\$93,863	\$97,494	\$101,294
Net liability reestimated as of:											
One year later	32,923	37,514	45,408	50,583	60,227	68,348	74,044	75,178	93,409	98,397	
Two years later ...	33,550	37,765	42,752	48,132	56,656	66,520	70,545	74,269	93,195		
Three years later .	32,803	35,446	40,693	44,956	54,571	63,187	68,788	72,492			
Four years later ..	31,004	33,931	38,375	42,157	51,825	60,457	66,351				
Five years later ..	30,041	32,907	37,096	41,050	50,493	59,109					
Six years later ...	29,595	32,234	36,682	40,572	49,593						
Seven years later .	29,417	31,976	36,730	39,991							
Eight years later .	29,175	31,685	36,437								
Nine years later ..	29,058	31,543									
Ten years later ...	29,000										
Cumulative (excess) deficiency	\$(2,898)	\$(4,651)	\$(7,902)	\$(12,799)	\$(13,724)	\$(12,046)	\$(9,077)	\$(4,982)	\$ (668)	\$ 903	
Cumulative amount of liability paid through:											
One year later	\$13,003	\$13,519	\$16,579	\$ 16,126	\$ 19,401	\$ 23,479	\$26,477	\$27,356	\$36,668	\$38,477	
Two years later ...	19,795	20,942	24,546	25,393	30,354	37,078	40,384	46,143	56,387		
Three years later .	24,178	25,308	29,385	32,079	38,684	45,796	52,071	57,719			
Four years later ..	26,413	27,826	32,925	36,726	43,655	51,771	58,205				
Five years later ..	27,439	29,605	34,757	39,122	46,331	55,137					
Six years later ...	28,157	30,719	35,739	40,440	47,802						
Seven years later .	28,627	31,173	36,518	40,903							
Eight years later .	28,841	31,412	36,809								
Nine years later ..	28,948	31,585									
Ten years later ...	29,046										

	Year Ended December 31							
	1993	1994	1995	1996	1997	1998	1999	2000
	(in thousands)							
Gross liability at end of year.....	\$70,093	\$88,484	\$98,894	\$114,622	\$118,112	\$141,409	\$149,979	\$163,899
Reinsurance recoverable.....	17,303	25,167	27,739	39,194	40,638	47,546	52,485	62,605
Net liability at end of year.....	52,790	63,317	71,155	75,428	77,474	93,863	97,494	101,294
Gross reestimated liability - latest...	55,642	72,804	83,726	105,075	113,230	136,780	155,356	
Reestimated recoverable - latest.....	15,651	23,211	24,617	38,724	40,738	43,585	56,959	
Net reestimated liability - latest....	39,991	49,593	59,109	66,351	72,492	93,195	98,397	
Gross cumulative deficiency (excess)...	(14,451)	(15,680)	(15,168)	(9,547)	(4,882)	(4,629)	5,377	

Reinsurance

DGI and the Mutual Company use several different reinsurers, all of which have a Best rating of A- or better or, with respect to foreign reinsurers, have a financial condition which, in the opinion of management, is equivalent to a company with at least an A- rating.

The external reinsurance purchased by DGI and the Mutual Company includes "excess treaty reinsurance," under which losses are automatically reinsured over a set retention (\$250,000 for 2000), and "catastrophic reinsurance," under which the reinsured recovers 95% of an accumulation of many losses resulting from a single event, including natural disasters (for 2000, \$3,000,000 retention). DGI's principal reinsurance agreement in 2000, other than that with the Mutual Company, was an excess of loss treaty in which the reinsurers were Dorinco Reinsurance Company and Swiss Re America. Reinsurance is also purchased on an individual policy basis to reinsure losses that may occur from large risks, specific risk types or specific locations. The amount of coverage provided under each of these types of reinsurance depends upon the amount, nature, size and location of the risk being reinsured. For property insurance, excess of loss treaties provide for coverage up to \$1,000,000. For liability insurance, excess of loss treaties provide for coverage up to \$30,000,000. Property catastrophe contracts provide coverage up to \$80,000,000 resulting from one event. On both property and casualty insurance, DGI and the Mutual Company purchase facultative reinsurance to cover exposures from losses that exceed the limits provided by their respective treaty reinsurance. Atlantic States cedes to the Mutual Company all of its insurance business and assumes from the Mutual Company 70% (65% prior to July 1, 2000) of the Mutual Company's total pooled insurance business, including that assumed from Atlantic States and substantially all of the business assumed and retained by the Mutual Company from Southern and Delaware Atlantic. Atlantic States, Southern, Delaware Atlantic, Pioneer Ohio, Southern Heritage and Pioneer New York each have a catastrophe reinsurance agreement with the Mutual Company which limits the maximum liability under any one catastrophic occurrence to \$400,000, \$300,000, \$300,000, \$200,000, \$400,000 and \$400,000 respectively, and \$1,000,000 for a catastrophe involving more than one of the companies. The Mutual Company and Delaware Atlantic have an excess of loss reinsurance agreement in which the Mutual Company assumes up to \$200,000 of losses in excess of \$50,000. The Mutual Company and Pioneer Ohio have an excess of loss reinsurance agreement in which the Mutual Company assumes up to \$200,000 of losses in excess of \$50,000. The Mutual Company and Southern have an excess of loss reinsurance agreement in which the Mutual Company assumes up to \$25,000 of losses in excess of \$100,000 and a quota share agreement whereby Southern cedes 50% of its direct business less certain reinsurance to the Mutual Company. Effective January 1, 2001, the Mutual Company and Pioneer New York have an aggregate excess of loss reinsurance agreement whereby the Company reinsures Pioneer New York against any loss, adjusted on a quarterly basis recalculated at the end of each calendar quarter, from: (a) any adverse development in Pioneer New York's loss reserve and loss adjustment expense reserve at December 31, 2002 compared to the amount of such reserves at December 31, 2000 in respect of all policy years ending on or before

December 31, 2000 and (b) all losses and loss adjustment expenses incurred by Pioneer New York during the years ending December 31, 2001 and December 31, 2002 by reason of the fact that Pioneer New York's loss and loss adjustment expense ratios for those periods exceeds 60%. Southern, Delaware Atlantic, Pioneer New York, Pioneer Ohio and Southern Heritage each have retrocessional reinsurance agreements with the Mutual Company, under which they cede, and then assume back, 100% of their business net of other reinsurance, except for Pioneer New York, which assumes back 90% of its business.

Competition

The property and casualty insurance industry is highly competitive on the basis of both price and service. There are numerous companies competing for this business in the geographic areas where the Company operates, many of which are substantially larger and have greater financial resources than DGI, and no single company dominates. In addition, because the insurance products of DGI and the Mutual Company are marketed exclusively through independent insurance agencies, most of which represent more than one company, DGI faces competition to retain qualified independent agencies, as well as competition within agencies.

Investments

DGI's return on invested assets is an important element of its financial results. Currently, the investment objective is to maintain a widely diversified fixed maturities portfolio structured to maximize after-tax investment income while minimizing credit risk through investments in high quality instruments. At December 31, 2000, all debt securities were rated investment grade with the exception of one unrated obligation of \$240,000, and the investment portfolio did not contain any mortgage loans or any non-performing assets.

The following table shows the composition of the debt securities investment portfolio (at carrying value), excluding short-term investments, by rating as of December 31, 2000:

Rating(1)	December 31, 2000	
	Amount	Percent
(dollars in thousands)		
U.S. Treasury and U.S. agency securities(2)	\$122,597	48.7%
Aaa or AAA	56,278	22.3
Aa or AA	39,365	15.6
A	33,184	13.2
BBB	350	0.1
Not rated(3)	240	0.1
Total	\$252,014	100%

(1) Ratings assigned by Moody's Investors Services, Inc. or Standard & Poor's Corporation.

(2) Includes mortgage-backed securities of \$18.8 million.

(3) Represents one unrated obligation of The Lancaster County Hospital Authority Mennonite Home Project which management of DGI believes to be equivalent to investment grade securities with respect to repayment risk.

DGI invests in both taxable and tax-exempt securities as part of its strategy to maximize after-tax income. Such strategy considers, among other factors, the alternative minimum tax. Tax-exempt securities made up approximately 33.7%, 37.3%, and 34.1% of the total investment portfolio at December 31, 2000, 1999 and 1998, respectively.

The following table shows the classification of the investments (at carrying value) of DGI and its subsidiaries at December 31, 2000, 1999 and 1998.

	December 31,					
	2000		1999		1998	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
			(dollars in thousands)			
Fixed maturities(1):						
Held to maturity:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies.....	\$37,072	13.1%	\$36,861	14.1%	\$32,891	12.9%
Canadian government obligation.....	499	0.2	498	0.2	--	--
Obligations of states and political subdivisions.....	66,831	23.6	67,824	25.9	66,941	26.2
Corporate securities.....	21,320	7.5	15,819	6.1	9,131	3.6
Mortgage-backed securities.....	14,301	5.1	15,172	5.8	18,221	7.1
Total held to maturity.....	140,023	49.5	136,174	52.1	127,184	49.8
Available for sale:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies.....	66,687	23.6	61,205	23.4	55,439	21.8
Obligations of states and political subdivisions.....	18,057	6.4	20,223	7.7	19,957	7.8
Corporate securities.....	22,710	8.0	15,053	5.8	10,787	4.2
Mortgage-backed securities.....	4,537	1.6	3,563	1.4	4,342	1.7
Total available for sale.....	111,991	39.6	100,044	38.3	90,525	35.5
Total fixed maturities.....	252,014	89.1	236,218	90.4	217,709	85.3
Equity securities(2).....	12,053	4.3	9,229	3.5	6,764	2.7
Short-term investments(3).....	18,584	6.6	15,995	6.1	30,522	12.0
Total investments.....	\$282,651	100.0%	\$261,442	100.0%	\$254,995	100.0%

- (1) The Company accounts for its investments in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting For Certain Investments in Debt and Equity Securities." See Notes 1 and 4 to the Consolidated Financial Statements incorporated by reference herein. Fixed maturities held to maturity are valued at amortized cost; those fixed maturities available for sale are valued at fair value. Total fair value of fixed maturities held to maturity was \$141,488,936 at December 31, 2000, \$133,995,994 at December 31, 1999 and \$131,633,299 at December 31, 1998. The amortized cost of fixed maturities available for sale was \$111,905,848 at December 31, 2000, \$103,419,994 at December 31, 1999 and \$89,089,995 at December 31, 1998.
- (2) Equity securities are valued at fair value. Total cost of equity securities was \$12,476,948 at December 31, 2000, \$9,043,818 at December 31, 1999 and \$6,206,735 at December 31, 1998.
- (3) Short-term investments are valued at cost, which approximates market.

The following table sets forth the maturities (at carrying value) in the fixed maturity and short-term investment portfolio at December 31, 2000, December 31, 1999 and December 31, 1998.

	December 31,					
	2000		1999		1998	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	-----	-----	-----	-----	-----	-----
	(dollars in thousands)					
Due in:(1)						
One year or less.....	\$35,875	13.2%	\$34,007	13.5%	\$47,760	19.2%
Over one year						
Through three years.....	34,219	12.6	27,107	10.8	31,964	12.9
Over three years						
Through five years.....	40,883	15.1	30,878	12.2	23,139	9.3
Over five years						
Through ten years.....	112,194	41.5	104,883	41.6	78,061	31.4
Over ten years						
Through fifteen years.....	22,144	8.2	30,478	12.1	37,940	15.3
Over fifteen years.....	6,445	2.4	6,125	2.4	6,805	2.8
Mortgage-backed securities.....	18,838	7.0	18,735	7.4	22,563	9.1
	-----	-----	-----	-----	-----	-----
	\$270,598	100.0%	\$252,213	100.0%	\$248,232	100.0%
	=====	=====	=====	=====	=====	=====

- (1) Based on stated maturity dates with no prepayment assumptions. Actual maturities will differ because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

As shown above, the Company held investments in mortgage-backed securities having a carrying value of \$18.8 million at December 31, 2000. Included in these investments are collateralized mortgage obligations ("CMOs") with a carrying value of \$10 million at December 31, 2000. The Company has attempted to reduce the prepayment risks associated with mortgage-backed securities by investing approximately 99%, as of December 31, 2000, of the Company's holdings of CMOs in planned amortization and very accurately defined tranches. Such investments are designed to alleviate the risk of prepayment by providing predictable principal prepayment schedules within a designated range of prepayments. If principal is repaid earlier than originally anticipated, investment yields may decrease due to reinvestment of the proceeds at current interest rates (which may be lower) and capital gains or losses may be realized since the book value of securities purchased at premiums or discounts may be different from the prepayment amount.

Investment results of DGI and its subsidiaries for the years ended December 31, 2000, 1999 and 1998 are shown in the following table:

	Year Ended December 31,		
	2000	1999	1998
	(dollars in thousands)		
Invested assets(1).....	\$276,600	\$264,293	\$208,304
Investment income(2).....	15,992	13,224	11,998
Average yield.....	5.8%	5.0%	5.6%

- (1) Average of the aggregate invested amounts at the beginning and end of the period, including cash.

- (2) Investment income is net of investment expenses and does not include realized investment gains or losses or provision for income taxes.

A.M. Best Rating

Currently, the A.M. Best rating of the Mutual Company, Atlantic States, Southern, Delaware Atlantic, Southern Heritage, Pioneer Ohio and Pioneer New York was "A", based upon their respective current financial conditions and historical statutory results of operations. Management believes that this Best rating is an important factor in marketing DGI's products to its agents and customers. Best's ratings are industry ratings based on a comparative analysis of the financial condition and operating performance of insurance

companies as determined by their publicly available reports. Best's classifications are A++ and A+ (Superior), A and A- (Excellent), B++ and B+ (Very Good), B and B- (Good), C++ and C+ (Fair), C and C- (Marginal), D (below minimum standards) and E and F (Liquidation). Best's ratings are based upon factors relevant to policyholders and are not directed toward the protection of investors. According to Best, an "excellent" rating is assigned to those companies which, in Best's opinion, have achieved excellent overall performance when compared to the norms of the property and casualty insurance industry and have generally demonstrated a strong ability to meet policyholder and other contractual obligations.

Regulation

Insurance companies are subject to supervision and regulation in the states in which they transact business. Such supervision and regulation relates to numerous aspects of an insurance company's business and financial condition. The primary purpose of such supervision and regulation is the protection of policyholders. The extent of such regulation varies, but generally derives from state statutes which delegate regulatory, supervisory and administrative authority to state insurance departments. Accordingly, the authority of the state insurance departments includes the establishment of standards of solvency that must be met and maintained by insurers, the licensing to do business of insurers and agents, the nature of and limitations on investments, premium rates for property and casualty insurance, the provisions which insurers must make for current losses and future liabilities, the deposit of securities for the benefit of policyholders, the approval of policy forms, notice requirements for the cancellation of policies and the approval of certain changes in control. State insurance departments also conduct periodic examinations of the affairs of insurance companies and require the filing of annual and other reports relating to the financial condition of insurance companies.

In addition to state-imposed insurance laws and regulations, in December 1993 the National Association of Insurance Commissioners (the "NAIC") adopted a risk-based capital system for assessing the adequacy of statutory capital and surplus which augments the states' current fixed dollar minimum capital requirements for insurance companies. At December 31, 2000, DGI's insurance subsidiaries and the Mutual Company each exceeded the required levels of capital. There can be no assurance that the capital requirements applicable to DGI's insurance subsidiaries will not increase in the future.

The states in which Atlantic States (Pennsylvania, Maryland and Delaware), the Mutual Company (Pennsylvania, Ohio, Maryland, New York, Virginia, Delaware and North Carolina), Southern (Virginia and Pennsylvania), Delaware Atlantic (Delaware, Maryland and Pennsylvania), Pioneer Ohio (Ohio and Pennsylvania), Southern Heritage (Alabama, Arkansas, Georgia, Illinois, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee and Virginia) and Pioneer New York (Connecticut and New York) are licensed to do business have guaranty fund laws under which insurers doing business in such states can be assessed on the basis of premiums written by the insurer in that state in order to fund policyholder liabilities of insolvent insurance companies. Under these laws in general, an

insurer is subject to assessment, depending upon its market share of a given line of business, to assist in the payment of policyholder claims against insolvent insurers. The Mutual Company, Atlantic States, Southern, Delaware Atlantic, Pioneer Ohio, Pioneer New York and Southern Heritage have made accruals for their portion of assessments related to such insolvencies based upon the most current information furnished by the guaranty associations. During 1998, 1999 and 2000, the Company received assessments totaling \$1.3 million, \$726,000 and \$813,000, respectively, from the Pennsylvania Insurance Guaranty Association relating to the insolvency of two medical malpractice insurers.

Most states have enacted legislation that regulates insurance holding company systems. Each insurance company in the holding company system is required to register with the insurance supervisory agency of its state of domicile and furnish information concerning the operations of companies within the holding company system that may materially affect the operations, management or financial condition of the insurers within the system. Pursuant to these laws, the respective insurance departments may examine the Mutual Company, the Company and the Company's insurance subsidiaries at any time, require disclosure of material transactions by the holding company and require prior notice or prior approval of certain transactions, such as "extraordinary dividends" from the insurance subsidiaries to the holding company.

All transactions within the holding company system affecting the Mutual Company and the Company's insurance subsidiaries must be fair and equitable. Approval of the applicable insurance commissioner is required prior to consummation of transactions affecting the control of an insurer. In some states, including Pennsylvania, the acquisition of 10% or more of the outstanding capital stock of an insurer or its holding company is presumed to be a change in control. Pursuant to an order issued in October 1998, the Pennsylvania Insurance Department has approved the Mutual Company's ownership of up to 65% of the outstanding Common Stock of DGI. These laws also require notice to the applicable insurance commissioner of certain material transactions between an insurer and any person in its holding company system and, in some states, certain of such transactions cannot be consummated without the prior approval of the applicable insurance commissioner.

The Company's insurance subsidiaries are restricted by the insurance laws of their respective states of domicile as to the amount of dividends or other distributions they may pay to the Company without the prior approval of the respective state regulatory authorities. Generally, the maximum amount that may be paid by an insurance subsidiary during any year after notice to, but without prior approval of, the insurance commissioners of these states is limited to a stated percentage of that subsidiary's statutory capital and surplus as of a certain date, or the net income or net investment income not including realized capital gains of the subsidiary for the preceding year. As of December 31, 2000, amounts available for payment of dividends in 2001 without the prior approval of the various insurance commissioners were \$5,414,419 from Atlantic States, \$908,259 from Southern, \$323,992 from Delaware Atlantic, \$581,132 from Pioneer Ohio and \$973,796 from

Southern Heritage. See Note 12 to the Consolidated Financial Statements incorporated by reference herein.

The NAIC has adopted the Codification of Statutory Accounting Principles with an effective date of January 1, 2001. The codified principles are intended to provide a basis of accounting recognized and adhered to in the absence of conflict with, or silence of, state statutes and regulations. The impact of the codified principles on the statutory capital and surplus of the Company's insurance subsidiaries is not expected to decrease statutory capital and surplus as of January 1, 2001.

The Mutual Company

The Mutual Company, which was organized in 1889, has a Best rating of A (Excellent). At December 31, 2000, the Mutual Company had admitted assets of \$151,103,813 and policyholders' surplus of \$65,575,094. At December 31, 2000, the Mutual Company had no debt and, of its total liabilities of \$85,528,719, reserves for net losses and loss expenses accounted for \$48,177,588 and unearned premiums accounted for \$23,527,705. Of the Mutual Company's investment portfolio of \$105,382,513 at December 31, 2000, investment-grade bonds accounted for \$37,867,088, cash and short-term investments accounted for \$(3,466,626) and mortgages accounted for \$9,812,323. At December 31, 2000, the Mutual Company owned 5,511,128 shares of the Company's Common Stock, which were carried on the Mutual Company's books at \$47,340,593. The foregoing financial information is presented on the statutory basis of accounting.

Employees

As of December 31, 2000, the Mutual Company had 430 employees. The Mutual Company's employees provide a variety of services to DGI, Atlantic States, Delaware Atlantic, Southern, Southern Heritage, Pioneer New York and Pioneer Ohio, as well as to the Mutual Company and its subsidiaries.

Item 2. Properties.

DGI, Atlantic States and Delaware Atlantic share headquarters with the Mutual Company's headquarters in a building owned by the Mutual Company. The Mutual Company charges DGI for an appropriate portion of the building expenses under an intercompany allocation agreement which is consistent with the terms of the pooling agreement. The headquarters of the Mutual Company has approximately 163,500 square feet of office space. Southern has a facility of approximately 10,000 square feet in Glen Allen, Virginia, which it owns. Pioneer Ohio has a facility of approximately 10,000 square feet in Greenville, Ohio, which it owns. Southern Heritage has a facility of approximately 14,000 square feet in Duluth, Georgia, which it leases. Pioneer New York has a facility of approximately 10,000 square feet in Greenville, New York, which it owns. Province Bank leases approximately 3,600 square feet of a building located in Marietta, Pennsylvania owned

by the Mutual Company. The Mutual Company charges Province Bank an annual rent based on an independent appraisal.

Item 3. Legal Proceedings.

DGI is a party to numerous lawsuits arising in the ordinary course of its insurance business. DGI believes that the resolution of these lawsuits will not have a material adverse effect on its financial condition or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders.

No matter was submitted to a vote of holders of the Company's Common Stock during the fourth quarter of 2000.

Executive Officers of the Company

Name ----	Age ---	Position -----
Donald H. Nikolaus	58	President and Chief Executive Officer since 1981
Ralph G. Spontak	48	Senior Vice President since 1991; Chief Financial Officer and Vice President since 1983; Secretary since 1988
Cyril J. Greenya	56	Senior Vice President - Commercial Underwriting since 1997; Vice President - Commercial Underwriting for five years prior thereto; Manager - Commercial Underwriting for nine years prior thereto
Robert G. Shenk	48	Senior Vice President - Claims since 1997; Vice President - Claims for five years prior thereto
William H. Shupert	74	Senior Vice President - Underwriting since 1991; Vice President - Underwriting for 18 years prior thereto
Daniel J. Wagner	40	Treasurer since 1993; Controller for five years prior thereto
James B. Price	65	Senior Vice President - Claims since 1997; Vice President - Claims for five years prior thereto.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters.

The response to this Item is incorporated in part by reference to page 31 of the Company's Annual Report to Stockholders for the year ended December 31, 2000, which is included as Exhibit (13) to this Form 10-K Report. As of March 15, 2001, the Company had approximately 649 holders of record of its Common Stock. The Company declared dividends of \$.36 per share in 2000 and \$.36 per share in 1999.

Item 6. Selected Financial Data.

The response to this Item is incorporated by reference to page 1 of the Company's Annual Report to Stockholders for the year ended December 31, 2000, which is included as Exhibit (13) to this Form 10-K Report.

Item 7. Management's Discussion and Analysis of Financial Condition and Result of Operations.

The response to this Item is incorporated by reference to pages 10 through 12 of the Company's Annual Report to Stockholders for the year ended December 31, 2000, which is included as Exhibit (13) to this Form 10-K Report.

Item 8. Financial Statements and Supplementary Data.

The response to this Item is incorporated by reference to pages 13 through 28 of the Company's Annual Report to Stockholders for the year ended December 31, 2000, which is included as Exhibit (13) to this Form 10-K Report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The response to this Item with respect to the Company's directors is incorporated by reference to pages 7 through 9 of the Company's proxy statement relating to the Company's annual meeting of stockholders to be held April 19, 2001. The response to this Item with respect to the Company's executive officers is incorporated by reference to Part I of this Form 10-K Report.

Item 11. Executive Compensation.

The response to this Item is incorporated by reference to pages 9 through 12 of the Company's proxy statement relating to the Company's annual meeting of stockholders to be held April 19, 2001, except for the Report of Compensation Committee, the Performance Graph and the Report of the Audit Committee which are not incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The response to this Item is incorporated by reference to pages 3 through 5 of the Company's proxy statement relating to the Company's annual meeting of stockholders to be held April 19, 2001.

Item 13. Certain Relationships and Related Transactions.

The response to this Item is incorporated by reference to pages 3 through 7 and page 14 of the Company's proxy statement relating to the Company's annual meeting of stockholders to be held April 19, 2001.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) Financial statements, financial statement schedules and exhibits filed:

(1) Consolidated Financial Statements

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Donegal Group Inc. and Subsidiaries

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All other schedules have been omitted since they are not required, not applicable or the information is included in the financial statements or notes thereto.

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* Refers to the respective page of Donegal Group Inc.'s 2000 Annual Report to Stockholders. The Consolidated Financial Statements and Notes to Consolidated Financial Statements and Auditor's Report thereon on pages 13 through 28 are incorporated herein by reference. With the exception of the portions of such Annual Report specifically incorporated by reference in this Item and Items 5, 6, 7 and 8 hereof, such Annual Report shall not be deemed filed as part of this Form 10-K Report or otherwise subject to the liabilities of Section 18 of the Securities Exchange Act of 1934.

(3) Exhibits

Exhibit No. -----	Description of Exhibits -----	Reference -----
(3)(i)	Certificate of Incorporation of Registrant, as amended	(m)
(3)(ii)	Amended and Restated By-laws of Registrant	(a)
 Management Contracts and Compensatory Plans or Arrangements -----		
(10)(A)	Donegal Group Inc. Agency Stock Purchase Plan	(k)
(10)(B)	Donegal Group Inc. Amended and Restated 1996 Equity Incentive Plan	(d)
(10)(C)	Donegal Group Inc. Amended and Restated 1996 Equity Incentive Plan for Directors	(j)
(10)(D)	Donegal Group Inc. Executive Restoration Plan	(c)
(10)(E)	Donegal Mutual Insurance Company 401(k) Plan	(m)
(10)(F)	Amendment No. 1 effective January 1, 2000 to Donegal Mutual Insurance Company 401(k) Plan	(m)
(10)(G)	Donegal Group Inc. 2001 Equity Incentive Plan for Employees	Filed herewith
(10)(H)	Donegal Group Inc. 2001 Equity Incentive Plan for Directors	Filed herewith
(10)(I)	Donegal Group Inc. 2001 Employee Stock Purchase Plan	Filed herewith
(10)(J)	Donegal Group Inc. 2001 Agency Stock Purchase Plan	Filed herewith
 Other Material Contracts -----		
(10)(K)	Tax Sharing Agreement dated September 29, 1986 between Donegal Group Inc. and Atlantic States Insurance Company	(b)
(10)(L)	Services Allocation Agreement dated September 29, 1986 between Donegal Mutual Insurance Company, Donegal Group, Inc. and Atlantic States Insurance Company	(b)
(10)(M)	Proportional Reinsurance Agreement dated September 29, 1986 between Donegal Mutual Insurance Company and Atlantic States Insurance Company	(b)

Exhibit No. -----	Description of Exhibits -----	Reference -----
(10)(N)	Amendment dated October 1, 1988 to Proportional Reinsurance Agreement between Donegal Mutual Insurance Company and Atlantic States Insurance Company	(e)
(10)(O)	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	(g)
(10)(P)	Amendment dated July 16, 1992 to Proportional Reinsurance Agreement between Donegal Mutual Insurance Company and Atlantic States Insurance Company	(f)
(10)(Q)	Amendment dated as of December 21, 1995 to Proportional Reinsurance Agreement between Donegal Mutual Insurance Company and Atlantic States Insurance Company	(h)
(10)(R)	Stock Purchase Agreement dated as of December 21, 1995 between Donegal Mutual Insurance Company and Donegal Group Inc.	(h)
(10)(S)	Donegal Group Inc. 1996 Employee Stock Purchase Plan	(i)
(10)(T)	Reinsurance and Retrocession Agreement dated May 21, 1996 between Donegal Mutual Insurance Company and Pioneer Insurance Company	(c)
(10)(U)	Reinsurance and Retrocession Agreement dated May 21, 1996 between Donegal Mutual Insurance Company and Delaware American Insurance Company	(c)
(10)(V)	Reinsurance and Retrocession Agreement dated May 21, 1996 between Donegal Mutual Insurance Company and Southern Insurance Company of Virginia	(c)
(10)(W)	Reinsurance and Retrocession Agreement effective January 1, 2000 between Donegal Mutual Insurance Company and Southern Heritage Insurance Company	(m)
(10)(X)	Property Catastrophe Excess of Loss Reinsurance Agreement effective January 1, 2000 between Donegal Mutual Insurance Company and Southern Heritage Insurance Company	(m)

Exhibit No. -----	Description of Exhibits -----	Reference -----
(10)(Y)	Stock Purchase Agreement dated as of May 14, 1998 between Donegal Group Inc. and Southern Heritage Limited Partnership	(l)
(10)(Z)	Amendment dated November 17, 1998 to Stock Purchase Agreement dated as of May 14, 1998 between Donegal Group Inc. and Southern Heritage Limited Partnership	(l)
(10)(AA)	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	(l)
(10)(BB)	First Amendment and Waiver to the Amended and Restated Credit Agreement dated as of December 31, 1999	(m)
(10)(CC)	Stock Purchase Agreement dated as of July 20, 2000 between Donegal Mutual Insurance Company and Donegal Group Inc.	Filed herewith
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(10)(EE)	Lease Agreement dated as of September 1, 2000 between Donegal Mutual Insurance Company and Province Bank FSB	Filed herewith
(10)(FF)	Aggregate Excess of Loss Reinsurance Agreement dated as of January 1, 2001 between Donegal Mutual Insurance Company and Pioneer Insurance Company	Filed herewith
(13)	2000 Annual Report to Stockholders (electronic filing contains only those portions incorporated by reference into this Form 10-K Report)	Filed herewith
(20)	Proxy Statement relating to the Annual Meeting of Stockholders to be held on April 19, 2001, provided, however, that the Report of the Compensation Committee, the Performance Graph and the Report of the Audit Committee shall not be deemed filed as part of this Form 10-K Report	(o)
(21)	Subsidiaries of Registrant	Filed herewith
(23)	Consent of Independent Auditors	Filed herewith

(a) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form 10-Q Report for the quarter ended September 30, 1998.

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- (o) Such exhibit is hereby incorporated by reference to the Registrant's definitive proxy statement filed March 29, 2001.

(b) Reports on Form 8-K:

None.

DONEGAL GROUP INC. AND SUBSIDIARIES

SCHEDULE I -- SUMMARY OF INVESTMENTS
OTHER THAN INVESTMENTS IN RELATED PARTIES
(\$ in thousands)

December 31, 2000

	Cost	Fair Value	Amount at Which Shown in the Balance Sheet
	-----	-----	-----
Fixed Maturities:			
Held to maturity:			
United States government and Governmental agencies and authorities including obligations of states and political subdivision	\$103,903	\$105,425	\$103,903
Canadian government obligation	499	510	499
All other corporate bonds	21,320	21,346	21,320
Mortgage-backed securities	14,301	14,208	14,301
	-----	-----	-----
Total fixed maturities			
Held to maturity	140,023	141,489	140,023
	-----	-----	-----
Available for sale:			
United States government and Governmental agencies and Authorities including obligations of states and political subdivision	84,562	84,744	84,744
All other corporate bonds	22,703	22,710	22,710
Mortgage-backed securities	4,641	4,537	4,537
	-----	-----	-----
Total fixed maturities			
Available for sale	111,906	111,991	111,991
	-----	-----	-----
Total fixed maturities	251,929	253,480	252,014
	-----	-----	-----
Equity Securities:			
Preferred stocks			
Public utilities	228	231	231
Banks	4,159	4,066	4,066
Industrial and miscellaneous	1,365	1,325	1,325
	-----	-----	-----
Total preferred stocks	5,752	5,622	5,622
	-----	-----	-----
Common stocks			
Banks and insurance companies	2,866	3,554	3,554
Industrial and miscellaneous	3,859	2,877	2,877
	-----	-----	-----
Total common stocks	6,725	6,431	6,431
	-----	-----	-----
Total equity securities	12,477	12,053	12,053
	-----	-----	-----
Short-term investments	18,584	18,584	18,584
	-----	-----	-----
Total investments	\$282,990	\$284,117	\$282,651
	=====	=====	=====

DONEGAL GROUP INC. AND SUBSIDIARIES

SCHEDULE II -- CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY

Condensed Balance Sheets
(\$ in thousands)

December 31, 2000 and 1999

ASSETS

	2000	1999
	-----	-----
Investment in subsidiaries (equity method)	\$150,774	\$138,702
Cash	2,381	371
Property and equipment	1,997	2,232
Other	715	750
	-----	-----
Total assets	\$155,867	\$142,055
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

	2000	1999
	-----	-----
Cash dividends declared to stockholders	\$ 797	\$761
Line of credit	40,000	37,000
Other	1,325	879
	-----	-----
Total liabilities	42,122	38,640
	-----	-----
Stockholders' equity	113,745	103,415
	-----	-----
Total liabilities and stockholders' equity	\$155,867	\$142,055
	=====	=====

DONEGAL GROUP INC. AND SUBSIDIARIES

SCHEDULE II -- CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY

(Continued)

Condensed Statements of Income

(\$ in thousands)

Years ended December 31, 2000, 1999 and 1998

	2000	1999	1998

Revenues			
Dividends-subsiary	\$3,900	\$820	\$1,000
Lease income	837	819	754
Investment income	29	46	22
	-----	-----	-----
Total revenues	4,766	1,685	1,776
Expenses			
Operating expenses	1,165	938	718
Interest	3,304	2,463	1,293
	-----	-----	-----
Total expenses	4,469	3,401	2,011
	-----	-----	-----
Income (loss) before income tax benefit and equity in undistributed net income of subsidiaries	297	(1,716)	(235)
Income tax benefit	(1,226)	(807)	(413)
	-----	-----	-----
Income (loss) before equity in undistributed net income of subsidiaries	1,523	(909)	178
Equity in undistributed net income of subsidiaries	7,364	7,566	8,840
	-----	-----	-----
Net income	<u>\$8,887</u>	<u>\$6,657</u>	<u>\$9,018</u>

DONEGAL GROUP INC. AND SUBSIDIARIES

SCHEDULE II -- CONDENSED INFORMATION OF PARENT COMPANY

Condensed Statements of Cash Flows
(\$ in thousands)

Years ended December 31, 2000, 1999 and 1998

	2000	1999	1998
	-----	-----	-----
Cash flows from operating activities:			
Net income	\$8,887	\$6,657	\$9,018
	-----	-----	-----
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in undistributed net income of Subsidiaries	(7,364)	(7,566)	(8,840)
Other	1,123	2,365	(921)
	-----	-----	-----
Net adjustments	(6,241)	(5,201)	(9,761)
	-----	-----	-----
Net cash provided by (used in) operating activities	2,646	1,456	(743)
	-----	-----	-----
Cash flows from investing activities:			
Net purchase of property and equipment	(262)	(426)	(564)
Capital contribution to subsidiaries	---	---	(2,000)
Sale of subsidiary	---	100	---
Acquisition of Donegal Financial	3,042	---	---
Acquisition of Southern Heritage	---	---	(18,028)
Other	38	(426)	(5,613)
	-----	-----	-----
Net cash used in investing activities	(3,266)	(752)	(26,205)
	-----	-----	-----
Cash flows from financing activities:			
Cash dividends paid	(3,127)	(2,946)	(2,664)
Issuance of common stock	2,757	2,514	2,481
Line of credit, net	3,000	(500)	27,000
	-----	-----	-----
Net cash provided by (used in) financing activities	2,630	(932)	26,817
	-----	-----	-----
Net change in cash	2,010	(228)	(131)
Cash beginning	371	599	730
	-----	-----	-----
Cash ending	\$2,381	\$371	\$599
	=====	=====	=====

DONEGAL GROUP INC. AND SUBSIDIARIES

SCHEDULE III -- SUPPLEMENTARY INSURANCE INFORMATION
(\$ in thousands)

Years Ended December 31, 2000, 1999 and 1998

Segment -----	Net Earned Premiums	Net Investment Income	Net Losses And Loss Expense	Amortization of Deferred Policy Acquisition Costs	Other Underwriting Expenses	Net Premiums Written

Year Ended December 31, 2000 -----						
Personal Lines	\$ 95,199	\$ --	\$ 66,751	\$15,849	\$ 14,340	\$ 98,653
Commercial Lines	54,515	--	36,391	9,076	8,212	59,551
Investments	--	15,992	--	--	--	--
	-----	-----	-----	-----	-----	-----
	\$149,714	\$ 15,992	\$103,142	\$24,925	\$ 22,552	\$158,204
	=====	=====	=====	=====	=====	=====

Year Ended December 31, 1999 -----						
Personal Lines	\$ 96,167	\$ --	\$ 67,582	\$16,448	\$ 19,801	\$ 91,424
Commercial Lines	47,707	--	31,623	8,160	8,234	50,432
Investments	--	13,224	--	--	--	--
	-----	-----	-----	-----	-----	-----
	\$143,874	\$ 13,224	\$ 99,205	\$24,608	\$ 28,035	\$141,856
	=====	=====	=====	=====	=====	=====

Year Ended December 31, 1998 -----						
Personal Lines	\$ 71,676	\$ --	\$ 49,141	\$12,614	\$ 14,052	\$ 73,070
Commercial Lines	44,493	--	24,026	6,876	7,660	45,084
Investments	--	11,998	--	--	--	--
	-----	-----	-----	-----	-----	-----
	\$116,169	\$ 11,998	\$ 73,167	\$19,490	\$ 21,712	\$118,154
	=====	=====	=====	=====	=====	=====

DONEGAL GROUP INC. AND SUBSIDIARIES

SCHEDULE III -- SUPPLEMENTARY INSURANCE INFORMATION, CONTINUED
(\$ in thousands)

Segment	At December 31,			
	Deferred Policy Acquisition Costs	Liability For Losses And Loss Expenses	Unearned Premiums	Other Policy Claims and Benefits Payable
2000				
Personal Lines	\$ 6,533	\$ 80,647	\$ 60,329	\$--
Commercial Lines	5,487	83,252	50,672	--
Investments	--	--	--	--
	<u>\$ 12,020</u>	<u>\$163,899</u>	<u>\$111,001</u>	<u>\$--</u>
1999				
Personal Lines	\$ 6,936	\$ 79,085	\$ 60,886	\$--
Commercial Lines	4,267	70,894	36,771	--
Investments	--	--	--	--
	<u>\$ 11,203</u>	<u>\$149,979</u>	<u>\$ 97,657</u>	<u>\$--</u>

DONEGAL GROUP INC. AND SUBSIDIARIES

SCHEDULE IV -- REINSURANCE

	Gross Amount	Ceded To Other Companies	Assumed from Other Companies	Net Amount	Percentage Assumed To Net
	-----	-----	-----	-----	-----
Year Ended December 31, 2000 -----					
Property and casualty premiums	\$93,302,656 =====	\$75,784,740 =====	\$132,195,646 =====	\$149,713,562 =====	88% ==
Year Ended December 31, 1999 -----					
Property and casualty premiums	\$91,996,926 =====	\$67,487,819 =====	\$119,364,863 =====	\$143,873,970 =====	83% ==
Year Ended December 31, 1998 -----					
Property and casualty premiums	\$61,173,134 =====	\$56,338,098 =====	\$111,333,956 =====	\$116,168,992 =====	96% ==

DONEGAL GROUP INC. AND SUBSIDIARIES

SCHEDULE VI -- SUPPLEMENTARY INSURANCE INFORMATION
 CONCERNING PROPERTY AND CASUALTY SUBSIDIARIES

	Deferred Policy Acquisition Costs -----	Liability For Losses And Loss Expenses -----	Discount, if any, Deducted From Reserves -----	Unearned Premiums -----
At December 31,				
2000	\$12,020,257 =====	\$163,899,270 =====	\$ - - ===	\$111,000,905 =====
1999	\$11,203,302 =====	\$149,979,141 =====	\$ - - ===	\$ 97,657,020 =====
1998	\$11,334,301 =====	\$141,409,008 =====	\$ - - ===	\$ 94,722,785 =====

(continued)

DONEGAL GROUP INC. AND SUBSIDIARIES

SCHEDULE VI - SUPPLEMENTARY INSURANCE INFORMATION
 CONCERNING PROPERTY AND CASUALTY SUBSIDIARIES, CONTINUED

Years ended December 31, 2000, 1999 and 1998

	Net Earned Premiums	Investment Income	Current Year	Losses and Loss Expenses Related to			
				Prior Years	Amortization of Deferred Policy Acquisition Costs	Net Paid Losses And Loss Expenses	Net Premiums Written
Year Ended December 31, 2000	\$149,713,562	\$15,992,495	\$102,222,144	\$ 919,761	\$24,925,000	\$99,342,386	\$158,204,697
Year Ended December 31, 1999	\$143,873,970	\$13,223,537	\$ 99,659,002	\$ (454,000)	\$24,608,000	\$95,574,426	\$141,856,479
Year Ended December 31, 1998	\$116,168,992	\$11,997,661	\$ 75,463,085	\$(2,296,000)	\$19,490,000	\$71,744,736	\$118,153,817

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DONEGAL GROUP INC.

Date: March 28, 2001

By: /s/ Donald H. Nikolaus

Donald H. Nikolaus, President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Signature -----	Title -----	Date ----
s/Donald H. Nikolaus ----- Donald H. Nikolaus	President and a Director (principal executive officer)	March 28, 2001
s/Ralph G. Spontak ----- Ralph G. Spontak	Senior Vice President, Chief Financial Officer and Secretary (principal financial and accounting officer)	March 28, 2001
s/Robert S. Bolinger ----- Robert S. Bolinger	Director	March 28, 2001
----- Thomas J. Finley	Director	March , 2001
s/Patricia A. Gilmartin ----- Patricia A. Gilmartin	Director	March 28, 2001
s/Philip H. Glatfelter ----- Philip H. Glatfelter	Director	March 28, 2001
s/C. Edwin Ireland ----- C. Edwin Ireland	Director	March 28, 2001
----- R. Richard Sherbahn	Director	March , 2001

EXHIBIT INDEX
(Pursuant to Item 601 of Regulation S-K)

Exhibit No. -----	Description of Exhibits -----	Reference -----
(3)(i)	Certificate of Incorporation of Registrant, as amended	(m)
(3)(ii)	Amended and Restated By-laws of Registrant	(a)
 Management Contracts and Compensatory Plans or Arrangements -----		
(10)(A)	Donegal Group Inc. Agency Stock Purchase Plan	(k)
(10)(B)	Donegal Group Inc. Amended and Restated 1996 Equity Incentive Plan	(d)
(10)(C)	Donegal Group Inc. Amended and Restated 1996 Equity Incentive Plan for Directors	(j)
(10)(D)	Donegal Group Inc. Executive Restoration Plan	(c)
(10)(E)	Donegal Mutual Insurance Company 401(k) Plan	(m)
(10)(F)	Amendment No. 1 effective January 1, 2000 to Donegal Mutual Insurance Company 401(k) Plan	(m)
(10)(G)	Donegal Group Inc. 2001 Equity Incentive Plan for Employees	Filed herewith
(10)(H)	Donegal Group Inc. 2001 Equity Incentive Plan for Directors	Filed herewith
(10)(I)	Donegal Group Inc. 2001 Employee Stock Purchase Plan	Filed herewith
(10)(J)	Donegal Group Inc. 2001 Agency Stock Purchase Plan	Filed herewith
 Other Material Contracts -----		
(10)(K)	Tax Sharing Agreement dated September 29, 1986 between Donegal Group Inc. and Atlantic States Insurance Company	(b)
(10)(L)	Services Allocation Agreement dated September 29, 1986 between Donegal Mutual Insurance Company, Donegal Group, Inc. and Atlantic States Insurance Company	(b)
(10)(M)	Proportional Reinsurance Agreement dated September 29, 1986 between Donegal Mutual Insurance Company and Atlantic States Insurance Company	(b)
(10)(N)	Amendment dated October 1, 1988 to Proportional Reinsurance Agreement between Donegal Mutual Insurance Company and Atlantic States Insurance Company	(e)

Exhibit No.	Description of Exhibits	Reference
(10)(O)	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	(g)
(10)(P)	Amendment dated July 16, 1992 to Proportional Reinsurance Agreement between Donegal Mutual Insurance Company and Atlantic States Insurance Company	(f)
(10)(Q)	Amendment dated as of December 21, 1995 to Proportional Reinsurance Agreement between Donegal Mutual Insurance Company and Atlantic States Insurance Company	(h)
(10)(R)	Stock Purchase Agreement dated as of December 21, 1995 between Donegal Mutual Insurance Company and Donegal Group Inc.	(h)
(10)(S)	Donegal Group Inc. 1996 Employee Stock Purchase Plan	(i)
(10)(T)	Reinsurance and Retrocession Agreement dated May 21, 1996 between Donegal Mutual Insurance Company and Pioneer Insurance Company	(c)
(10)(U)	Reinsurance and Retrocession Agreement dated May 21, 1996 between Donegal Mutual Insurance Company and Delaware American Insurance Company	(c)
(10)(V)	Reinsurance and Retrocession Agreement dated May 21, 1996 between Donegal Mutual Insurance Company and Southern Insurance Company of Virginia	(c)
(10)(W)	Reinsurance and Retrocession Agreement effective January 1, 2000 between Donegal Mutual Insurance Company and Southern Heritage Insurance Company	(m)
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2001 EQUITY INCENTIVE PLAN FOR EMPLOYEES

1. PURPOSE. The purpose of the Donegal Group Inc. 2001 Equity Incentive Plan (the "Plan") is to further the growth, development and financial success of Donegal Group Inc. (the "Company"), its parent and the subsidiaries of the Company and its parent by providing additional incentives to those officers and key employees who are responsible for the management of the business and affairs of the Company, its parent and/or subsidiaries of the Company or its parent, which will enable those officers and key employees to participate directly in the growth of the capital stock of the Company. The Company intends that the Plan will facilitate securing, retaining and motivating management employees of high caliber and potential. To accomplish these purposes, the Plan provides a means whereby management employees may receive stock options ("Options") to purchase shares of the Company's Class A Common Stock, \$.01 par value (the "Class A Common Stock").

2. ADMINISTRATION.

(A) COMPOSITION OF THE COMMITTEE. The Plan shall be administered by a committee (the "Committee"), which shall be appointed by, and serve at the pleasure of, the Company's Board of Directors (the "Board"). The Committee shall be comprised of two or more members of the Board, each of whom shall be a "non-employee director" within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934 (the "Exchange Act"). In addition, each member of the Committee shall be an "outside director" within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). Subject to the foregoing, from time to time the Board may increase or decrease the size of the Committee, appoint additional members thereof, remove members (with or without cause), appoint new members, fill vacancies or remove all members of the Committee and thereafter directly administer the Plan.

(B) AUTHORITY OF THE COMMITTEE. The Committee shall have full and final authority, in its sole discretion, to interpret the provisions of the Plan and to decide all questions of fact arising in its application; to determine the employees to whom Options shall be granted and the type, amount, size and terms of each such grant; to determine the time when Options shall be granted; and to make all other determinations necessary or advisable for the administration of the Plan. All decisions, determinations and interpretations of the Committee shall be final and binding on all optionees and all other holders of Options granted under the Plan.

(C) AUTHORITY OF THE BOARD. Notwithstanding anything to the contrary set forth in the Plan, all authority granted hereunder to the Committee may be exercised at any time and from time to time by the Board at its election. All decisions, determinations and interpretations of the Board shall be final and binding on all optionees and all other holders of Options granted under the Plan.

3. STOCK SUBJECT TO THE PLAN. Subject to Section 16 hereof, the shares that may be issued under the Plan shall not exceed in the aggregate 1,500,000 shares of Class A Common Stock. Such shares may be authorized and unissued shares or shares issued and subsequently reacquired by the Company. Except as otherwise provided herein, any shares subject to an

Option that for any reason expires or is terminated unexercised as to such shares shall again be available under the Plan.

4. ELIGIBILITY TO RECEIVE OPTIONS. Persons eligible to receive Options under the Plan shall be limited to those officers and other key employees of the Company, its parent and any subsidiary of the Company or its parent (as defined in Section 425 of the Code or any amendment or substitute thereto) who are in positions in which their decisions, actions and counsel significantly impact upon the profitability and success of the Company, its parent or any subsidiary of the Company or its parent. Directors of the Company who are not also officers or employees of the Company, its parent or any subsidiary of the Company or its parent shall not be eligible to participate in the Plan. Notwithstanding anything to the contrary set forth in the Plan, the maximum number of shares of Class A Common Stock for which Options may be granted to any employee in any calendar year shall be 100,000 shares.

5. TYPES OF OPTIONS. Grants may be made at any time and from time to time by the Committee in the form of stock options to purchase shares of Class A Common Stock. Options granted hereunder may be Options that are intended to qualify as incentive stock options within the meaning of Section 422 of the Code or any amendment or substitute thereto ("Incentive Stock Options") or Options that are not intended to so qualify ("Nonqualified Stock Options").

6. OPTION AGREEMENTS. Options for the purchase of Class A Common Stock shall be evidenced by written agreements in such form not inconsistent with the Plan as the Committee shall approve from time to time. The Options granted hereunder may be evidenced by a single agreement or by multiple agreements, as determined by the Committee in its sole discretion. Each option agreement shall contain in substance the following terms and conditions:

(A) TYPE OF OPTION. Each option agreement shall identify the Options represented thereby either as Incentive Stock Options or Nonqualified Stock Options, as the case may be.

(B) OPTION PRICE. Each option agreement shall set forth the purchase price of the Class A Common Stock purchasable upon the exercise of the Option

evidenced thereby. Subject to the limitation set forth in Section 6(d)(ii) of the Plan, the purchase price of the Class A Common Stock subject to an Incentive Stock Option shall be not less than 100% of the fair market value of such stock on the date the Option is granted, as determined by the Committee, but in no event less than the par value of such stock. The purchase price of the Class A Common Stock subject to a Nonqualified Stock Option shall be not less than 100% of the fair market value of such stock on the date the Option is granted, as determined by the Committee, but in no event less than the par value of such stock. For this purpose, fair market value on any date shall mean the closing price of the Class A Common Stock, as reported in The Wall Street Journal, or if not so reported, as otherwise reported by the Nasdaq Stock Market ("Nasdaq"), or if the Class A Common Stock is not reported by Nasdaq, the fair market value shall be as determined by the Committee pursuant to Section 422 of the Code.

(C) EXERCISE TERM. Each option agreement shall state the period or periods of time within which the Option may be exercised, in whole or in part, as determined by the Committee, provided that no Option shall be exercisable after ten years from the date of grant thereof. The Committee shall have the power to permit an acceleration of previously established exercise terms, subject to the requirements set forth herein, upon such circumstances and subject to such terms and conditions as the Committee deems appropriate.

(D) INCENTIVE STOCK OPTIONS. In the case of an Incentive Stock Option, each option agreement shall contain such other terms, conditions and provisions as the Committee determines to be necessary or desirable in order to qualify such Option as a tax-favored Option (within the meaning of Section 422 of the Code or any amendment or substitute thereto or regulation thereunder) including without limitation, each of the following, except that any of these provisions may be omitted or modified if it is no longer required in order to have an Option qualify as a tax-favored Option within the meaning of Section 422 of the Code or any substitute therefor:

(i) The aggregate fair market value (determined as of the date the Option is granted) of the Class A Common Stock with respect to which Incentive Stock Options are first exercisable by any employee during any calendar year (under all plans of the Company) shall not exceed \$100,000.

(ii) No Incentive Stock Options shall be granted to any employee if at the time the Option is granted to the individual who owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or its subsidiaries unless at the time such Option is granted the Option price is at least 110% of the fair market value of the stock subject to the Option and, by its terms, the Option is not exercisable after the expiration of five years from the date of grant.

(iii) No Incentive Stock Options shall be exercisable more than three months (or one year, in the case of an employee who dies or becomes disabled within the meaning of Section 72(m)(7) of the Code or any substitute therefor) after termination of employment.

(E) SUBSTITUTION OF OPTIONS. Options may be granted under the Plan from time to time in substitution for stock options held by employees of other corporations who are about to become, and who do concurrently with the grant of such options become, employees of the Company, its parent or a subsidiary of the Company or its parent as a result of a merger or consolidation of the employing corporation with the Company, its parent or a subsidiary of the Company or its parent, or the acquisition by the Company, its parent or a subsidiary of the Company or its parent of the assets or capital stock of the employing corporation. The terms and conditions of the substitute options so granted may vary from the terms and conditions set forth in this Section 6 to such extent as the Committee at the time of grant may deem appropriate to conform, in whole or in part, to the provisions of the stock options in substitution for which they are granted.

7. DATE OF GRANT. The date on which an Option shall be deemed to have been granted under the Plan shall be the date of the Committee's authorization of the Option or such later date as may be determined by the Committee at the time the Option is authorized. Notice of the determination shall be given to each individual to whom an Option is so granted within a reasonable time after the date of such grant.

8. EXERCISE AND PAYMENT FOR SHARES. Options may be exercised in whole or in part, from time to time, by giving written notice of exercise to the Secretary of the Company, specifying the number of shares to be purchased. The purchase price of the shares with respect to which an Option is exercised shall be payable in full with the notice of exercise in cash, Class A Common Stock at fair market value, Class B Common Stock at fair market value, or a

combination thereof, as the Committee may determine from time to time and subject to such terms and conditions as may be prescribed by the Committee for such purpose. The Committee may also, in its discretion and subject to prior notification to the Company by an optionee, permit an optionee to enter into an agreement with the Company's transfer agent or a brokerage firm of national standing whereby the optionee will simultaneously exercise the Option and sell the shares acquired thereby through the Company's transfer agent or such a brokerage firm and either the Company's transfer agent or the brokerage firm executing the sale will remit to the Company from the proceeds of sale the exercise price of the shares as to which the Option has been exercised.

9. RIGHTS UPON TERMINATION OF EMPLOYMENT. In the event that an optionee ceases to be an employee of the Company, its parent or any subsidiary of the Company or its parent for any reason other than death, retirement, as hereinafter defined, or disability (within the meaning of Section 72(m)(7) of the Code or any substitute therefor), the optionee shall have the right to exercise the Option during its term within a period of three months after such termination to the extent that the Option was exercisable at the time of termination, or within such other period, and subject to such terms and conditions, as may be specified by the Committee. In the event that an optionee dies, retires or becomes disabled prior to the expiration of his Option and without having fully exercised his Option, the optionee or the optionee's successor shall have the right to exercise the Option during its term within a period of one year after termination of employment due to death, retirement or disability to the extent that the Option was exercisable at the time of termination, or within such other period, and subject to such terms and conditions, as may be specified by the Committee. As used in this Section 9, "retirement" means a termination of employment by reason of an optionee's retirement at or after the optionee's earliest permissible retirement date pursuant to and in accordance with his employer's regular retirement plan or personnel practices. Notwithstanding the provisions of Section 6(d)(iii) hereof, if the term of an Incentive Stock Option continues for more than three months after termination of employment due to retirement or more than one year after termination of employment due to death or disability, such Option shall thereupon lose its status as an Incentive Stock Option and shall be treated as a Nonqualified Stock Option.

10. GENERAL RESTRICTIONS. Each Option granted under the Plan shall be subject to the requirement that, if at any time the Committee shall determine that (i) the listing, registration or qualification of the shares of Class A Common Stock subject or related thereto upon any securities exchange or under any state or federal law, or (ii) the consent or approval of any government regulatory body, or (iii) the satisfaction of any tax payment or withholding obligation, or (iv) an agreement by the recipient of an Option with respect to the disposition of shares of Class A Common Stock, is necessary or desirable as a condition of or in connection with the granting of such Option or the issuance or purchase of shares of Class A Common Stock thereunder, such Option shall not be consummated in whole or in part unless such listing, registration, qualification, consent, approval or agreement shall have been effected or obtained free of any conditions not acceptable to the Committee.

11. RIGHTS OF A STOCKHOLDER. The recipient of any Option under the Plan, unless otherwise provided by the Plan, shall have no rights as a stockholder unless and until certificates for shares of Class A Common Stock are issued and delivered to him.

12. RIGHT TO TERMINATE EMPLOYMENT. Nothing contained in the Plan or in any option agreement entered into pursuant to the Plan shall confer upon any optionee the right to

continue in the employment of the Company, its parent or any subsidiary of the Company or its parent or affect any right that the Company, its parent or any subsidiary of the Company or its parent may have to terminate the employment of such optionee.

13. WITHHOLDING. Whenever the Company proposes or is required to issue or transfer shares of Class A Common Stock under the Plan, the Company shall have the right to require the recipient to remit to the Company an amount sufficient to satisfy any federal, state or local withholding tax requirements prior to the delivery of any certificate or certificates for such shares. If and to the extent authorized by the Committee, in its sole discretion, an optionee may make an election, by means of a form of election to be prescribed by the Committee, to have shares of Class A Common Stock that are acquired upon exercise of an Option withheld by the Company or to tender other shares of Class A Common Stock or other securities of the Company owned by the optionee to the Company at the time of exercise of an Option to pay the amount of tax that would otherwise be required by law to be withheld by the Company as a result of any exercise of an Option. Any such election shall be irrevocable and shall be subject to termination by the Committee, in its sole discretion, at any time. Any securities so withheld or tendered will be valued by the Committee as of the date of exercise.

14. NON-ASSIGNABILITY. No Option under the Plan shall be assignable or transferable by the recipient thereof except by will or by the laws of descent and distribution or by such other means as the Committee may approve. During the life of the recipient, such Option shall be exercisable only by such person or by such person's guardian or legal representative.

15. NON-UNIFORM DETERMINATIONS. The Committee's determinations under the Plan (including without limitation determinations of the persons to receive Options, the form, amount and timing of such grants, the terms and provisions of Options, and the agreements evidencing same) need not be uniform and may be made selectively among persons who receive, or are eligible to receive, grants of Options under the Plan whether or not such persons are similarly situated.

16. ADJUSTMENTS.

(A) CHANGES IN CAPITALIZATION. Subject to any required action by the stockholders of the Company, the number of shares of Class A Common Stock covered by each outstanding Option and the number of shares of Class A Common Stock that have been authorized for issuance under the Plan but as to which no Options have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option, as well as the price per share of Class A Common Stock covered by each such outstanding Option, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Class A Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Class A Common Stock, or any other increase or decrease in the number of issued shares of Class A Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Committee, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Class A Common Stock subject to an Option.

(B) DISSOLUTION OR LIQUIDATION. In the event of the proposed dissolution or liquidation of the Company, all outstanding Options will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Committee. The Committee may, in the exercise of its discretion in such instances, declare that any Option shall terminate as of a date fixed by the Committee and give each Option holder the right to exercise his Option as to all or any part of the shares of Class A Common Stock covered by the Option, including shares as to which the Option would not otherwise be exercisable.

(C) SALE OR MERGER. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, the Committee, in the exercise of its sole discretion, may take such action as it deems desirable, including, but not limited to: (i) causing an Option to be assumed or an equivalent option to be substituted by the successor corporation or a parent or subsidiary of such successor corporation, (ii) providing that each Option holder shall have the right to exercise his Option as to all of the shares of Class A Common Stock covered by the Option, including shares as to which the Option would not otherwise be exercisable, or (iii) declaring that an Option shall terminate at a date fixed by the Committee provided that the Option holder is given notice and opportunity to exercise the then exercisable portion of his Option prior to such date.

17. AMENDMENT. The Committee may terminate or amend the Plan at any time, with respect to shares as to which Options have not been granted, subject to any required stockholder approval or any stockholder approval that the Board may deem to be advisable for any reason, such as for the purpose of obtaining or retaining any statutory or regulatory benefits under tax, securities or other laws or satisfying any applicable stock exchange listing requirements. The Committee may not, without the consent of the holder of an Option, alter or impair any Option previously granted under the Plan, except as specifically authorized herein.

18. RESERVATION OF SHARES. The Company, during the term of the Plan, will at all times reserve and keep available such number of shares of Class A Common Stock as shall be sufficient to satisfy the requirements of the Plan. Inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any shares hereunder, shall relieve the Company of any liability for the failure to issue or sell such shares as to which such requisite authority shall not have been obtained.

19. EFFECT ON OTHER PLANS. Participation in the Plan shall not affect an employee's eligibility to participate in any other benefit or incentive plan of the Company, its parent or any subsidiary of the Company or its parent. Any Options granted pursuant to the Plan shall not be used in determining the benefits provided under any other plan of the Company, its parent or any subsidiary of the Company or its parent unless specifically provided.

20. DURATION OF THE PLAN. The Plan shall remain in effect until all Options granted under the Plan have been satisfied by the issuance of shares, but no Option shall be granted more than ten years after the earlier of the date the Plan is adopted by the Company or is approved by the Company's stockholders.

21. FORFEITURE FOR DISHONESTY. Notwithstanding anything to the contrary in the Plan, if the Committee finds, by a majority vote, after full consideration of the facts presented on

behalf of both the Company and any optionee, that the optionee has been engaged in fraud, embezzlement, theft, commission of a felony or dishonest conduct in the course of his employment or retention by the Company, its parent or any subsidiary of the Company or its parent that damaged the Company, its parent or any subsidiary of the Company or its parent or that the optionee has disclosed confidential information of the Company, its parent or any subsidiary of the Company or its parent, the optionee shall forfeit all unexercised Options and all exercised Options under which the Company has not yet delivered the certificates. The decision of the Committee in interpreting and applying the provisions of this Section 21 shall be final. No decision of the Committee, however, shall affect the finality of the discharge or termination of such optionee by the Company, its parent or any subsidiary of the Company or its parent in any manner.

22. NO PROHIBITION ON CORPORATE ACTION. No provision of the Plan shall be construed to prevent the Company or any officer or director thereof from taking any action deemed by the Company or such officer or director to be appropriate or in the Company's best interest, whether or not such action could have an adverse effect on the Plan or any Options granted hereunder, and no optionee or optionee's estate, personal representative or beneficiary shall have any claim against the Company or any officer or director thereof as a result of the taking of such action.

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

24. MISCELLANEOUS PROVISIONS.

(A) COMPLIANCE WITH PLAN PROVISIONS. No optionee or other person shall have any right with respect to the Plan, the Class A Common Stock reserved for issuance under the Plan or in any Option until a written option agreement shall have been executed by the Company and the

optionee and all the terms, conditions and provisions of the Plan and the Option applicable to such optionee (and each person claiming under or through him) have been met.

(B) APPROVAL OF COUNSEL. In the discretion of the Committee, no shares of Class A Common Stock, other securities or property of the Company or other forms of payment shall be issued hereunder with respect to any Option unless counsel for the Company shall be satisfied that such issuance will be in compliance with applicable federal, state, local and foreign legal, securities exchange and other applicable requirements.

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

(D) EFFECTS OF ACCEPTANCE OF OPTION. By accepting any Option or other benefit under the Plan, each optionee and each person claiming under or through him shall be conclusively deemed to have indicated his acceptance and ratification of, and consent to, any action taken under the Plan by the Company, the Board and/or the Committee or its delegates.

(E) CONSTRUCTION. The masculine pronoun shall include the feminine and neuter, and the singular shall include the plural, where the context so indicates.

25. STOCKHOLDER APPROVAL. The exercise of any Option granted under the Plan shall be subject to the approval of the Plan by the stockholders of the Company in accordance with applicable law and regulations.

Date of Adoption by Board: March 8, 2001.

Date of Approval by Stockholders: April 19, 2001.

2001 EQUITY INCENTIVE PLAN FOR DIRECTORS

DONEGAL GROUP INC., a corporation organized under the laws of the State of Delaware, hereby sets forth the 2001 Equity Incentive Plan for Directors. The Plan provides for the grant of (i) Options to Outside Directors of the Company and the Mutual Company and (ii) Restricted Stock Awards to Directors of the Company and the Mutual Company, as each of such capitalized terms is hereinafter defined.

1. DEFINITIONS. Whenever the following terms are used in the Plan they shall have the meanings specified below unless the context clearly indicates to the contrary:

"Board" shall mean the Board of Directors of the Company.

"Class A Common Stock" shall mean the Class A Common Stock, \$.01 par value, of the Company.

"Class B Common Stock" shall mean the Class B Common Stock, \$.01 par value, of the Company.

"Code" shall mean the Internal Revenue Code of 1986, as amended. Reference to a specific section of the Code shall include such section, any valid regulation promulgated thereunder and any comparable provision of any future legislation amending, supplementing or superseding such section.

"Company" shall mean Donegal Group Inc., a Delaware corporation.

"Director" shall mean a member of the Board of Directors of the Company and/or the Mutual Company.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Fair Market Value" of the Class A Common Stock or Class B Common Stock, as the case may be, on any date shall mean the closing price of the Class A Common Stock or Class B Common Stock, as applicable, for such date, as reported in The Wall Street Journal, or if not so reported, as otherwise reported by The Nasdaq Stock Market ("Nasdaq"), or if the Class A Common Stock or Class B Common Stock, as the case may be, is not reported by Nasdaq, the fair market value shall be as determined by the Board. If no closing price is reported for such date, the next preceding date for which such sale prices are quoted shall be used.

"Grantee" shall mean a Director to whom a Restricted Stock Award is granted.

"Mutual Company" shall mean Donegal Mutual Insurance Company.

"Option" shall mean a nonqualified stock option granted under the provisions of Section 4 of the Plan to purchase Class A Common Stock of the Company.

"Optionee" shall mean an Outside Director to whom an Option is granted.

"Outside Director" shall mean a Director who is not also an employee of the Company, the Mutual Company or any affiliate of the Company or the Mutual Company.

"Plan" shall mean this 2001 Equity Incentive Plan for Directors.

"Restricted Stock Award" shall mean a restricted stock award granted under the provisions of Section 5 of the Plan.

"Secretary" shall mean the Secretary of the Company.

"Termination of Service" shall mean such time as a Director shall cease to serve as a member of the Board of Directors of the Company or the Mutual Company, whether as a result of resignation, failure to be reelected, removal for cause, death or any other reason.

2. ADMINISTRATION.

(A) ADMINISTRATION BY THE BOARD. The Plan shall be administered by the Board.

(B) DUTY AND POWERS OF THE BOARD. It shall be the duty of the Board to conduct the general administration of the Plan in accordance with its provisions. The Board shall have the power to interpret the Plan, the Options and the Restricted Stock Awards and to adopt rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules. The Board shall have the discretion to determine who will be granted Options and to determine the number of Options to be granted to any Outside Director, the timing of such grant and the terms of exercise. The Board shall not have any discretion to determine who will be granted Restricted Stock Awards under the Plan.

(C) BOARD ACTIONS. The Board may act either by vote of a majority of its members present at a meeting of the Board at which a quorum is present or by a memorandum or other written instrument signed by all members of the Board.

(D) COMPENSATION; PROFESSIONAL ASSISTANCE; GOOD FAITH ACTIONS. Members of

the Board shall not receive any compensation for their services in administering the Plan, but all expenses and liabilities they incur in connection with the administration of the Plan shall be borne by the Company. The Board may employ attorneys, consultants, accountants or other persons. The Board, the Company and the officers and directors of the Company shall be entitled to rely upon the advice, opinions or valuations of any such persons. All actions taken and all interpretations and determinations made by the Board in good faith shall be final and binding upon all Optionees and Grantees, the Company and all other interested persons. No member of the Board shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan, and all members of the Board shall be fully protected and indemnified by the Company in respect to any such action, determination or interpretation.

3. SHARES SUBJECT TO THE PLAN.

(A) LIMITATIONS. The shares of stock issuable pursuant to Options or Restricted Stock Awards shall be shares of Class A Common Stock. The total number of such shares that may be

issued pursuant to Options or Restricted Stock Awards granted under the Plan shall not exceed 200,000 in the aggregate.

(B) EFFECT OF UNEXERCISED OR CANCELLED OPTIONS. If an Option expires or is cancelled for any reason without having been fully exercised or vested, the number of shares subject to such Option that were not purchased or did not vest prior to such expiration or cancellation may again be made subject to an Option or Restricted Stock Award granted hereunder.

(C) CHANGES IN CAPITALIZATION. Subject to any required action by the stockholders of the Company, the number of shares of Class A Common Stock covered by each outstanding Option and Restricted Stock Award and the number of shares of Class A Common Stock that have been authorized for issuance under the Plan but as to which no Options or Restricted Stock Awards have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option, as well as the price per share of Class A Common Stock covered by each such outstanding Option, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Class A Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Class A Common Stock, or any other increase or decrease in the number of issued shares of Class A Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Class A Common Stock subject to an Option or Restricted Stock Award.

(D) DISSOLUTION OR LIQUIDATION. In the event of the proposed dissolution or liquidation of the Company, all outstanding Options will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Board. The Board may, in the exercise of its discretion in such instances, declare that any Option shall terminate as of a date fixed by the Board and give each Option holder the right to exercise his or her Option as to all or any part of the shares of Class A Common Stock covered by the Option, including shares as to which the Option would not otherwise be exercisable.

(E) SALE OR MERGER. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, the Board, in the exercise of its sole discretion, may take such action as it deems desirable, including, but not limited to: (i) causing an Option to be assumed or an equivalent option to be substituted by the successor corporation or a parent or subsidiary of such successor corporation, (ii) providing that each Option holder shall have the right to exercise his or her Option as to all of the shares of Class A Common Stock covered by the Option, including shares as to which the Option would not otherwise be exercisable, or (iii) declaring that an Option shall terminate at a date fixed by the Board, provided that the Option holder is given notice and opportunity to exercise the then exercisable portion of his or her Option prior to such date.

4. STOCK OPTIONS.

(A) GRANTING OF OPTIONS.

(I) ELIGIBILITY. Each Outside Director shall be eligible to be granted Options.

(II) GRANTING OF OPTIONS. Options may be granted by the Board at any time and from time to time while the Plan shall be in effect. The Board shall have the authority to determine the Outside Directors to whom Options are granted, the number of Options to be granted to each and the timing and vesting of each grant. The Board's determinations with respect to Options granted under the Plan need not be uniform and may be made selectively among Outside Directors as the Board, in its discretion, shall determine.

(III) TYPE OF OPTIONS. All Options granted under the Plan shall be options not intended to qualify as incentive stock options under Section 422 of the Code.

(B) TERMS OF OPTIONS.

(I) OPTION AGREEMENT. Each Option shall be evidenced by a written stock option agreement that shall be executed by the Optionee and on behalf of the Company and that shall contain such terms and conditions as the Board determines are required or appropriate under the Plan.

(II) OPTION PRICE. The exercise price of the shares subject to each Option shall be not less than 100% of the Fair Market Value for such shares on the date the Option is granted.

(III) DATE OF GRANT. The date on which an Option shall be deemed to have been granted under the Plan shall be the date of the Board's authorization of the Option or such later date as may be determined by the Board at the time the Option is authorized.

(IV) EXERCISE TERM. Each stock option agreement shall state the period or periods of time within which the Option may be exercised, in whole or in part, as determined by the Board, provided that no Option shall be exercisable after ten years from the date of grant thereof. The Board shall have the power to permit an acceleration of previously established exercise terms, subject to the requirements set forth herein, upon such circumstances and subject to such terms and conditions as the Board deems appropriate.

(V) RIGHTS UPON TERMINATION OF SERVICE. Upon an Optionee's Termination of Service, for any reason other than death, the Optionee shall have the right to exercise the Option during its term within a period of three months after such termination to the extent that the Option was exercisable at the time of termination, or within such other period, and subject to such terms and conditions, as may be specified by the Board. In the event that an Optionee dies prior to the expiration of his or her Option and without having fully exercised his or her Option, the Optionee's representative or successor shall have the right to exercise the Option during its term within a period of one year after Termination of Service due to death to the extent that the Option was exercisable at the time of Termination of Service, or within such other period, and subject to such terms and conditions, as may be specified by the Board.

(C) EXERCISE OF OPTIONS.

(I) PERSON ELIGIBLE TO EXERCISE. During the lifetime of the Optionee, only the Optionee may exercise an Option or any portion thereof. After the death of the Optionee, any exercisable portion of an Option may be exercised by the Optionee's personal representative or by any person empowered to do so under the deceased Optionee's will or under the then applicable laws of descent and distribution. The Company may require appropriate proof from any such person of such person's right to exercise the Option or any portion thereof.

(II) FRACTIONAL SHARES. The Company shall not be required to issue fractional shares on exercise of an Option.

(III) MANNER OF EXERCISE. Options may be exercised in whole or in part, from time to time, by giving written notice of exercise to the Secretary, specifying the number of shares to be purchased. The purchase price of the shares with respect to which an Option is exercised shall be payable in full with the notice of exercise in cash, Class A Common Stock at Fair Market Value, Class B Common Stock at Fair Market Value, or a combination thereof, as the Board may determine from time to time and subject to such terms and conditions as may be prescribed by the Board for such purpose. The Board may also, in its discretion and subject to prior notification to the Company by an Optionee, permit an Optionee to enter into an agreement with the Company's transfer agent or a brokerage firm of national standing whereby the Optionee will simultaneously exercise the Option and sell the shares acquired thereby through the Company's transfer agent or such a brokerage firm and either the Company's transfer agent or the brokerage firm executing the sale will remit to the Company from the proceeds of sale the exercise price of the shares as to which the Option has been exercised.

(IV) RIGHTS OF STOCKHOLDERS. An Optionee shall not be, nor have any of the rights of, a stockholder of the Company in respect to any shares that may be purchased upon the exercise of any Option or portion thereof unless and until certificates representing such shares have been issued by the Company to such Optionee.

(V) GENERAL RESTRICTIONS. Each Option granted under the Plan shall be subject to the requirement that, if at any time the Board shall determine that (i) the listing, registration or qualification of the shares of Class A Common Stock subject or related thereto upon any securities exchange or under any state or federal law, or (ii) the consent or approval of any government regulatory body, or (iii) the satisfaction of any tax payment or withholding obligation, or (iv) an agreement by the Optionee with respect to the disposition of shares of Class A Common Stock, is necessary or desirable as a condition of or in connection with the granting of such Option or the issuance or purchase of shares of Class A Common Stock thereunder, such Option shall not be consummated in whole or in part unless such listing, registration, qualification, consent, approval, payment, withholding or agreement shall have been effected or obtained free of any conditions not acceptable to the Board.

5. RESTRICTED STOCK AWARDS.

(A) GRANTING OF AWARDS.

(I) ELIGIBILITY. Each Director shall be eligible to be granted Restricted Stock Awards.

(II) GRANTING OF AWARDS. Each Director shall be granted annual Restricted Stock Awards consisting of 175 shares of Class A Common Stock, such Restricted Stock Awards to be made on the first business day of January in each year, commencing January 2, 2002, provided that the Director served as a member of the Board or of the Board of Directors of the Mutual Company during any portion of the preceding calendar year.

(B) TERMS OF RESTRICTED STOCK AWARDS.

(I) RESTRICTED STOCK AGREEMENT. Each Restricted Stock Award shall be evidenced by a written restricted stock agreement that shall be executed by the Grantee and the Company and that shall contain such restrictions, terms and conditions as are required by the Plan.

(II) RESTRICTIONS ON TRANSFER. The shares of Class A Common Stock comprising the Restricted Stock Awards may not be sold or otherwise transferred by the Grantee until one year after the date of grant. Although the shares of Class A Common Stock comprising each Restricted Stock Award shall be registered in the name of the Grantee, the Company reserves the right to place a restrictive legend on the stock certificate. None of such shares of Class A Common Stock shall be subject to forfeiture.

(III) RIGHTS AS STOCKHOLDER.

(A) Subject to the restrictions on transfer set forth in Section 5(b)(ii) hereof, a Grantee shall have all the rights of a stockholder with respect to the shares of Class A Common Stock issued pursuant to Restricted Stock Awards made hereunder, including the right to vote the shares and receive all dividends and other distributions paid or made with respect to the shares.

(B) In the event of changes in the capital stock of the Company by reason of stock dividends, split-ups or combinations of shares, reclassifications, mergers, consolidations, reorganizations or liquidations while the shares comprising a Restricted Stock Award shall be subject to restrictions on transfer, any and all new, substituted or additional securities to which the Grantee shall be entitled by reason of the ownership of a Restricted Stock Award shall be subject immediately to the terms, conditions and restrictions of the Plan.

(C) If a Grantee receives rights or warrants with respect to any shares comprising a Restricted Stock Award, such rights or warrants or any shares or other securities acquired by the exercise of such rights or warrants may be held, exercised, sold or otherwise disposed of by the Grantee free and clear of the restrictions and obligations set forth in the Plan.

(IV) GENERAL RESTRICTIONS. Each Restricted Stock Award granted under the Plan shall be subject to the requirement that if, at any time the Board shall determine that (i) the

listing, registration or qualification of the shares of Class A Common Stock subject or related thereto upon any securities exchange or under any state or federal law, or (ii) the consent or approval of any government regulatory body, or (iii) the satisfaction of any tax payment or withholding obligation, or (iv) an agreement by the Grantee with respect to the disposition of shares of Class A Common Stock, is necessary or desirable as a condition of or in connection with the granting of such Restricted Stock Award, such Restricted Stock Award shall not be consummated in whole or in part unless such listing, registration, qualification, consent, approval or agreement shall have been effected or obtained free of any conditions not acceptable to the Board.

6. MISCELLANEOUS PROVISIONS.

(A) NO ASSIGNMENT OR TRANSFER. No Option or interest or right therein or part thereof, and, for a period of one year after the date of grant, no Restricted Stock Award or any interest therein or part thereof, shall be liable for the debts, contracts, or engagements of the Optionee or Grantee or his or her successors in interest nor shall they be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means, whether such disposition is voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition thereof shall be null and void and of no effect; provided, however, that nothing in this Section 6(a) shall prevent transfers by will or by the applicable laws of descent and distribution.

(B) AMENDMENT, SUSPENSION OR TERMINATION OF THE PLAN. The Plan may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the Board, subject to any required stockholder approval or any stockholder approval that the Board may deem advisable for any reason, such as for the purpose of obtaining or retaining any statutory or regulatory benefits under tax, securities or other laws or satisfying any applicable stock exchange listing requirements. Neither the amendment, suspension nor termination of the Plan shall, without the consent of the Optionee or Grantee, alter or impair any rights or obligations under any outstanding Option or Restricted Stock Award. No Option or Restricted Stock Award may be granted during any period of suspension nor after termination of the Plan.

(C) WITHHOLDING. Whenever the Company proposes or is required to issue or transfer shares of Common Stock under the Plan, the Company shall have the right to require the recipient to remit to the Company an amount sufficient to satisfy any federal, state or local withholding tax requirements prior to the delivery of any certificate for such shares. If and to the extent authorized by the Board, in its sole discretion, an Optionee may make an election, by means of a form of election to be prescribed by the Board, to have shares of Class A Common Stock that are acquired upon exercise of an Option withheld by the Company or to tender other shares of Class A Common Stock or other securities of the Company owned by the Optionee to the Company at the time of exercise of an Option to pay the amount of tax that would otherwise be required by law to be withheld by the Company as a result of any exercise of an Option. Any such election shall be irrevocable and shall be subject to termination by the Board, in its sole discretion, at any time. Any securities so withheld or tendered will be valued by the Board as of the date of exercise.

(D) RESERVATION OF SHARES. The Company, during the term of the Plan, will at all times reserve and keep available such number of shares of Class A Common Stock as shall be sufficient to satisfy the requirements of the Plan. Inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any shares hereunder, shall relieve the Company of any liability for the failure to issue or sell such shares as to which such requisite authority shall not have been obtained.

(E) DURATION OF THE PLAN. The Plan shall remain in effect until all Options granted under the Plan have been satisfied by the issuance of shares, but no Option or Restricted Stock Award shall be granted more than ten years after the earlier of the date the Plan is adopted by the Company or is approved by the Company's stockholders.

(F) NO PROHIBITION ON CORPORATE ACTION. No provision of the Plan shall be construed to prevent the Company or any officer or director thereof from taking any action deemed by the Company or such officer or director to be appropriate or in the Company's best interest, whether or not such action could have an adverse effect on the Plan or any Options or Restricted Stock Awards granted hereunder, and no Director or Director's estate, personal representative or beneficiary shall have any claim against the Company or any officer or director thereof as a result of the taking of such action.

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

(H) COMPLIANCE WITH PLAN PROVISIONS. No Optionee or Grantee shall have any right with respect to the Plan, the Class A Common Stock reserved for issuance under the Plan or in any Option or Restricted Stock Award until a written stock option agreement or a written restricted stock agreement, as the case may be, shall have been executed on behalf of the Company and by the Optionee or Grantee, and all the terms, conditions and provisions of the

Plan and the Option or Restricted Stock Award applicable to such Optionee or Grantee (and each person claiming under or through such person) have been met.

(I) APPROVAL OF COUNSEL. In the discretion of the Board, no shares of Class A Common Stock, other securities or property of the Company or other forms of payment shall be issued hereunder with respect to any Option or Restricted Stock Award unless counsel for the Company shall be satisfied that such issuance will be in compliance with applicable federal, state, local and foreign legal, securities exchange and other applicable requirements.

(J) EFFECTS OF ACCEPTANCE. By accepting any Option or Restricted Stock Award or other benefit under the Plan, each Optionee and Grantee and each person claiming under or through such person shall be conclusively deemed to have indicated his or her acceptance and ratification of, and consent to, any action taken under the Plan by the Company, the Board or its delegates.

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

(L) STOCKHOLDER APPROVAL. No Option may be exercised and no Restricted Stock Award may be granted until the Plan shall have been approved by the stockholders of the Company in accordance with applicable law and regulations.

(M) TITLES. Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of the Plan.

Adopted by the Board of Directors on March 8, 2001.

Approved by the Stockholders on April 19, 2001.

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DONEGAL GROUP INC.

2001 EMPLOYEE STOCK PURCHASE PLAN

As Adopted as of March 8, 2001

SECTION 1. PURPOSE.

The Donegal Group Inc. 2001 Employee Stock Purchase Plan has been established by Donegal Group Inc. (the "Company") for the benefit of the eligible employees of the Company, its parent, Donegal Mutual Insurance Company (the "Mutual Company"), and participating subsidiaries of the Company and of the Mutual Company. The purpose of this Plan is to provide each eligible employee with an opportunity to acquire or increase his or her proprietary interest in the Company through the purchase of shares of the Company's Class A Common Stock (the "Class A Common Stock") at a discount from current market prices. This Plan is intended to meet the requirements of Section 423 of the Internal Revenue Code of 1986, as amended (the "Code").

SECTION 2. ELIGIBLE EMPLOYEES.

(a) Employees eligible to participate in this Plan ("Eligible Employees") shall consist of all individuals: (i) who are full-time employees (as defined in Section 2(b) of this Plan) of the Company, the Mutual Company or any subsidiary (as defined in Section 425 of the Code) of the Company or the Mutual Company (a "Participating Subsidiary"), and (ii) who have completed one month of employment on or prior to the date on which an Enrollment Period (as hereinafter defined) begins.

(b) A "full-time employee" is an employee of the Company, the Mutual Company or any Participating Subsidiary who works or is scheduled to work at least 1,000 hours during any calendar year. An employee who is not scheduled to work at least 1,000 hours during a calendar year, but who in fact works at least 1,000 hours during a calendar year, shall be considered a "full-time employee" once the employee is credited with at least 1,000 hours during such year.

(c) A person who is otherwise an Eligible Employee shall not be granted any right to purchase shares of the Class A Common Stock under this Plan to the extent that: (i) based on such person's ownership of the Class A Common Stock at the time the right is granted, such right, if exercised, would cause the person to own shares of the Class A Common Stock (including shares that would be owned if all outstanding options to purchase Common Stock held by such person were exercised) that possess 5% or more of the total combined voting power or value of all classes of stock of the Company, or any subsidiary of the Company or the Mutual Company, or (ii) such right would cause such person to have purchase rights under this Plan and all other stock purchase plans of the Company, or any subsidiary of the Company or the Mutual Company that meet the requirements of Section 423 of the Code, that accrue at a rate that exceeds \$25,000 of fair market value of the stock of the Company, or any subsidiary of the

Company or the Mutual Company (determined at the time the right to purchase Class A Common Stock under this Plan is granted), for each calendar year in which such right is outstanding. For this purpose, a right to purchase Class A Common Stock accrues when such right first becomes exercisable during the calendar year (but the rate of accrual for any calendar year may in no event exceed \$25,000 of the fair market value of the Class A Common Stock subject to the right), and the number of shares of Class A Common Stock under one right may not be carried over to any other right.

(d) Notwithstanding anything to the contrary set forth in this Plan, officers of the Company, the Mutual Company or any Participating Subsidiary who are subject to Section 16 of the Securities Exchange Act of 1934 (the "Exchange Act") with respect to their ownership of shares of the Class A Common Stock ("Section 16 Officers") shall be subject to the restrictions and conditions set forth in Sections 7(b) and 9 of this Plan.

SECTION 3. DURATION OF PLAN AND SUBSCRIPTION PERIODS.

This Plan shall be in effect from July 1, 2001 through and including June 30, 2011. During the term of this Plan, there shall be 20 semi-annual "Subscription Periods." Each Subscription Period shall extend from July 1 through December 31 or from January 1 through June 30, respectively, with the first Subscription Period beginning on July 1, 2001 and the last Subscription Period ending on June 30, 2011.

SECTION 4. ENROLLMENT AND ENROLLMENT PERIOD.

Each individual who is enrolled in the Company's 1996 Employee Stock Purchase Plan and who is an Eligible Employee as of June 30, 2001 shall be deemed to be enrolled automatically in this Plan effective as of the first Subscription Period. Thereafter, enrollment for participation in this Plan shall take place during the "Enrollment Period" preceding each Subscription Period, which shall be either the period from the 1st through the 30th day of June or the period from the 1st through the 31st day of December of each year. Except as provided above regarding enrollment in this Plan as of the first Subscription Period, any person who is an Eligible Employee and who desires to subscribe for the purchase of Common Stock must file a subscription agreement during an Enrollment Period, and such employee's participation in this Plan shall commence at the outset of the next Subscription Period. Once enrolled, an Eligible Employee shall continue to participate in this Plan for each succeeding Subscription Period until such Eligible Employee terminates his or her

participation or ceases to be an Eligible Employee. An Eligible Employee who desires to change his or her rate of contribution may do so effective as of the beginning of the next Subscription Period by submitting a properly completed and executed enrollment form during the Enrollment Period for the next Subscription Period. An Eligible Employee who is not a Section 16 Officer may also change his or her rate of contribution during a Subscription Period only pursuant to Section 7(b) of this Plan.

SECTION 5. NUMBER OF SHARES TO BE OFFERED.

The total number of shares to be made available under this Plan is 300,000 shares of the Class A Common Stock. Such Class A Common Stock may be authorized and unissued shares or shares issued and thereafter acquired by the Company. In the event the total number of shares

available for purchase under this Plan are purchased prior to the expiration of this Plan, this Plan may be terminated in accordance with Section 13 of this Plan.

SECTION 6. SUBSCRIPTION PRICE.

The "Subscription Price" for each share of Class A Common Stock subscribed for under this Plan during each Subscription Period shall be the lesser of 85% of the fair market value of such share as determined as of the last trading day before the first day of the Enrollment Period with respect to such Subscription Period or 85% of the fair market value of such share as determined on the last trading day of such Subscription Period. The fair market value of a share shall be the closing price reported by the Nasdaq Stock Market on the applicable date; provided, however, that the Subscription Price shall never be less than the par value per share of the Class A Common Stock.

SECTION 7. AMOUNT OF CONTRIBUTION AND METHOD OF PAYMENT.

(a) The Subscription Price shall be payable by the Eligible Employee by means of payroll deduction. The maximum payroll deduction shall be no more than 10% of an Eligible Employee's Base Pay (as hereinafter defined). An Eligible Employee must authorize a minimum payroll deduction, based on such employee's rate of Base Pay at the time of such authorization, that will enable such employee to accumulate by the end of the Subscription Period an amount sufficient to purchase at least ten shares of Class A Common Stock. An Eligible Employee may not make separate cash deposits toward the payment of the Subscription Price.

(b) An Eligible Employee who is not a Section 16 Officer may at any time during a Subscription Period reduce the amount previously authorized to be deducted from his or her Base Pay, provided the reduction conforms with the minimum payroll deduction set forth in Section 7(a) of this Plan, by forwarding to the Company a properly completed and executed written notice setting forth the reduction in his or her payroll deduction. The change shall become effective on a prospective basis as soon as practicable after receipt by the Company of the change notice. A payroll deduction may be changed under this Section 7(b), by forwarding to the Company a properly completed and executed written notice setting forth the reduction in his or her payroll deduction only once during any Subscription Period and shall remain in effect for subsequent Subscription Periods, subject to compliance with Section 7(a) of this Plan, until such Eligible Employee terminates his or her participation or ceases to be an Eligible Employee. A Section 16 Officer may not change his or her rate of contribution during a Subscription Period.

(c) "Base Pay" means the straight-time earnings or regular salary paid to an Eligible Employee. Base Pay shall not include overtime, bonuses or other items that are not considered to be regular compensation by the committee administering this Plan pursuant to Section 14 of this Plan. Payroll deductions shall commence with the first paycheck issued during the Subscription Period and, except as set forth in Articles 9 and 10, shall continue with each paycheck throughout the entire Subscription Period, except for pay periods for which the Eligible Employee receives no compensation (i.e., uncompensated personal leave, leave of absence, etc.).

SECTION 8. PURCHASE OF SHARES.

The Company shall maintain on its books for recordkeeping purposes only a "Plan Account" in the name of each Eligible Employee who authorized a payroll deduction (a "partici-

part"). At the close of each pay period, the amount deducted from the participant's Base Pay shall be credited to the participant's Plan Account. No interest shall be paid by the Company on any Plan Account balance in any circumstance. As of the last day of each Subscription Period, the amount then in the participant's Plan Account shall be divided by the Subscription Price for such Subscription Period as determined pursuant to Section 6 above, and the participant's Plan Account shall be credited with the number of whole shares that results. Fractional shares shall not be credited hereunder. Share certificates shall be issued and delivered to each participant within a reasonable time thereafter. Any amount remaining in a participant's Plan Account shall be carried forward to the next Subscription Period, but shall not otherwise reduce the amount a participant may contribute pursuant to Section 7 of this Plan during the next Subscription Period. If a participant does not accumulate sufficient funds in his Plan Account to purchase at least ten shares of Class A Common Stock during a Subscription Period, such participant shall be deemed to have withdrawn from this Plan pursuant to Section 9 of this Plan.

If the number of shares subscribed for during any Subscription Period exceeds the number of shares available for purchase under this Plan, the remaining shares available for purchase shall be allocated among all participants in proportion to their Plan Account balances, exclusive of any amounts carried forward pursuant to the preceding paragraph. If the number of shares that would be credited to any participant's Plan Account in either or both of the Subscription Periods occurring during any calendar year exceeds the limit specified in Section 2(c) of this Plan, the participant's Plan Account shall be credited with the maximum number of shares permissible, and the remaining amounts shall be refunded to Participants in cash without interest thereon.

SECTION 9. WITHDRAWAL FROM THIS PLAN.

A participant other than a Section 16 Officer may withdraw from this Plan at any time by giving a properly completed and executed written notice of withdrawal to the Company. As soon as practicable following receipt of a notice of withdrawal, the amount credited to the participant's Plan Account shall be refunded in cash without interest thereon. No further payroll deductions shall be made with respect to such participant except in accordance with an authorization for a new payroll deduction filed during a subsequent Enrollment Period in accordance with Section 4 of this Plan. A participant's withdrawal shall not affect the participant's eligibility to participate during any succeeding Subscription Period. A withdrawal by a Section 16 Officer, other than a withdrawal under Section 10 of this Plan, shall not become effective until the Subscription Period that commences after the date written notice of such withdrawal is received by the Company.

SECTION 10. SEPARATION FROM EMPLOYMENT.

Separation from employment for any reason, including death, disability or retirement (as hereinafter defined) shall be treated as an automatic withdrawal pursuant to Section 9 of this Plan. However, at the election of a participant who retires, or in the event of a participant's death at the election of the participant's beneficiary, any cash balance in such participant's Plan Account may be used to purchase the appropriate number of whole shares of Common Stock at a Subscription Price determined in accordance with Section 6 of this Plan using the date of the participant's retirement or death as though it was the last day of the Subscription Period. Any cash balance in the Plan Account after such purchase shall be refunded in cash to the participant,

or in the event of the participant's death to the participant's beneficiary without interest thereon. A transfer of employment among the Company, the Mutual Company or any Participating Subsidiary or a change in status that causes an employee to no longer be an Eligible Employee shall not be treated as a separation from employment. As used in this Section 10, "retirement" means a termination of employment by reason of a participant's retirement at or after the participant's earliest permissible retirement date pursuant to and in accordance with his or her employer's regular retirement plan or practice.

SECTION 11. ASSIGNMENT AND TRANSFER PROHIBITED.

No participant may assign, pledge, hypothecate or otherwise dispose of his or her subscription or rights to subscribe under this Plan to any other person, and any attempted assignment, pledge, hypothecation or disposition shall be void, provided that a participant may acquire the shares of Class A Common Stock subscribed to under this Plan in the name of the participant and another person jointly with the right of survivorship upon appropriate written notice to the Company. No subscription or right to subscribe granted to a participant under this Plan shall be transferable by the participant otherwise than by will or by the laws of descent and distribution, and such subscription rights shall be exercisable, during the participant's lifetime, only by the participant.

SECTION 12. ADJUSTMENT OF AND CHANGES IN THE COMMON STOCK.

In the event that the outstanding shares of Class A Common Stock of the Company are hereafter increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company, or of another corporation, by reason of reorganization, merger, consolidation, recapitalization, reclassification, stock split-up, stock dividend (either in shares of the Class A Common Stock or of another class of the Company's stock), spin-off or combination of shares, appropriate adjustments shall be made by the committee appointed pursuant to Section 14 of this Plan in the aggregate number and kind of shares that are reserved for sale under this Plan.

SECTION 13. AMENDMENT OR DISCONTINUANCE OF THIS PLAN.

The Board of Directors of the Company (the "Board") shall have the right to amend, modify or terminate this Plan at any time without notice, provided that no participant's existing rights are adversely affected thereby and provided further that, without the approval of the holders of the stockholders of the Company in accordance with applicable law and regulations, no such amendment shall increase the benefits accruing to participants under this Plan, increase the total number of shares subject to this Plan, change the formula by which the price at which the shares shall be sold is determined, or change the class of employees eligible to participate in this Plan.

SECTION 14. ADMINISTRATION.

This Plan shall be administered by a committee to be appointed by the Board consisting of three employees of the Company. The committee may from time to time adopt rules and regulations for carrying out this Plan. Any interpretation or construc-

tion of any provision of this Plan by the Board shall be final and conclusive on all persons. Any interpretation or construction of any provision of this Plan by the committee shall be final and conclusive on all persons absent contrary action by the Board.

SECTION 15. DESIGNATION OF BENEFICIARY.

A participant may file a written designation of a beneficiary who is to receive any cash credited to the participant under this Plan in the event of such participant's death prior to the delivery to the participant of such cash. Such designation of a beneficiary may be changed by the participant at any time upon written notice. Upon the death of a participant and upon receipt by the committee of proof of the participant's death and of the identity and existence of a beneficiary validly designated by the participant under this Plan, the Company shall deliver such cash to such beneficiary. In the event of the death of a participant and in the absence of a beneficiary

validly designated under this Plan who is living at the time of such participant's death, the Company shall deliver such cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its sole discretion, may deliver such cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent, or relative is known to the Company, then to such other person as the Company may designate. No designated beneficiary shall, prior to the death of the participant by whom the beneficiary has been designated, acquire any interest in the shares or cash credited to the participant under this Plan.

SECTION 16. EMPLOYEES' RIGHTS.

Nothing contained in this Plan shall prevent the Company, the Mutual Company or any Participating Subsidiary from terminating any employee's employment. No employee shall have any rights as a stockholder of the Company by reason of participation in this Plan unless and until certificates representing the shares of Class A Common Stock for which the participant has subscribed shall have been issued and delivered by the Company.

SECTION 17. USE OF FUNDS.

All payroll deductions received or held by the Company under this Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions. Any account established for a Participant shall be for recordkeeping purposes only.

SECTION 18. GOVERNMENT REGULATIONS.

The Company's obligation to sell and deliver Class A Common Stock under this Plan is subject to any prior approval or compliance that may be required to be obtained or made from or with any governmental or regulatory authority in connection with the authorization, issuance or sale of such Class A Common Stock.

SECTION 19. TITLES.

Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

SECTION 20. APPLICABLE LAW.

This Plan shall be construed, administered and governed in all respects under the laws of the Commonwealth of Pennsylvania and the United States of America.

SECTION 21. COMPLIANCE WITH RULE 16B-3.

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

SECTION 22. APPROVAL OF STOCKHOLDERS.

Prior to June 30, 2001, this Plan shall be submitted for approval by the stockholders of the Company in accordance with applicable law and regulations. Subscriptions for the purchase of shares under this Plan shall be subject to the condition that this Plan shall be approved by the stockholders of the Company prior to such date in the manner contemplated by Section 423(b)(2) of the Code. If not so approved prior to such date, this Plan shall terminate, all subscriptions hereunder shall be cancelled and be of no further force or effect and all participants shall be entitled to the prompt refund in cash, without interest, of all sums previously deducted from their compensation pursuant to this Plan.

DONEGAL GROUP INC.

2001 AGENCY STOCK PURCHASE PLAN

AS ADOPTED MARCH 8, 2001

1. Purpose.

The Donegal Group Inc. 2001 Agency Stock Purchase Plan (this "Plan") has been established by Donegal Group Inc. (the "Company") for the benefit of eligible independent insurance agencies of the Company and Donegal Mutual Insurance Company (the "Mutual Company"), and the Company's subsidiary and affiliated insurance companies, which shall be those insurance companies 50% or more of whose stock is owned by the Company or the Mutual Company or with which the Mutual Company has a management agreement (collectively, the "Companies"). This Plan provides an Eligible Agency (as defined in Section 2) an opportunity to acquire a long-term proprietary interest in the Company through the purchase of the Company's Class A Common Stock (the "Class A Common Stock") at a discount from current market prices. In offering this Plan, the Company seeks to foster the common interests of the Company and Eligible Agencies in achieving long-term profitable growth for the Company. Accordingly, the Company has created this Plan to facilitate the purchase and long-term investment in shares of the Class A Common Stock by Eligible Agencies.

2. Eligible Agencies.

An agency designated as an Eligible Agency by the Company is thereafter eligible to participate in this Plan. An Eligible Agency shall be an agency that, as determined by the Company in its discretion, is an agency that brings value to the Companies and with which the Companies seek a long-term relationship. The eligibility criteria the Company will consider will include the agency's premium volume, the potential growth of such premium volume, the profitability of the agency's business and whether the agency has been placed on rehabilitation by the Company or had its binding authority revoked. The Company, in its discretion, may base eligibility on agency segmentation class or any other factors that indicate value, directly or indirectly, to the Companies. Continued eligibility will be subject to the Company's periodic review. A pattern of immediate resale of the Class A Common Stock acquired under this Plan by an Eligible Agency shall be a factor in the Company's determination whether an agency should remain eligible for continued participation in this Plan because immediate resales would tend to indicate that an Eligible Agency is not seeking to share in the long-term profitable growth of the Companies. A decision by the Company, in its discretion, to discontinue the eligibility of an agency under this Plan, will be treated as an automatic withdrawal from this Plan. See Section 9 below.

3. Methods of Payment and Amount of Contribution.

There shall be three methods of payment to purchase shares of the Class A Common Stock under this Plan. Subject to the provisions of Section 11(b), an Eligible Agency may elect any of the payment methods individually or in combination. In each Subscription Period (as

defined in Section 4) an Eligible Agency may contribute an aggregate maximum of \$12,000 toward the purchase of Class A Common Stock under all payment methods combined (the "Maximum Amount"), subject to the limitations set forth below:

(a) An Eligible Agency may elect to purchase Class A Common Stock through deductions from its monthly direct bill commission payments. Under this method, an Eligible Agency shall designate no less than 1% and no more than 10% of the Eligible Agency's direct bill commission payments to be withheld from the Eligible Agency's direct bill commission payments; provided, however, that no more than \$12,000 will be withheld by the Company from direct bill commission payments during each Subscription Period. Direct bill commission payments shall mean the commissions earned and that are 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 the Company's records.

(b) An Eligible Agency may elect to purchase Class A Common Stock during each October 1 through March 31 Subscription Period through a deduction from the contingent commission, if any, payable to the Eligible Agency under the applicable agency contingent plan or its equivalent. Under this method, an Eligible Agency shall designate a percentage of the contingent commission to be withheld by the Company subject to the Maximum Amount.

(c) An Eligible Agency may elect to purchase Class A Common Stock through lump-sum payments to the Company. Under this method, the Eligible Agency shall pay to the Company a dollar amount in a lump sum by the last day of the applicable Subscription Period (September 30 or March 31). The amount of the lump sum payment shall not be less than \$1,000 nor more than the Maximum Amount.

At the end of each Subscription Period, each Eligible Agency's direct bill commission payments, if any, shall be totaled and added to all lump-sum and/or contingent commission payments, if any, made by such agency. If at any time during a Subscription Period an Eligible Agency's total payments exceed the Maximum Amount for that Subscription Period then, upon request by the Eligible

Agency, such excess amount shall be returned by the Company to the Eligible Agency without interest within a reasonable period. Any such amount not returned shall be applied to the purchase of Class A Common Stock during the next Subscription Period without reducing the Maximum Amount applicable to such Subscription Period.

4. Duration of This Plan and Subscription Periods.

This Plan shall be in effect from September 15, 2001 through and including September 30, 2006. During the term of this Plan, there will be ten semi-annual "Subscription Periods." Each Subscription Period will extend from October 1 through March 31 or from April 1 through September 30, respectively, beginning with October 1, 2001 and ending on September 30, 2006.

5. Enrollment and Enrollment Periods.

Enrollment for participation in this Plan based on withholding from direct bill commissions shall take place in the "Enrollment Period" preceding each Subscription Period, which shall be from the 15th through the 30th day of September and from the 15th through the 31st day of March of each year commencing with September 15, 2001. An Eligible Agency shall be sent a

Subscription Agreement prior to the beginning of first Enrollment Period following such agency's designation as an Eligible Agency. An Eligible Agency that desires to subscribe for the purchase of Class A Common Stock through withholding from direct bill commissions must return a duly executed and completed Subscription Agreement during the first applicable Enrollment Period. Once enrolled, an Eligible Agency shall continue to participate in this Plan for each succeeding Subscription Period until it ceases to be an Eligible Agency or chooses to withdraw from this Plan pursuant to Section 9. If an Eligible Agency desires to change its rate of contribution, it may do so effective for the next Subscription Period by filing a new Subscription Agreement during the Enrollment Period for the next Subscription Period. An Eligible Agency that wishes to make lump-sum purchases during a Subscription Period shall remit each lump-sum payment to the Company with a supplemental Subscription Agreement by the last day of the applicable Subscription Period (September 30 or March 31). An Eligible Agency that wishes to make a purchase during the October 1 through March 31 Subscription Period through designation of a portion of its contingent commission under the agency contingent plan shall file a Subscription Agreement during the Enrollment Period applicable to that Subscription Period.

6. Number of Shares To Be Offered.

The total number of shares to be made available under this Plan is 300,000 shares of Class A Common Stock of the Company. In the event all 300,000 shares of Class A Common Stock are purchased prior to the expiration of this Plan, this Plan may be terminated in accordance with Section 13 of this Plan.

7. Subscription Price.

The "Subscription Price" for each share of Class A Common Stock shall be equal to 90% of the average of the closing prices of the Class A Common Stock on the Nasdaq Stock Market on the last ten trading days of the applicable Subscription Period; provided, however, that the Subscription Price shall never be less than the par value per share of the Class A Common Stock.

8. Purchase of Shares.

The Company will maintain a "Plan Account" on behalf of each enrolled Eligible Agency. As of the last day of each Subscription Period, the aggregate amount deducted from the Eligible Agency's direct bill commission payments and contingent commission withholding and lump-sum payments, not to exceed the Maximum Amount permitted pursuant to Section 3 of this Plan from all three payment methods, shall be credited to the Eligible Agency's Plan Account. At such time, the amount then contained in the Eligible Agency's Plan Account shall be divided by the Subscription Price for such Subscription Period and each Plan Account will be credited with the number of whole shares that results. Any amount remaining in the Plan Account will be carried forward to the next Subscription Period or, at the option of the Eligible Agency, returned to the Eligible Agency. Any amount so carried forward will not reduce the Maximum Amount applicable to such succeeding Subscription Period. If the number of shares subscribed for during any Subscription Period exceeds the number of shares available for sale under this Plan, the remaining shares shall be allocated among all Eligible Agencies in proportion to their aggregate Plan Account balances, exclusive of any amounts carried forward as provided in Sections 3 and 8 of this Plan. Stock certificates will be issued and delivered to each Eligible Agency with respect to the shares it has purchased hereunder within a reasonable time thereafter.

9. Withdrawal from This Plan.

An enrolled Eligible Agency may withdraw from this Plan at any time by giving written notice of withdrawal to the Company, which written notice shall be signed on behalf of the Eligible Agency by an authorized representative. Promptly after the time of withdrawal or the discontinuance of an Eligible Agency's eligibility, certificates representing any shares held under this Plan shall be issued in the name of the Eligible Agency and the amount of any cash credited to the Eligible Agency's Plan Account for the current Subscription Period shall be refunded by the Company without interest. If an Eligible Agency withdraws, such Eligible Agency may not resubscribe until after the next full Subscription Period has elapsed, and then only if it has been redesignated by the Company as an Eligible Agency.

10. Termination of Agency Status.

Termination of agency status for any reason shall be treated as an automatic withdrawal from this Plan pursuant to Section 9.

11. Assignment and Issuance of Shares.

Except as expressly permitted by this Section 11, no Eligible Agency may assign its subscription payments under this Plan or rights to subscribe under this Plan to any other person (including its shareholders, partners or other principals), and any attempted assignment shall be void. Neither an Eligible Agency's rights under this Plan nor shares held in an Eligible Agency's Plan Account may be transferred, pledged, hypothecated or assigned. All shares issued under this Plan shall be titled in the name of the Eligible Agency; provided, however, that an Eligible Agency may, upon written request to the Company: (a) designate that such shares be issued to a shareholder, partner, other principal or other licensed employee of such Eligible Agency, or (b) designate that any retirement plan maintained by or for the benefit of such Eligible Agency or a shareholder, partner, other principal or other licensed employee of such Eligible Agency may purchase shares in lieu of such Eligible Agency through lump-sum payments made by the designee, subject to the \$12,000 Maximum Amount limitation set forth in Section 3, compliance with applicable laws, including the Employee Retirement Income Security Act of 1974, as amended, and, if applicable, payment by the Eligible Agency or its designee of any applicable transfer taxes and satisfaction of the Company's usual requirements for recognition of a transfer of Class A Common Stock.

12. Adjustment of and Changes in the Class A Common Stock.

In the event that the outstanding shares of Class A Common Stock are hereafter increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company, or of another corporation, by reason of reorganization, merger, consolidation, recapitalization, reclassification, stock split-up, stock dividend either in shares of the Class A Common Stock or of another class of the Company's stock, spin-off or combination of shares, appropriate adjustments shall be made by the Committee appointed pursuant to Section 14 of this Plan in the aggregate number and kind of shares that are reserved for sale under this Plan.

13. Amendment or Discontinuance of This Plan.

The Board of Directors of the Company shall have the right to amend, modify or terminate this Plan at any time without notice provided that no participant's existing rights are adversely affected thereby.

14. Administration.

This Plan shall be administered by a committee (the "Committee") consisting of three persons appointed from time to time by the Board of Directors of the Company. The Committee may from time to time adopt rules and regulations for carrying out this Plan. Interpretation or construction of any provision of this Plan by the Committee shall be final and conclusive on all persons absent contrary action by the Board of Directors.

15. Titles.

Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Plan.

16. Applicable Law.

This Plan shall be construed, administered and governed in all respects under the laws of the Commonwealth of Pennsylvania and the United States of America.

STOCK PURCHASE AGREEMENT

Between

DONEGAL MUTUAL INSURANCE COMPANY

and

DONEGAL GROUP INC.

Relating to the
Capital Stock
of

PIONEER INSURANCE COMPANY

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STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT (the "Agreement") made and entered into as of the 20th day of July, 2000 between DONEGAL GROUP INC., a corporation organized under the laws of the State of Delaware (the "Buyer"), and DONEGAL MUTUAL INSURANCE COMPANY, a mutual casualty insurance company organized under the laws of the Commonwealth of Pennsylvania (the "Stockholder") which owns all of the issued and outstanding shares (the "Shares") of capital stock of PIONEER INSURANCE COMPANY, a New York stock casualty insurance company (the "Company").

WITNESSETH:

WHEREAS, the Stockholder desires to sell the Shares to the Buyer pursuant to the terms and conditions set forth in this Agreement; and

WHEREAS, the Buyer desires to purchase the Shares from the Stockholder on the terms and conditions set forth in this Agreement;

NOW, THEREFORE, the Buyer and the Stockholder, in consideration of the agreements, covenants and conditions contained herein, hereby make the following representations and warranties, give the following covenants and agree as follows:

ARTICLE I

REPRESENTATIONS, WARRANTIES AND AGREEMENTS
OF THE STOCKHOLDER

As an inducement to the Buyer to enter into this Agreement and to consummate the transactions contemplated herein, the Stockholder represents and warrants to the Buyer and agrees as follows:

1.1 Organization. The Stockholder is a mutual casualty insurance company

duly organized, validly existing and in good standing under the Insurance Company Law of the Commonwealth of Pennsylvania. The Company is a stock casualty insurance company duly organized, validly existing and in good standing under the laws of the State of New York and is duly admitted to transact insurance and is in good standing in the jurisdictions listed in Schedule T to the Company's Annual Statement as filed with the New York Insurance Department for the year ended December 31, 1999 (the "1999 Annual Statement"). The Company has the corporate power and authority and other authorizations necessary or required in order for it to own or lease and operate its properties and to carry on its business as now conducted.

1.2 Subsidiaries. The Company has no subsidiaries.

1.3 Authority. This Agreement and the transactions contemplated herein

have been duly approved by all necessary action on the part of the Stockholder. This Agreement, when executed and delivered by the Stockholder and, assuming the due execution hereof by the Buyer, will constitute the valid, legal and binding agreement of the Stockholder enforceable in accordance with its terms. Neither the execution nor the delivery of this Agreement nor the consummation of the transactions contemplated herein, nor compliance with nor fulfillment of the terms and provisions hereof, will (i) conflict with or result in a breach of the terms, conditions or provisions of or constitute a default under the governing instruments of the Stockholder or the Company, any instrument, agreement, mortgage, judgment, order, award, decree or other restriction to which the Company or the Stockholder is a party or by which either of them is bound or any statute or regulatory provision affecting either of them; (ii) give any party to or with rights under any such instrument, agreement, mortgage, judgment, order, award, decree or other restriction the right to terminate, modify or otherwise change the rights or obligations of the Company under such instrument, agreement, judgment, order, award, decree, mortgage or other restriction or (iii) require the approval, consent or authorization of or any filing with or notification to any federal, state or local court, governmental authority or regulatory body, except as may be required by the Pennsylvania Insurance Company Law and the New York Insurance Law. The Stockholder has full power and authority to sell, assign, transfer and deliver the Shares to the Buyer pursuant to this Agreement and to do and perform all acts and things required to be done by the Stockholder under this Agreement.

1.4 Capital Structure. The authorized capital stock of the Company

consists of 100,000 Common Shares, par value \$14.00 per share, of which 100,000 Common Shares are issued and outstanding, and none of which is held by the Company as treasury shares. Except for this Agreement, there are no agreements, arrangements, options, warrants or other rights or commitments of any character relating to the issuance, sale, purchase or redemption of any shares of capital stock of the Company, and no such agreements, arrangements, options, warrants or other rights or commitments will be entered into or granted between the date hereof and the Closing Date (as defined in Section 5.1 hereof). All of the Shares of the Company are validly issued, fully paid and nonassessable with no liability attaching to the ownership thereof, and are owned of record and beneficially by the Stockholder free and clear of any liens, claims, encumbrances or restrictions of any kind; and the transfer and delivery of the Shares to the Buyer by the Stockholder as contemplated by this Agreement will be sufficient to transfer good and marketable record and beneficial title to such outstanding shares to the Buyer, free and clear of liens, claims, encumbrances or restrictions of any kind.

1.5 No Distributions on Capital Stock. The Company has never purchased

or redeemed any shares of its outstanding capital stock, and, since December 31, 1999, has not declared or paid any dividend or made any other distribution in respect of its capital stock.

1.6 Financial Statements. The Company has furnished to the Buyer the

Annual Statements of the Company as of December 31, 1998 and 1999 and an unaudited balance sheet and statement of operations as of June 30, 2000 (collectively, the "Financial Statements").

All of such Financial Statements are correct and complete in all material respects and fairly present the financial position of the Company at the respective dates thereof and the results of its operations for the respective periods covered thereby, and have been prepared in conformity with accounting principles prescribed or permitted by the Insurance Department of the State of New York consistently applied throughout all periods.

1.7 Material Changes Since December 31, 1999. Since December 31, 1999,

the business of the Company has been operated only in the ordinary course and, whether or not in the ordinary course of business, other than as disclosed in this Agreement or in the Financial Statements, there has not been, occurred or arisen (i) any material adverse change in the financial condition of the Company from that shown on the 1999 Annual Statement; (ii) any damage or destruction in the nature of a casualty loss, whether covered by insurance or not, to any property or business of the Company which is material to the financial condition, operations or business of the Company; (iii) any material increase in any employee benefit plan maintained by the Company; (iv) any amendment or termination of any agreement or cancellation or reduction of any debt owing to the Company or waiver or relinquishment of any right of material value to the Company or (v) any other event, condition or state of facts of any character which materially and adversely affects the results of operations or business, financial condition or property of the Company.

1.8 Availability of Assets and Legality of Use. The assets owned or

leased by the Company constitute all of the assets that are being used in its business. Such assets are in good and serviceable condition, normal wear and tear excepted, and suitable for the uses for which intended, and such assets and their uses conform in all material respects to all applicable laws.

1.9 Title to Property. The Company has good and marketable title to all

of its assets, including the assets reflected on the 1999 Annual Statement and all of the assets thereafter acquired by it, except to the extent that such assets have thereafter been disposed of for fair value in the ordinary course of business.

1.10 Insurance Regulatory Matters.

(a) The Company is properly authorized to transact the lines of business it is currently transacting in each jurisdiction in which it is admitted to transact business;

(b) The Company has furnished the Buyer with copies of all reinsurance and coinsurance treaties pursuant to which the Company cedes or assumes insurance and all assumption reinsurance agreements;

(c) The Company has furnished the Buyer with a true and complete specimen of the form of each type of insurance policy issued by the Company at any time since December 31, 1995 which is currently in force or under which the Company currently has obligations, as well as any underwriting manuals utilized by the Company in connection with each type of policy currently being issued; and

(d) The Company has made all filings required to be made by the Company with any state insurance department, such filings were in material compliance with applicable law when filed and no material deficiencies have been asserted by any state insurance department in connection with any such filing.

1.11 Conduct of Business.

(a) The Stockholder has advised the Buyer of all claims which are pending or, to the knowledge of the Stockholder, threatened against the Company. No insurance carrier has denied coverage of any claim or accepted investigation of any such loss or defense of any such claim under a reservation of rights. The reserves established by the Company as of December 31, 1999 are adequate to cover the Company's liability, net of insurance coverage, for all such claims.

(b) To the knowledge of the Stockholder after due inquiry, no employee, agent or representative of the Company has, in relation to the Company's insurance business, at any time exceeded the authority or abused or wrongfully exercised any discretion granted to him with regard to the acceptance of business on behalf of the Company. The Company has not failed to have underwritten any risk in respect of which evidence of insurance coverage has been issued. The Company has not exceeded any authority granted to it by any party to bind it in connection with the Company's business. Without limiting the generality of the foregoing, no factual basis exists for any claim against the Company based on any act or omission: (i) in the placing or failing to place insurance coverage; (ii) in advice given or representations made with respect to the availability or non-availability of insurance coverage, the existence, adequacy, amount, scope or nature of any such coverage, the acts or occurrences covered, deductibles or required primary or coinsurance or (iii) in the making of declarations or furnishing of information to any insurance carrier.

1.12 No Undisclosed Liabilities. The Company is not subject to any

material liability, including unasserted claims, absolute or contingent, which is not shown or which is in excess of amounts shown or reserved for in the June 30, 2000 balance sheet referred to in Section 1.6 hereof, other than liabilities of the same nature as those set forth in such balance sheet and reasonably incurred in the ordinary course of its business after June 30, 2000.

1.13 No Default, Violation or Litigation. The Company is not in default in

any material respect under any agreement, lease or other document to which it is a party, or in violation in any material respect of any law, rule, order, writ, injunction or decree of any court or federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality. Except in the ordinary course of the Company's business, there are no lawsuits, proceedings, claims or governmental investigations pending or, to the knowledge of the Stockholder, threatened against the Company or against the properties or business thereof, and the Stockholder knows of no factual basis for any such lawsuit, proceeding, claim or investigation and there is no action, suit, proceeding or investigation pending, threatened or contemplated which questions the legality, validity or propriety of the transactions contemplated by this Agreement.

1.14 Tax Liabilities. All federal, state, county, local and foreign

income, use, excise, property, sales, business activity and other tax returns which are required to be filed by or in respect of the Company up to and including the date hereof have been filed and all taxes, including any interest and penalties thereon, which have become due pursuant to such returns or pursuant to any assessment have been paid and no extension of the time for filing of any such return is presently in effect. All such returns which have been filed or will be filed by or in respect of the Company for any period ending on or before the Closing Date are or will be true and correct.

1.15 Employee Relations. The Company has not engaged in any unfair labor

practice, unlawful employment practice or unlawful discriminatory practice in the conduct of its business. The Company has complied in all respects with all applicable laws, rules and regulations relating to wages, hours and collective bargaining and has withheld all amounts required by agreement to be withheld from the wages or salaries of its employees. The relations of the Company with its employees are satisfactory and the Company is not a party to or affected by or threatened with or, to the knowledge of the Stockholder, in danger of being a party to or affected by, any labor dispute which materially interferes or would materially interfere with the conduct of its business. During the year ended December 31, 1999, the total annual compensation, including bonuses, payable to any one employee of the Company did not exceed the sum of \$100,000. Since December 31, 1999, there has been no material increase in the compensation payable to any such employees of the Company.

1.16 Corporate Name. The Company owns and possesses, to the exclusion

of the Stockholder and its affiliates, all rights to the use of the name Pioneer Insurance Company.

1.17 No Omissions. None of the representations or warranties of the

Stockholder contained herein, and none of the other information or documents furnished to the Buyer or its representatives by the Stockholder or the Company in connection with this Agreement, is false or misleading in any material respect or omits to state a fact herein or therein necessary to make the statements herein or therein not misleading in any material respect. To the knowledge of the Stockholder, there is no fact which adversely affects, or in the future is likely to affect adversely, the business or assets of the Company in any material respect which has not been disclosed in writing to the Buyer.

1.18 Finders. Neither the Company nor the Stockholder has paid or become

obligated to pay any fee or commission to any broker, finder or intermediary for or on account of the transactions provided for in this Agreement. Neither the Company nor the Stockholder has any agreement or obligation whatsoever with entities other than the Buyer regarding any proposed acquisition of the Company by any such entity and neither of them is engaged in any negotiations with any such entity for any such acquisition.

1.19 Representations and Warranties To Be True on the Closing Date. All

representations and warranties set forth in this Article I will be true and correct on the Closing Date.

ARTICLE II

REPRESENTATIONS, WARRANTIES AND AGREEMENTS
OF THE BUYER

As an inducement to the Stockholder to enter into this Agreement and to consummate the transactions contemplated herein, the Buyer represents and warrants to the Stockholder and agrees as follows:

2.1 Organization of the Buyer. The Buyer is a corporation duly organized, -----
validly existing and in good standing under the laws of the State of Delaware.

2.2 Corporate Authority. This Agreement and the Note (as defined herein) -----
and the transactions contemplated herein have been duly approved by all necessary corporate action on the part of the Buyer. This Agreement and the Note, when executed and delivered by the Buyer and, assuming due execution hereof by the Stockholder, will constitute the valid and binding agreements of the Buyer enforceable in accordance with their respective terms. Neither the execution nor the delivery of this Agreement, nor the consummation of the transactions contemplated herein and therein, nor compliance with nor fulfillment of the terms and provisions hereof and thereof, will (i) conflict with or result in a breach of the terms, conditions or provisions of or constitute a default under the governing instruments of the Buyer, any instrument, agreement, mortgage, judgment, order, award, decree or other restriction to which the Buyer is a party or by which it is bound or any statute or regulatory provisions affecting it or (ii) require the approval, consent or authorization of or any filing with or notification to any federal, state or local court, governmental authority or regulatory body except as may be required by the Pennsylvania Insurance Company Law or the New York Insurance Law. The Buyer has, and will have at the Closing Date, full power and authority to purchase the Shares pursuant to this Agreement and to do and perform all acts and things required to be done by the Buyer under this Agreement.

2.3 Finders. The Buyer has not paid or become obligated to pay any fee or -----
commission to any broker, finder or intermediary for or on account of the transactions provided for in this Agreement.

2.4 Representations and Warranties To Be True on the Closing Date. All -----
of the representations and warranties set forth in this Article II will be true and correct on the Closing Date.

ARTICLE III

ACTION PRIOR TO THE CLOSING DATE

The parties covenant to take the following action between the date hereof and the Closing Date:

3.1 Preserve Accuracy of Representations and Warranties. The Stockholder

shall refrain from taking any action, and shall cause the Company to refrain from taking any action, which would render any representation or warranty contained in Article I of this Agreement inaccurate as of the Closing Date hereunder. The Stockholder will promptly notify the Buyer of any lawsuits, claims, proceedings or investigations that, to the knowledge of the Stockholder, may be threatened, brought, asserted or commenced against the Company, its officers or directors or the Stockholder (i) involving in any way the transactions contemplated by this Agreement or (ii) which would, if determined adversely to the Company, have a material adverse impact on the business, properties or assets of the Company.

3.2 Maintain the Company as a Going Concern. The Stockholder shall cause

the Company to conduct its business in accordance with past practices and to use its best efforts to maintain the business organization of the Company intact and preserve the good will of its agents, brokers, employees, customers and others having business relations with it. The Stockholder shall cause the Company to provide the Buyer promptly with interim monthly financial information and any other management reports as and when they shall become available.

3.3 Make No Material Change in the Company. Prior to the Closing Date,

the Stockholder shall not, without the prior written approval of the Buyer, cause or permit the Company to (i) make any material change in the business or operations of the Company; (ii) make any material change in the accounting policies applied in the preparation of the Company's financial statements included in the 1999 Annual Statement; (iii) declare any dividends on its issued and outstanding shares of capital stock or make any other distribution of any kind in respect thereof; (iv) issue, sell or otherwise distribute any authorized but unissued shares of its capital stock or effect any stock split or reclassification of any such shares or grant or commit to grant any option, warrant or other rights to subscribe for or purchase or otherwise acquire any shares of capital stock of the Company or any security convertible or exchangeable for any such shares; (v) purchase or redeem any of the capital stock of the Company; (vi) incur or be liable for indebtedness to the Stockholder or any of its subsidiaries or affiliates; (vii) make any material change in the compensation of officers or key employees of the Company; (viii) enter into any contract, license, franchise or commitment other than in the ordinary course of business or waive any rights of substantial value; (ix) make any donation to any charitable, civic, educational or other eleemosynary institution in excess of donations made in comparable past periods or (x) enter into any other transaction affecting in any material respect the business of the Company other than in the ordinary

course of business and in conformity with past practices or as contemplated by this Agreement.

3.4 No Public Announcement. Neither the Stockholder nor the Buyer shall, without the approval of the other, make any press release or other public announcement or filing concerning the transactions contemplated by this Agreement, except as and to the extent that any such party shall be so obligated by law, in which case the other party shall be advised thereof and given an opportunity to comment thereon.

3.5 Insurance Law Compliance. The Buyer and the Stockholder have made all filings with the Pennsylvania Insurance Department and the New York Insurance Department, including any notifications, requests for exemptions and other information, required to be filed under the Pennsylvania Insurance Company Law and the New York Insurance Law, as the case may be, or any rules and regulations promulgated thereunder, with respect to the transactions contemplated hereby. Each party warrants that all such filings by it will be, as of the date filed, true and accurate and in accordance with the requirements of the Pennsylvania Insurance Company Law and the New York Insurance Law, as the case may be, and any such rules and regulations. Each of the Buyer and the Stockholder agrees to make available to the other such information as each of them may reasonably request relative to its business, assets and property as may be required of each of them to file any additional information requested by the Pennsylvania Insurance Department under the Pennsylvania Insurance Company Law and any such rules and regulations and the New York Insurance Department under the New York Insurance Law and any such rules and regulations.

ARTICLE IV

ADDITIONAL COVENANTS OF THE STOCKHOLDER AND THE BUYER

4.1 Use of Name. From and after the Closing Date, the Company and its successors, assigns and affiliates shall own or possess, to the exclusion of the Stockholder and any person controlling or controlled by the Stockholder, all rights to use the name Pioneer Insurance Company.

4.2 Additional Tax Information. The Stockholder agrees promptly to deliver to the Buyer any information in the Stockholder's possession reasonably requested by the Buyer in connection with any tax returns relating to the Company (whether filed prior to the Closing Date or to be filed thereafter). The Stockholder shall have access to such records of the Company as shall reasonably be required to enable the Stockholder to prepare any tax returns for periods ending on or before the Closing Date.

ARTICLE V

PURCHASE PRICE AND CLOSING

5.1 Closing Date. Subject to the fulfillment of the conditions precedent specified in Articles VI and VII hereof, the transactions contemplated by this Agreement shall be consummated at 10:00 a.m. on the date selected by the Buyer and effective on a date that is a month end, but in no event later than October 31, 2000 (the "Closing Date") at the offices of the Buyer at 1195 River Road, Marietta, Pennsylvania 17547.

5.2 Purchase and Sale. On the Closing Date, the Buyer shall purchase from the Stockholder, and the Stockholder shall sell to the Buyer, the Shares for a purchase price equal to the statutory surplus of the Company as of June 30, 2000 as adjusted to reflect any difference between the market value of the Company's bond portfolio as of June 30, 2000 and the market value of such bond portfolio as of the Closing Date (the "Purchase Price"). The Purchase Price shall be paid by delivery of the Buyer's promissory note (the "Note"), in substantially the form of Appendix A hereto, to the Stockholder at the Closing with the principal amount of the Note to be equal to the Purchase Price as estimated by the Stockholder. Upon final determination of the Purchase Price by the mutual agreement of the Buyer and the Stockholder, the Buyer shall deliver to the Stockholder a new Note (the "Adjusted Note"), in substantially the form of Appendix A hereto, in the principal amount of the Purchase Price as finally determined and the Stockholder shall return the Note marked "Cancelled" to the Buyer.

5.3 Delivery by the Stockholder. In addition to the deliveries called for by Article VI hereof on the Closing Date, the Stockholder shall deliver to the Buyer a certificate or certificates representing all of the Shares, together with fully executed and witnessed stock powers (in blank) attached thereto with signatures guaranteed by a bank or trust company or a member firm of the New York Stock Exchange, Inc.

5.4 Delivery by the Buyer. In addition to the deliveries called for by Article VII hereof, on the Closing Date, the Buyer shall deliver to the Stockholder the Note duly executed.

ARTICLE VI

CONDITIONS PRECEDENT TO OBLIGATIONS OF THE BUYER

The obligations of the Buyer under this Agreement to purchase and pay for the Shares shall, at the option of the Buyer, be subject to the satisfaction, on or prior to the Closing Date, of the following conditions:

6.1 No Misrepresentation or Breach of Covenants and Warranties. There shall have been no breach by the Stockholder or the Company in the performance of any of their respective covenants and agreements herein, each of the representations and warranties of

the Stockholder and the Company contained or referred to in this Agreement shall be true and correct in all material respects on the Closing Date as though made on the Closing Date and there shall have been delivered to the Buyer a certificate or certificates to that effect, dated the Closing Date and signed on behalf of the Stockholder and the Company by their respective President or any Vice President.

6.2 No Changes in or Destruction of Property. There shall have been,

between the date hereof and the Closing Date, (i) no material adverse change in the condition, financial or otherwise, of the Company; (ii) no adverse federal, state or local legislative or regulatory change affecting in any material respect the services or business of the Company and (iii) the properties and assets of the Company shall not have been materially damaged by fire, flood, casualty, act of God or the public enemy or other cause, regardless of insurance coverage for such damage, so as to impair in any material respect the ability of the Company to render services or continue operations. There shall have been delivered to the Buyer a certificate, dated the Closing Date, and signed on behalf of the Stockholder by its President or a Vice President (a) to the effect that between the date hereof and the Closing Date there has been no such material adverse change as stated in clause (i) hereof and no such material damage as stated in clause (iii) hereof and (b) further stating that nothing has come to the signer's attention, in the course of his activities on behalf of the Company, which causes him to believe that during such period there occurred any adverse federal, state or local legislative or regulatory change affecting in any material respect the services or business of the Company.

6.3 Legal Matters. All approvals required under the Pennsylvania

Insurance Company Law and the New York Insurance Law shall have been obtained and no action, suit, investigation or proceeding shall have been instituted or threatened by any person, corporation or governmental agency to restrain, prohibit, collect damages arising out of or otherwise challenge the legality or validity of the transactions contemplated herein.

6.4 Approval by Counsel. All matters, proceedings, instruments and

documents required to carry out this Agreement or incidental thereto and all other relevant legal matters shall have been approved at or before the Closing Date by Nikolaus & Hohenadel, counsel to the Buyer, which approval shall not be unreasonably withheld.

6.5 Fairness Opinion. Not later than the Closing Date, the Buyer shall

have received the written opinion of an independent party experienced in the valuation of casualty insurance companies and as selected by mutual agreement of the Buyer and the Stockholder to the effect that the purchase of the Shares by the Buyer from the Stockholder on the terms and conditions set forth in this Agreement is fair to the Buyer and its stockholders from a financial point of view.

6.6 Opinion of Counsel for the Stockholder. The Buyer shall have

received from Duane, Morris & Heckscher LLP, special counsel to the Stockholder, an opinion dated the

Closing Date, in form and substance satisfactory to the Stockholder and its counsel, to the effect that:

(a) The Stockholder is a mutual casualty insurance company duly organized, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania and the Stockholder has the corporate power and authority to consummate the transactions as provided for herein;

(b) This Agreement and the transactions contemplated herein have been duly approved by all necessary corporate action on the part of the Stockholder and this Agreement has been duly and validly executed and delivered by the Stockholder; this Agreement, assuming due execution hereof by the Buyer, is the valid and binding agreement of the Stockholder enforceable against the Stockholder in accordance with its terms, except as enforcement of this Agreement may be limited by bankruptcy, insolvency or other similar laws affecting the enforcement of creditors' rights generally and that the remedy of specific performance is subject to the discretion of the court before which proceedings therefor are brought;

(c) Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated herein, nor compliance with and fulfillment of the terms and provisions hereof (i) conflicts with or results in the breach of the terms, conditions or provisions of the governing instruments of the Stockholder or any agreement or instrument known to such counsel to which the Stockholder is a party or by which it is bound; (ii) gives any party to or with rights under any such agreement or instrument the right to terminate, modify or otherwise change the rights or obligations of the Stockholder under any such agreement or instrument or (iii) requires the consent, approval or authorization of or any filing with or notification to any federal, state or local court, governmental authority or regulatory body not already obtained or made, as the case may be; and

(d) Such counsel do not know of any action, suit, proceeding or investigation pending or threatened against the Stockholder which questions the legality, validity or propriety of (i) this Agreement or of (ii) any action taken or to be taken by the Stockholder hereto pursuant to or in connection with this Agreement.

In giving such opinion, Duane, Morris & Heckscher LLP may rely, as to matters of fact, upon certificates of officers of the Buyer and, as to matters relating to the law of any jurisdiction other than the Commonwealth of Pennsylvania, the State of Delaware and the State of New York, upon the opinions of other counsel satisfactory to them, provided that such counsel shall state that they believe that they are justified in relying upon such certificates and opinions and deliver copies thereof to the Buyer prior to the Closing Date.

6.7 Reinsurance Agreement. Not later than the Closing Date, the Company

and the Stockholder shall have entered into an aggregate excess of loss reinsurance agreement, in substantially the form of Appendix B hereto, pursuant to which the Stockholder shall reinsure the Company against any loss, adjusted on a quarterly basis recalculated at the end

of each calendar quarter, from: (a) any adverse development in the Company's loss reserve and loss adjustment expense reserve at December 31, 2001 compared to the amount of such reserves at December 31, 1999 in respect of all policy years ending on or before December 31, 1999 and (b) all losses and loss adjustment expenses incurred by the Company during the years ending December 31, 2000 and December 31, 2001 by reason of the fact that the Company's loss and loss adjustment expense ratios for those periods exceeds 60%, it being understood that any calculations made pursuant to this clause (b) for the years ending December 31, 2000 and December 31, 2001 shall reflect any recoveries by the Company under the loss development section of such aggregate excess of loss reinsurance agreement.

ARTICLE VII

CONDITIONS PRECEDENT TO OBLIGATIONS OF THE STOCKHOLDER

The obligations of the Stockholder under this Agreement to sell and receive payment for the Shares shall, at the option of the Stockholder, be subject to the satisfaction, on or prior to the Closing Date, of the following conditions:

7.1 No Misrepresentation or Breach of Covenants and Warranties. There

shall have been no breach by the Buyer in the performance of any of its covenants herein, each of the representations and warranties of the Buyer contained or referred to in this Agreement shall be true and correct in all material respects on the Closing Date as though made on the Closing Date, and there shall have been delivered to the Stockholder a certificate or certificates to that effect, dated the Closing Date and signed on behalf of the Buyer by the President or any Vice President of the Buyer.

7.2 Legal Matters. All approvals required under the Pennsylvania

Insurance Company Law and the New York Insurance Law shall have been obtained, and no action, suit, investigation or proceeding shall have been instituted or threatened by any person, corporation or governmental agency to restrain, prohibit, collect damages arising out of or otherwise challenge the legality or validity of the transactions contemplated herein.

ARTICLE VIII

TERMINATION

8.1 Termination. This Agreement shall be terminated and there shall

thereafter be no liability of any party to any other party hereunder, at any time prior to the Closing Date:

- (a) By the mutual consent of the Buyer and the Stockholder; or

(b) By the Buyer or the Stockholder, if the transactions contemplated herein are not closed on or before October 31, 2000.

ARTICLE IX

SURVIVAL OF OBLIGATIONS; INDEMNIFICATION

9.1 Survival of Obligations. All certifications, representations and

warranties made herein by the Stockholder and its obligations to be performed pursuant to the terms hereof, shall survive the Closing Date hereunder, notwithstanding any notice of any inaccuracy, breach or failure to perform not waived in writing and notwithstanding the consummation of the transactions contemplated herein with knowledge of such inaccuracy, breach or failure. All representations and warranties contained herein shall terminate two years after the Closing Date; provided, that (i) the representations and warranties contained in Section 1.14 hereof shall expire upon the earlier to occur of (x) final judicial determination of any claim or settlement and satisfaction of any judgment or full payment of any settlement, as the case may be, or (y) such time, if any, as the claim shall be barred by the applicable statute of limitations and (ii) the representations and warranties contained in Section 1.6 hereof with respect to reserve adequacy and Sections 1.4 and 1.9 hereof shall not terminate.

9.2 Indemnification.

(a) The Stockholder agrees to indemnify and hold harmless the Buyer, the Company and their successors and assigns (collectively, the "Indemnified Persons") from and against any and all (x) liabilities, losses, costs, deficiencies or damages ("Loss") and (y) reasonable attorneys' and accountants' fees and expenses, court costs and all other reasonable out-of-pocket expenses ("Expense") incurred by any Indemnified Person, in each case net of any insurance proceeds received and retained by such Indemnified Person, in connection with or arising from (i) any claim that the Stockholder did not convey to the Buyer good and marketable title to all of the issued and outstanding capital stock of the Company pursuant to this Agreement, (ii) any breach by the Stockholder of any of its covenants in, or any failure of the Stockholder to perform any of its obligations under, this Agreement, (iii) the Company's membership in an affiliated or consolidated group of which the Stockholder is a member or (iv) any breach of any warranty or the inaccuracy of any representation of the Stockholder contained or referred to in this Agreement or in any certificate delivered by or on behalf of the Stockholder pursuant hereto; provided that the Stockholder's liability under this Section 9.2 shall be limited to the Purchase Price.

(b) If the Buyer believes that any Indemnified Person has suffered or incurred any Loss or incurred any Expense, the Buyer shall so notify the Stockholder promptly in writing describing such Loss or Expense, the amount thereof, if known, and the method of computation of such Loss or Expense, all with reasonable particularity and containing a reference to the provision of this Agreement or any certificate delivered pursuant hereto in respect of which such Loss or Expense shall have occurred. If any action

at law or suit in equity is instituted by or against a third party with respect to which any Indemnified Person intends to claim any liability or expense as Loss or Expense under this Section 9.2, such Indemnified Person shall promptly notify the Stockholder of such action or suit.

(c) Subject to paragraph (d) of this Section 9.2, the Indemnified Persons shall have the right to conduct and control, through counsel of their choosing, any third party claim, action or suit and may compromise or settle the same, provided that any of the Indemnified Persons shall give the Stockholder advance notice of any proposed compromise or settlement. The Indemnified Persons shall permit the Stockholder to participate in the defense of any such action or suit through counsel chosen by it, provided that the fees and expenses of such counsel shall be borne by the Stockholder. Any compromise or settlement with respect to a claim for money damages effected after the Stockholder, by notice to the Indemnified Persons, shall have disapproved such compromise or settlement shall discharge the Stockholder from liability with respect to the subject matter thereof and no amount in respect thereof shall be claimed as Loss or Expense under this Section 9.2.

(d) If the remedy sought in any action or suit referred to in paragraph (c) of this Section 9.2 is solely money damages and the sum of (i) the amount claimed in such action or suit, (ii) all amounts previously paid by the Stockholder pursuant to this Section 9.2 and (iii) all amounts claimed in all pending claims for indemnity under this Section 9.2 does not exceed the aggregate liability of the Stockholder under this Section 9.2, the Stockholder shall have 15 business days after receipt of the notice referred to in the last sentence of paragraph (b) of this Section 9.2 to notify the Indemnified Persons that it elects to conduct and control such action or suit. If the Stockholder does not give the foregoing notice, the Indemnified Persons shall have the right to defend, contest, settle or compromise such action or suit in the exercise of their exclusive discretion and the Stockholder shall, upon request from any of the Indemnified Persons, promptly pay to such Indemnified Persons in accordance with the other terms of this Section 9.2 the amount of any Loss resulting from its liability to the third party claimant and all related Expense. If the Stockholder gives the foregoing notice, the Stockholder shall have the right to undertake, conduct and control, through counsel of its own choosing and at the sole expense of the Stockholder, the conduct and settlement of such action or suit, and the Indemnified Persons shall cooperate with the Stockholder in connection therewith; provided that (x) the Stockholder shall not thereby permit to exist any lien, encumbrance or other adverse charge upon any asset of any Indemnified Person, (y) the Stockholder shall permit the Indemnified Persons to participate in such conduct or settlement through counsel chosen by the Indemnified Persons, but the fees and expenses of such counsel shall be borne by the Indemnified Persons, except as provided in clause (z) hereof and (z) the Stockholder shall agree promptly to reimburse to the extent required under this Section 9.2 the Indemnified Persons for the full amount of any Loss resulting from such action or suit and all related Expense incurred by the Indemnified Persons, except fees and expenses of counsel for the Indemnified Persons incurred after the assumption of the conduct and control of such action or suit by the Stockholder. So long as the Stockholder is contesting any such action or suit in good faith, the Indemnified Persons shall not pay or settle any such action or suit. Notwithstanding the foregoing, the Indemnified Persons shall have the right

to pay or settle any such action or suit, provided that in such event the Indemnified Persons shall waive any right to indemnity therefor by the Stockholder and no amount in respect thereof shall be claimed as Loss or Expense under this Section 9.2.

ARTICLE X

MISCELLANEOUS

10.1 Notices. All notices or other communications required or permitted

hereunder shall be in writing and shall be given by confirmed telex or telecopy or certified mail addressed, if to the Buyer, to: Donegal Group Inc., 1195 River Road, Marietta, Pennsylvania 17547, Attention: Donald H. Nikolaus; and, if to the Stockholder, to: Donegal Mutual Insurance Company, 1195 River Road, Marietta, Pennsylvania 17547, Attention: Ralph G. Spontak.

10.2 Expenses. Except as otherwise provided herein, each party hereto

shall pay its own expenses, including, without limitation, legal and accounting fees and expenses, incident to its negotiation and preparation of this Agreement and to its performance and compliance with the provisions contained herein. The Buyer and the Stockholder shall share equally the cost of any fairness opinion delivered pursuant to this Agreement.

10.3 Governing Law. This Agreement shall be governed by and construed in

accordance with the laws of the Commonwealth of Pennsylvania without regard to its rules on conflicts of law.

10.4 Successors and Assigns. This Agreement shall be binding upon and

inure to the benefit of the parties hereto and their respective successors and assigns, provided that the rights of the Stockholder herein may not be assigned and the rights of the Buyer may only be assigned (a) to such other business organization which shall succeed to substantially all the assets, liabilities and business of the Buyer or (b) to a wholly owned subsidiary of the Buyer, in which event such assignment shall not relieve the Buyer of any of the Buyer's obligations to the Stockholder under this Agreement.

10.5 Partial Invalidity. In case any one or more of the provisions

contained herein shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement, but this Agreement shall be construed as if such invalid, illegal or unenforceable provision or provisions had never been contained herein unless the deletion of such provision or provisions would result in such a material change as to cause completion of the transactions contemplated herein to be unreasonable.

10.6 Waivers. The Stockholder and the Buyer may, by written instrument,

extend the time for the performance of any of the obligations or other acts of the other party and

with respect to this Agreement, (a) waive any inaccuracies in the representations and warranties of the other party in this Agreement or in any document delivered pursuant to this Agreement, (b) waive compliance with any of the covenants of the other party contained in this Agreement and (c) waive the other party's performance of any of its obligations set out in this Agreement. Any agreement on the part of the parties hereto for any such extension or waiver shall be validly and sufficiently authorized for the purposes of this Agreement if, as to the Buyer, it is authorized by Donald H. Nikolaus and, as to the Stockholder, it is authorized by Ralph G. Spontak.

10.7 Execution in Counterparts. This Agreement may be executed in two or

more counterparts, all of which shall be considered one and the same agreement and shall become a binding agreement when one or more counterparts have been signed by each of the parties and delivered to each of the other parties.

10.8 Titles and Headings. Titles and headings to Articles and Section

herein are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

10.9 Entire Agreement; Amendments and Waivers. This Agreement contains the

entire understanding of the parties hereto with regard to the subject matter contained herein. The parties hereto, by mutual agreement in writing, may amend, modify and supplement this Agreement. The failure of any party hereto to enforce at any time any provision of this Agreement shall not be construed to be a waiver of such provision, nor in any way to affect the validity of this Agreement or any part hereof or the right of such party hereafter to enforce each and every such provision. No waiver of any breach of this Agreement shall be held to constitute a waiver of any other or subsequent breach.

IN WITNESS WHEREOF, the parties hereto have executed these presents the day and year first above written.

DONEGAL GROUP INC.

By: /s/ Donald H. Nikolaus

Donald H. Nikolaus, President
and Chief Executive Officer

DONEGAL MUTUAL INSURANCE COMPANY

By: /s/ Ralph G. Spontak

Ralph G. Spontak, Senior Vice President,
Chief Financial Officer and Secretary

LEASE AGREEMENT

THIS LEASE AGREEMENT (this "Lease") dated as of September 1, 2000, between DONEGAL MUTUAL INSURANCE COMPANY, 1195 River Road, Marietta, Pennsylvania 17547 ("Landlord") and PROVINCE BANK FSB, 1205 River Road, Marietta, Pennsylvania 17547 ("Tenant"). This Lease shall become effective (the "Commencement Date") on the date hereof.

WITNESSETH THAT:

1. Premises. Landlord hereby leases to Tenant and Tenant hereby leases from Landlord, for the term and upon the conditions and covenants set forth herein, 3,600 square feet of the building located at 1205 River Road, Marietta, Pennsylvania 17547 (the "Leased Premises").
2. Term. The term (the "Term") of this Lease shall commence on the Commencement Date and shall end on the 31st day of August, 2001 (the "Expiration Date"). Tenant shall have the option to extend the Term of this Lease on the terms and conditions set forth herein for five successive one-year periods by giving Landlord written notice of its intent to do so at least 60 days prior to the expiration of the then current Term.
3. Rent. Tenant shall pay as rent the sum of \$14,000 for the first year of the Term, and to the extent extended pursuant to Paragraph 2 above, \$16,000 for the second year of the Term and \$20,000 for the third, fourth, fifth and sixth years of the Term. Such sum shall be payable in arrears to Landlord during the Term hereof, in twelve equal monthly installments payable on the first day of each month during the Term ("Monthly Rent").
4. Taxes and Other Impositions. Landlord agrees to pay the following (all of which are herein called "impositions"): all levies, taxes, assessments (public or private), water and sewer rents and charges, liens, license and permit fees, charges for public utilities and all other charges, imposts or burdens of whatsoever kind and nature, whether or not particularized by name, and whether general or special, ordinary or extraordinary, foreseen or unforeseen, which at any time during the Term may be created, levied, assessed, confirmed, adjudged, imposed or charged upon or with respect to the Leased Premises located at 1205 River Road, Marietta, Pennsylvania or any improvements made thereto or on any part of the foregoing or any appurtenances thereto. Tenant shall not be required to pay any of the foregoing impositions.
5. Operating Charges of the Leased Premises. Landlord agrees to pay all charges for water and sewer services, all costs and charges for electricity, heating and air conditioning in connection with the Leased Premises and all other costs and expenses involved in the care, management and use thereof (collectively, the "Operating Charges"). Tenant shall not be required to pay any of the foregoing Operating Charges.
6. Insurance. Landlord shall maintain at Landlord's expense throughout the Term:
 - a. comprehensive general liability insurance coverage which coverage shall have a combined single limit for bodily injury and property damage liability in an amount not less than \$1,000,000;
 - b. fire and general casualty insurance covering damage to the Leased Premises in an amount not less than \$400,000;
 - c. all such other coverages as Landlord maintains on its premises situate at 1195 River Road, Marietta, Pennsylvania.
7. Maintenance and Repair of the Leased Premises. Landlord shall maintain the Leased Premises and any sidewalks, parking areas, curbs and access ways upon or adjoining the Leased Premises, and keep the same in good order and condition, and shall make or cause to be made all repairs necessary to maintain such good order and condition, whether such repairs be ordinary or extraordinary, foreseen or unforeseen.
8. Alterations; Consent of Landlord. Tenant shall not, without on each occasion first obtaining Landlord's prior written consent, which shall not be unreasonably withheld by Landlord, make or permit to be made any alterations, improvements or additions to the Leased Premises.
9. Landlord's Right of Entry. Tenant agrees to permit Landlord and the authorized representatives of Landlord and of the holder of any mortgage or any prospective mortgagee to enter the Leased Premises at any time in response to an emergency and otherwise at all reasonable times and upon reasonable notice to Tenant for the purpose of inspecting the Leased Premises.

10. Fire or Other Casualty. In case of damage to the Leased Premises,

Tenant shall give immediate notice thereof to Landlord. Landlord shall thereupon cause the damage to be repaired with reasonable speed, using the proceeds of insurance policies, and subject to delays which may arise by reason of adjustment of loss under such insurance policies and for delays beyond reasonable control of Landlord. To the extent and for the time that the Leased Premises are thereby rendered untenable, the rent shall proportionately abate. In the event damage shall be so extensive that Landlord shall decide not to repair or rebuild, this Lease shall, at the option of Landlord, exercisable by written notice to Tenant given within 30 days after Landlord is notified of the casualty, be terminated as of a date specified in such notice (which shall not be more than 90 days thereafter), and the rent shall be adjusted to the termination date and Tenant shall thereupon promptly vacate the Leased Premises.

11. Use of Leased Premises. The Leased Premises shall be used for the

operation of a federal savings bank and for no other purpose without the prior written consent of Landlord.

12. Covenant of Quiet Enjoyment. Landlord covenants that Tenant, upon

paying the Monthly Rent and upon observing and keeping all covenants, agreements and conditions

of this Lease on its part to be kept, shall quietly have and enjoy the Leased Premises during the Term without disturbance by anyone claiming by or through Landlord, subject, however, to the exceptions, reservations and conditions of this Lease.

13. Condemnation. If all of the Leased Premises is taken or condemned for

a public or quasi-public use under any statute or by right of eminent domain by any competent authority or sold in lieu of such taking or condemnation, this Lease shall terminate as of the date the right of possession vests in the condemnor. In the event such portion of the Leased Premises is so taken so as to materially interfere with the use of the Leased Premises as a federal savings bank, Tenant shall have the right to terminate this Lease with 30 days notice to Landlord, and this Lease shall terminate as of the date set forth in Tenant's notice. If this Lease is not terminated in accordance with the remainder of this Paragraph 13, this Lease shall remain in full force and effect.

14. Assignment or Sublet. Tenant shall not assign this Lease or sublet all

or any portion of the Leased Premises without first obtaining Landlord's prior written consent, which consent may be withheld in Landlord's sole discretion, in which event Tenant shall have the right to terminate this Lease upon 30 days notice to Landlord.

15. Defaults; Remedies. The failure of Tenant to comply materially with

any term, covenant or condition of this Lease shall constitute an event of default hereunder. Prior to the exercise by Landlord of any remedies in connection with an event of default, Landlord shall provide a written notice of default to Tenant setting forth the basis therefor and Tenant shall have a period of 30 days from the receipt of such notice in which to cure such default. If an event of default is not cured by Tenant within such 30-day period, Landlord shall have the right to exercise all remedies available to Landlord at law or in equity.

16. Notices; Payment of Rent. All notices required or permitted hereunder

shall be in writing and sent by (a) United States registered or certified mail, return receipt requested, postage prepaid, (b) guaranteed overnight delivery service or (c) hand delivery, to the appropriate address set forth below or to such other address as Landlord or Tenant may designate from time to time in a written notice given to the other.

To Landlord: 1195 River Road
Marietta, Pennsylvania 17547
Attention: President

To Tenant: 1205 River Road
P. O. Box 486
Marietta, Pennsylvania 17547
Attention: President

Notices shall be deemed given and effective two business days following the date deposited in the United States mail, on the next business day if delivered to an overnight delivery service or on the date of delivery if hand delivered.

17. Surrender. At the expiration or earlier termination of this Lease,

Tenant shall surrender the Leased Premises in good order and condition, ordinary wear and tear excepted. Tenant shall not remove any alterations, improvements and additions made by Tenant (except trade fixtures) and the same shall become property of Landlord.

18. Nonwaiver. Any failure of Tenant or Landlord to enforce any remedy

allowed for the violation of any provision of this Lease shall not imply the waiver of any such provision, even if such violation is continued or repeated, and no express waiver shall affect any provision other than the one(s) specified in such waiver and only for the time and in the manner specifically stated.

19. Captions. The captions in this Lease are for convenience only and are

not a part of this Lease and do not in any way define, limit, describe or amplify the terms and provisions of this Lease or the scope or intent thereof.

20. Entire Agreement; Interpretation. This Lease represents the entire

agreement between the parties hereto with respect to the Leased Premises. This Lease shall not be modified in any manner or terminated except by an instrument in writing executed by the parties.

21. Severability. If any provision of this Lease is found by a court of

competent jurisdiction to be illegal, invalid or unenforceable, the remainder of this Lease will not be affected, and in lieu of each provision which is found to be illegal, invalid or unenforceable, there will be added as a part of this Lease a provision as similar to such illegal, invalid or unenforceable provision as may be possible and be legal, valid and enforceable.

22. Governing Law. This Lease will be governed by and construed in

accordance with the law of the Commonwealth of Pennsylvania.

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IN WITNESS WHEREOF, the parties hereto have executed this Lease as of the day and year first above written.

LANDLORD:

DONEGAL MUTUAL INSURANCE COMPANY

By: /s/ Donald H. Nikolaus

Donald H. Nikolaus, President and
Chief Executive Officer

TENANT:

PROVINCE BANK FSB

By: /s/ William J. McLaughlin

William J. McLaughlin, President and
Chief Executive Officer

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between

PIONEER INSURANCE COMPANY
and
DONEGAL MUTUAL INSURANCE COMPANY

ARTICLE 1

BUSINESS COVERED

This agreement is entered into as part of an agreement for Donegal Mutual Insurance Company to sell all of the outstanding stock of Pioneer Insurance Company, Greenville, New York, to Donegal Group Inc. per the terms of a Stock Purchase Agreement dated as of January 1, 2001. This Agreement, subject to the terms and conditions herein contained, is for Donegal Mutual Insurance Company ("Donegal") to indemnify Pioneer Insurance Company ("Pioneer") in respect of the net liability as herein provided and specified which may accrue to Pioneer as a result of any loss or losses which may occur during the term of this Agreement under any and all binders, policies, and contracts of insurance or reinsurance (hereinafter referred to as "policy" or "policies") heretofore or hereafter issued or entered into by or on behalf of Pioneer.

ARTICLE 2

TERRITORY

This Agreement shall cover wherever Pioneer's policies cover.

ARTICLE 3

EXCLUSIONS

This Agreement shall not cover:

A. Business classified by the Reinsured as:

1. Overhead transmission and distribution lines and their supporting structures other than those on or within 150 meters (or 500 feet) of the insured premises. It is understood and agreed that public utilities extension and/or suppliers extension and/or contingent business interruption coverage are not subject to this exclusion provided that these are not part of a transmitter's or distributor's policy.

2. Pools, Associations, or Syndicates, including State Insurance Guaranty Associations. However, such operations which Pioneer is obliged to cover by reason of membership or participation in any Automobile Assigned Risk Pool, Plan or Facility, any FAIR Plan, or any Coastal Pool are not to be excluded. Furthermore, this exclusion shall not apply to any Inter-Company Pooling.

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3. Insurance on Growing and/or Standing Crops.

4. Reinsurance of any kind assumed by the Reinsured, except local agency reinsurance accepted in the normal course of business.

5. Bridges, tunnels and art collections valued at over \$150,000,000.

6. Aviation.

7. Insolvency Funds, as per clause attached.

8. Flood, when written as such.

B. Extra Contractual Obligations and Loss in Excess of Original Policy Limits - "Extra Contractual Obligations" are defined as those liabilities not covered under any other provision of this Agreement and which arise from the handling of any claim on business covered hereunder, such liabilities arising because of, but not limited to, the following: failure by Pioneer to settle within the policy limit, or by reason of alleged or actual negligence, fraud or bad faith in rejecting an offer of settlement or in the preparation of the defense or in the trial of any action against its Insured or Reinsured or in the preparation or prosecution of an appeal consequent upon such action.

The term "Loss in Excess of Original Policy Limits" shall mean a net loss of Pioneer which is in excess of the limit of its original policy, such loss in excess of the limit having been incurred because of the following: failure by Pioneer to settle within the policy limit or by reason of alleged or actual negligence, fraud or bad faith in rejecting an offer of settlement or in the preparation of the defense or in the trial of any action against its Insured or Reinsured or in the preparation or prosecution of an appeal consequent upon such action.

C. Fidelity, Surety, Credit, Title, Insolvency and Financial Guaranty.

D. Loss or Liability excluded by the provisions of the Nuclear

Incident Exclusion Clause - Physical Damage - Reinsurance, as per clause attached hereto.

E. War, as defined in the original policy.

F. Ocean Marine

ARTICLE 4

TERM

This Agreement shall become effective on January 1, 2001 at 12:01 A.M. Standard Time and shall terminate as of December 31, 2002, unless earlier terminated by mutual consent of Donegal and Pioneer or by 60 days prior written notice of termination by either party to the other party.

ARTICLE 5

DEFINITION OF LOSS OCCURRENCE

The term "Loss Occurrence" shall mean any one occurrence or series of occurrences arising out of one event.

ARTICLE 6

NET RETAINED LINES

This Agreement applies only to that portion of any insurance or reinsurance covered by this Agreement which Pioneer retains net for its own account, and in calculating the amount of any loss hereunder and also in computing the amount in excess of which this Agreement attaches, only loss or losses in respect of that portion of any insurance or reinsurance which Pioneer retains net for its own account shall be included.

ARTICLE 7

ULTIMATE NET LOSS INCURRED

The term "Ultimate Net Loss Incurred" shall be understood to mean the actual loss or losses incurred or to be incurred by Pioneer under its policies, such loss or losses to include both allocated and unallocated loss adjusting expenses, if any, and interest accrued where such interest is part of the judgement (including amounts recoverable under other reinsurance) and salvages actually made by Pioneer; provided always that nothing in this Article shall be construed to mean that losses under this Agreement are not recoverable until Pioneer's ultimate net loss has been ascertained.

ARTICLE 8

CEDING OF NET LOSS

A. Loss Development

Pioneer will cede, and Donegal will assume, an amount equal to the adverse development of losses and loss adjusting expenses reserves, for all claims with dates of loss prior to January 1, 2001 as developed from January 1, 2001 through December 31, 2002 with calculations made at the end of each quarter.

B. Aggregate Excess of Loss

Pioneer will cede, and Donegal will assume, an amount equal to the excess of the loss and adjusting ratio as determined for the years 2001 and 2002, before this reinsurance, but after any recovery under the "Loss Development" section of this contract, over a loss and adjusting ratio of 60%. This excess applied to the Net Earned Premium of Pioneer for 2001 and 2002, respectively, with interim calculations for each year made at March 31, June 30, and September 30.

C. Reports

Reports as to Loss Development and Aggregate Excess of Loss are to be made no later than 30 days after the end of each calendar quarter during which the development is in effect and all remittances indicated by any report shall be due within 15 days after receipt of any report.

ARTICLE 9

ACCESS TO RECORDS

Pioneer and Donegal, by their duly appointed representatives, shall have the right at any reasonable time, to examine all papers in the possession of the other referring to business effected hereunder.

ARTICLE 10

ERRORS AND OMISSIONS

Any inadvertent delay, omission or error shall not be held to relieve either party hereto from any liability which would attach to it hereunder if such delay, omission or error had not been made. Such delay, omission or error shall be rectified immediately upon discovery.

ARTICLE 11

ARBITRATION

As a precedent to any right of action hereunder, if any dispute shall arise between Pioneer and Donegal with reference to the interpretation of this Agreement or their rights with respect to any transaction involved, whether such dispute arises before or after termination of this Agreement, such dispute upon the written request of either party, shall be submitted to three arbitrators, one to be chosen by each party, and the third by the two so chosen. If either party refuses or neglects to appoint an arbitrator within thirty days after the receipt of written notice from the other party requesting it to do so, the requesting party may appoint two arbitrators. If the two arbitrators fail to agree in the selection of a third arbitrator within thirty days of their appointment, each of them shall name two, of whom the other shall decline one and the decision shall be made by drawing lots. All arbitrators shall be disinterested active or retired executive officers of insurance or reinsurance companies or Underwriters at Lloyd's, London not under the control of either party to this Agreement.

The arbitrators shall interpret the Agreement and make their decision with regard to the custom and usage of the insurance and reinsurance business. They shall issue their decision in writing based upon a hearing in which evidence may be introduced without following strict rules of evidence, but in which cross examination and rebuttal shall be allowed. They

shall make their award with a view to effecting the general purpose of this Agreement in a reasonable manner rather than in accordance with a literal interpretation of the language.

The decision in writing of any two arbitrators, when filed with the parties hereto, shall be final and binding on both parties. Judgement may be entered upon the final decision of the arbitrators in any court having jurisdiction. Each party shall bear the expense of its own arbitrator and shall jointly and equally bear with the other party the expense of the third arbitrator and of the arbitration. Said arbitration shall take place in Greenville, New York unless some other place is mutually agreed upon by Pioneer and Donegal.

ARTICLE 12

INSOLVENCY FUNDS EXCLUSION CLAUSE

This Agreement excludes all liability of Pioneer arising, by contract, operation of law, or otherwise, from its participation or membership, whether voluntary or involuntary, in any insolvency fund. "Insolvency fund" includes any guaranty fund, insolvency fund, plan, pool, association, fund or other arrangement, howsoever denominated, established or governed; which provides for any assessment of or payment or assumption by the company of part or all of any claim, debt, charge, fee, or other obligation of an insurer, or its successors or assigns, which has been declared by any competent authority to be insolvent, or which is otherwise deemed unable to meet any claim, debt, charge, fee or other obligation in whole or in part.

ARTICLE 13

INSOLVENCY

In the event of the insolvency of the Reinsured, this reinsurance shall be payable directly to the reinsured, or to its liquidator, receiver, conservator or statutory successor on the basis of the liability of the Reinsured without diminution because of the insolvency of the Reinsured or because the liquidator, receiver, conservator or statutory successor of the Reinsured has failed to pay all or a portion of any claim. It is agreed, however that the liquidator, receiver, conservator or statutory successor of the Reinsured shall give written notice to the Reinsurer of the pendency of a claim against the Reinsured indicating the policy or bond reinsured which claim would involve a possible liability on the part of the Reinsurer within a reasonable time after such claim is filed in the conservation or liquidation proceeding or in the receivership, and that during the pendency of such claim, the Reinsurer may investigate such claim and interpose, at their own expense, in the proceeding where such claim is to be adjudicated any defense or defenses that they may deem available to the Reinsured or its liquidator, receiver, conservator or statutory successor. The expense thus incurred by the Reinsurer shall be chargeable subject to the approval of the court, against the Reinsured as part of the expense of conservation or liquidation to the extent of a pro rata share of the benefit which may accrue to the Reinsured solely as a result of the defense undertaken by the Reinsurer.

NUCLEAR INCIDENT EXCLUSION CLAUSE PHYSICAL DAMAGE - REINSURANCE

1. This Reinsurance does not cover any loss or liability accruing to the Reinsured, directly or indirectly, and whether as Insurer or Reinsurer, from any Pool of Insurers or Reinsurers formed for the purpose of covering Atomic or Nuclear Energy risks.

2. Without in any way restricting the operation of paragraph (1) of this Clause, this Reinsurance does not cover any loss or liability accruing to the Reinsured, directly or indirectly and whether as Insurer or Reinsurer, from any insurance against Physical Damage (including business interruption or consequential loss arising out of such Physical Damage) to:

(A) Nuclear reactor power plants including all auxiliary property on the site, or

(B) Any other nuclear reactor installation, including laboratories handling radioactive materials in connection with reactor installations, and "critical facilities" as such, or

(C) Installations for fabricating complete fuel elements or for processing substantial quantities of "special nuclear material", and for reprocessing, salvaging, chemically separating, storing or disposing of "spent" nuclear fuel or waste materials, or

(D) Installations other than paragraph (2) III above using substantial quantities of radioactive isotopes or other products of nuclear fission.

3. Without in any way restricting the operations of paragraphs (1) and (2) hereof, this Reinsurance does not cover any loss or liability by radioactive contamination accruing to the Reinsured, directly or indirectly, and whether as Insurer or Reinsurer, from any insurance on property which is on the same site as a nuclear reactor power plant or other nuclear installation and which normally would be insured therewith except that this paragraph (3) shall not operate

(A) Where Reinsured does not have knowledge of such nuclear reactor power plant or nuclear installation, or

(B) Where said insurance contains a provision excluding coverage for damage to property caused by or resulting from radioactive contamination, however caused. However on and after 1st January 1960 this sub-paragraph (B) shall only apply provided the said radioactive contamination exclusion provision has been approved by the Governmental Authority having jurisdiction thereof.

4. Without in any way restricting the operations of paragraphs (1), (2) and 3) hereof, this Reinsurance does not cover any loss or liability by radioactive contamination accruing to the Reinsured, directly or indirectly, and whether as Insurer or Reinsurer, when such radioactive contamination is a named hazard specifically insured against.

5. It is understood and agreed that this Clause shall not extend to risks using radioactive isotopes in any form where the nuclear exposure is not considered by the Reinsured to be the primary hazard.

6. The term "special nuclear material" shall have the meaning given it in the Atomic Energy Act of 1954, or by any law amendatory thereof.

7. Reinsured to be sole judge of what constitutes:

- (A) Substantial quantities, and
- (B) The extent of installation, plant or site.

NOTE: Without in any way restricting the operation of paragraph (1) hereof, it is understood and agreed that

(A) All policies issued by the Reinsured on or before 31st December 1957 shall be free from the application of the other provisions of this Clause until expiry date or 31st December 1960 whichever first occurs whereupon all the provisions of this Clause shall apply.

(B) With respect to any risk located in Canada policies issued by the Reinsured on or before 31st December 1958 shall be free from the application of the other provisions of this Clause until expiry date or 31st December 1960 whichever first occurs whereupon all the provisions of this Clause shall apply.

INTEREST AND LIABILITIES CONTRACT

to

AGGREGATE EXCESS OF LOSS REINSURANCE CONTRACT

between

PIONEER INSURANCE COMPANY

and

DONEGAL MUTUAL INSURANCE COMPANY

It is hereby agreed by and between Pioneer Insurance Company ("Pioneer") and Donegal Mutual Insurance Company ("Donegal") that Donegal will assume a 100% share and Pioneer will cede a 100% share of the Interests and Liabilities as set forth in the attached AGGREGATE EXCESS OF LOSS Reinsurance Agreement effective January 1, 2001.

This Contract made and executed in duplicate this 27th day of December, 2000.

PIONEER INSURANCE COMPANY

/s/ Ralph G. Spontak

Ralph G. Spontak, Secretary

DONEGAL MUTUAL INSURANCE COMPANY

/s/ Donald H. Nikolaus

Donald H. Nikolaus, President

Financial Highlights

YEAR ENDED DECEMBER 31,	2000	1999	1998	1997	1996
INCOME STATEMENT DATA					
Net premiums earned	\$149,713,562	\$143,873,970	\$116,168,992	\$107,302,168	\$104,527,038
Investment income	15,992,495	13,223,537	11,997,661	11,507,277	10,799,369
Total revenues	168,222,999	159,711,107	130,586,365	121,327,606	117,581,664
Net income	8,887,357	6,656,937	9,017,840	10,641,186	8,557,774
Net income per common share					
Basic	1.02	.80	1.11	1.33	1.10
Diluted	1.02	.80	1.09	1.32	1.09

BALANCE SHEET DATA					
Total assets	\$439,100,801	\$399,732,657	\$385,231,506	\$304,104,505	\$287,990,994
Stockholders' equity	113,745,255	103,414,612	100,631,004	91,596,663	81,599,274
Book value per share	12.84	12.24	12.27	11.39	10.26

[ID: BAR CHART]

TOTAL REVENUES (in millions)

1996	1997	1998	1999	2000
\$117.58	\$121.33	\$130.59	\$159.72	\$168.22

[ID: BAR CHART]

TOTAL ASSETS (in millions)

1996	1997	1998	1999	2000
\$287.99	\$304.10	\$385.23	\$399.73	\$439.10

[ID: BAR CHART]

STOCKHOLDERS' EQUITY (in millions)

1996	1997	1998	1999	2000
\$81.60	\$91.60	\$100.63	\$103.41	\$113.75

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS
AND FINANCIAL CONDITION

Donegal Group Inc. ("DGI" or the "Company") is a regional insurance holding company doing business in the Mid-Atlantic and Southern states through its five wholly owned property-casualty insurance subsidiaries, Atlantic States Insurance Company ("Atlantic States"), Southern Insurance Company of Virginia ("Southern"), Southern Heritage Insurance Company ("Southern Heritage"), Delaware Atlantic Insurance Company ("Delaware") and Pioneer Insurance Company of Ohio ("Pioneer- Ohio") (collectively "Insurance Subsidiaries"). The Company has three operating segments: the investment function, the personal lines of insurance and the commercial lines of insurance. Products offered in the personal lines of insurance consist primarily of homeowners and private passenger automobile policies. Products offered in the commercial lines of insurance consist primarily of commercial automobile, commercial multiple peril and workers' compensation policies. The Insurance Subsidiaries are subject to regulation by Insurance Departments in those states in which they operate and undergo periodic examination by those departments. The Insurance Subsidiaries are also subject to competition from other insurance carriers in their operating areas. DGI was formed in September 1986 by Donegal Mutual Insurance Company (the "Mutual Company"), which owns 62% of the outstanding common shares of the Company as of December 31, 2000.

Atlantic States participates in an intercompany pooling arrangement with the Mutual Company and assumes 70% of the pooled business (65% prior to July 1, 2000). Southern cedes 50% of its business to the Mutual Company and prior to January 1, 2000, Delaware ceded 70% of its workers' compensation business to the Mutual Company. Because the Mutual Company places substantially all of the business assumed from Southern into the pool, from which the Company has a 70% allocation, the Company's results of operations include approximately 85% of the business written by Southern.

In November 1998, the Company acquired all of the outstanding stock of Southern Heritage. This transaction was accounted for as a "purchase." The Company's financial statements include Southern Heritage as a consolidated subsidiary from November 1, 1998.

In addition to the Company's Insurance Subsidiaries, it also owned all of the outstanding stock of Atlantic Insurance Services, Inc. ("AIS"), an insurance services organization which provided inspection and policy auditing information on a fee-for-service basis to its affiliates and the insurance industry. The Company sold all of the outstanding shares of AIS on October 1, 1999.

During 2000, the Company acquired 45% of the outstanding stock of Donegal Financial Services Corporation ("DFSC"), a bank holding company. The remaining 55% of the outstanding stock of DFSC is owned by the Mutual Company.

On January 3, 2001, the Company announced that it had purchased all of the outstanding shares of Pioneer Insurance Company of New York ("Pioneer-NY") from the Mutual Company effective January 1, 2001.

RESULTS OF OPERATIONS 2000 COMPARED TO 1999

Total revenues for 2000 were \$168,222,999, which were \$8,511,892, or 5.3%, greater than 1999. Net premiums earned increased to \$149,713,562, an increase of \$5,839,592, or 4.1%, over 1999. The change in Atlantic State's share of the pooling arrangement with the Mutual Company from 65% to 70% effective July 1, 2000, accounted for \$4,113,078 of the increase in net premiums earned. Direct premiums written of the combined pool of Atlantic States and the Mutual Company increased \$13,851,692 or 9.0%. A 5.1% increase in the direct premiums written of Southern, a 2.1% decrease in the direct premiums written of Delaware, a 25.4% increase in the direct premiums written of Pioneer-Ohio and a 15.6% decrease in the direct premiums written of Southern Heritage accounted for the majority of the remaining change. The Company reported net realized investment gains of \$170,852, compared to net realized investment losses of \$38,702 in 1999. Net realized gains and losses in both years resulted from normal turnover of the Company's investment portfolio. As of December 31, 2000, 100.0% of the Company's bond portfolio was classified as Class 1 (highest quality) by the National Association of Insurance Commissioners' Securities Valuation Office. Investment income increased \$2,768,958 in 2000. An increase in the average invested assets from \$258,218,661 to \$272,046,385, and an increase in the average yield to 5.9% from 5.1% in 1999, accounted for the change.

The GAAP combined ratio of insurance operations was 101.5% in 2000, compared to 106.5% in 1999. The GAAP combined ratio is the sum of the ratios of incurred losses and loss expenses to premiums earned (loss ratio), underwriting expenses to premiums earned (expense ratio) and policyholder dividends to premiums earned (dividend ratio). The loss ratio in 2000 was 68.9%, compared to 69.0% in 1999. The commercial lines loss ratio decreased from 68.8% in 1999 to 67.0% in 2000. The personal lines loss ratio increased from 69.9% in 1999 to 70.3% in 2000. The expense ratio for 2000 was 31.7%, compared to 36.6% in 1999, with the dividend ratio remaining unchanged at 0.9%. The expense ratio in 1999 was adversely affected by a charge to earnings resulting from a restructuring charge of \$2 million which increased the expense ratio by 1.4%.

Income tax expense (benefit) was \$2,935,918, compared to \$(3,027,836) in 1999. As discussed later, the Company benefited from a federal income

RESULTS OF OPERATIONS 1999 COMPARED TO 1998

Total revenues for 1999 were \$159,711,107, which were \$29,124,742, or 22.3%, greater than 1998. Net premiums earned increased to \$143,873,970, an increase of \$27,704,978, or 23.9%, over 1998. The acquisition of Southern Heritage accounted for \$19,674,071, or 71% of the increase in earned premiums in 1999. Direct premiums written of the combined pool of Atlantic States and the Mutual Company increased \$9,516,654 or 6.6%. A 9.4% increase in the direct premiums written of Southern, a 4.9% increase in the direct premiums written of Delaware and a 13.9% increase in the direct premiums written of Pioneer-Ohio accounted for the majority of the remaining change. The Company reported net realized investment losses of \$38,702, compared to net realized investment losses of \$13,562 in 1998. Net realized losses in both years resulted from normal turnover of the Company's investment portfolio. As of December 31, 1999, 99.9% of the Company's bond portfolio was classified as Class 1 (highest quality) by the National Association of Insurance Commissioners' Securities Valuation Office. Investment income increased \$1,225,876. An increase in the average invested assets from \$208,303,664 to \$258,218,661, offset by a decrease in the average yield to 5.1% from 5.6% in 1998, accounted for the change.

The GAAP combined ratio of insurance operations was 106.5% in 1999, compared to 99.8% in 1998. The GAAP combined ratio is the sum of the ratios of incurred losses and loss expenses to premiums earned (loss ratio), underwriting expenses to premiums earned (expense ratio) and policyholder dividends to premiums earned (dividend ratio). The loss ratio in 1999 was 69.0%, compared to 63.0% in 1998. The increase in the loss ratio in 1999 resulted from a deterioration in operating results in both the commercial and personal lines segments of the Company. The commercial lines loss ratio increased from 54.9% in 1998 to 68.8% in 1999, with results in workers' compensation suffering the largest increase from 46.9% in 1998 to 68.8% in 1999. Homeowners results suffered the largest increase in personal lines as the loss ratio increased from 72.3% in 1998 to 77.1% in 1999. This increase was somewhat offset by a decrease in the private passenger automobile loss ratio from 71.0% in 1998 to 69.4% in 1999. The expense ratio for 1999 was 36.6%, compared to 35.4% in 1998, with the dividend ratio decreasing from 1.4% in 1998 to 0.9% in 1999. The expense ratio was adversely affected by a charge to earnings resulting from a restructuring charge of \$2 million which increased the expense ratio by 1.4%. The dividend ratio decreased due to a higher loss ratio in workers' compensation in 1999 compared to 1998.

The Company benefited from a federal income tax law change that was enacted during 1999 which allows net operating loss carryforwards of an acquired company to be used to offset future taxable income of other affiliated companies filing as part of a consolidated tax return. Prior law allowed such net operating loss carryforward to be used to offset taxable income of the acquired company only. Due to this law change, the net operating loss carryforward, obtained as part of the acquisition of Southern Heritage, can now be used to offset taxable income generated by the other consolidated affiliates. Because of this change, management determined that a valuation allowance for Southern Heritage's net operating loss carryforward is no longer needed, and the Company recognized a tax benefit of \$3,004,524 in 1999.

LIQUIDITY AND CAPITAL RESOURCES

The Company generates sufficient funds from its operations and maintains a high degree of liquidity in its investment portfolio. The primary source of funds to meet the demands of claim settlements and operating expenses are premium collections, investment earnings and maturing investments. As of December 31, 2000, the Company had no material commitment for capital expenditures.

In investing funds made available from operations, the Company maintains securities' maturities consistent with its projected cash needs for the payment of claims and expenses. The Company maintains a portion of its investment portfolio in relatively short-term and highly liquid assets to ensure the availability of funds.

As of December 31, 2000, pursuant to a credit agreement dated December 29, 1995, with Fleet National Bank, the Company had unsecured borrowings of \$40 million. Such borrowings were made in connection with the acquisitions of Delaware, Pioneer-Ohio and Southern Heritage and various capital contributions to the subsidiaries. Per the terms of the credit agreement, the Company may borrow up to \$40 million at interest rates equal to the bank's then current prime rate or the then current London interbank Eurodollar bank rate plus 1.70%. At December 31, 2000, the interest rates on the outstanding balances were 9.5% on an outstanding prime rate balance of \$3 million and 8.48% and 8.50188% on outstanding Eurodollar rate balances of \$15 million and \$22 million, respectively. In addition, the Company pays a rate of 3/10 of 1% per annum on the average daily unused portion of the bank's commitment. On each July 27, commencing July 27, 2001, the credit line will be reduced by \$8 million. Any outstanding loan in excess of the remaining credit line after such reduction will then be payable.

The Company's principal sources of cash with which to meet obligations and pay stockholder dividends are dividends from the Insurance Subsidiaries which are required by law to maintain certain minimum surplus on a statutory basis and are subject to regulations under which payment of dividends from statutory surplus is restricted and may require prior

approval of their domiciliary insurance regulatory authorities. The Insurance Subsidiaries are also subject to Risk Based Capital (RBC) requirements which may further impact their ability to pay dividends. At December 31, 2000, all five companies' statutory capital and surplus were substantially above the RBC requirements.

At December 31, 2000, amounts available for distribution as dividends to DGI without prior approval of the insurance regulatory authorities were \$5,414,419 from Atlantic States, \$908,259 from Southern, \$323,992 from Delaware, \$581,132 from Pioneer-Ohio and \$973,796 from Southern Heritage.

Net unrealized gains (losses) resulting from fluctuations in the fair value of investments reported in the balance sheet at fair value were \$(223,675) (net of applicable federal income tax benefit) at December 31, 2000, and \$(2,073,989) (net of applicable federal income tax) at December 31, 1999.

CREDIT RISK

The Company provides property and liability coverages through its subsidiaries' independent agency systems located throughout its operating area. The majority of this business is billed directly to the insured, although a portion of the Company's commercial business is billed through its agents, who are extended credit in the normal course of business.

The Company's Insurance Subsidiaries have reinsurance agreements in place with the Mutual Company, as described in Note 3 of the financial statements, and with a number of other major authorized reinsurers, as described in Note 9 of the financial statements.

IMPACT OF INFLATION

Property and casualty insurance premiums are established before the amount of losses and loss expenses, or the extent to which inflation may impact such expenses, are known. Consequently, the Company attempts, in establishing rates, to anticipate the potential impact of inflation.

IMPACT OF NEW ACCOUNTING STANDARDS

ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company has no derivative instruments or hedging activities as defined in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS No. 133," which statements became effective January 1, 2001. On January 1, 2001, the Company transferred investments with an amortized cost of \$49,433,721 and fair value of \$50,227,174 from the held to maturity classification to the available for sale classification under the provisions of SFAS No. 133 and 138. The unrealized holding gain of \$793,453 at January 1, 2001 will be reported in other comprehensive income. The transfer will not impact net income.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

INTEREST RATE RISK

The Company's exposure to market risk for changes in interest rates is concentrated in its investment portfolio and, to a lesser extent, its debt obligations. The Company monitors this exposure through periodic reviews of asset and liability positions. Estimates of cash flows and the impact of interest rate fluctuations relating to the investment portfolio are modeled regularly.

Principal cash flows and related weighted-average interest rates by expected maturity dates for financial instruments sensitive to interest rates at December 31, 2000 are as follows:

	Principal Cash Flows	Weighted-Average Interest Rate

Fixed maturities and short-term investments:		
2001	\$ 35,918,903	6.54%
2002	13,786,717	6.11%
2003	21,025,000	5.93%
2004	17,925,000	6.09%
2005	23,061,639	6.38%
Thereafter	157,747,081	6.18%

Total	\$269,464,340	
=====		
Market value	\$272,063,475	
=====		
Debt		
2001	\$ 8,000,000	8.57%
2002	8,000,000	8.57%
2003	8,000,000	8.57%
2004	8,000,000	8.57%
2005	8,000,000	8.57%

Total	\$ 40,000,000	
=====		
Fair value	\$ 40,000,000	

=====
Actual cash flows may differ from those stated as a result of calls and prepayments.

EQUITY PRICE RISK

The Company's portfolio of equity securities, which is carried on the balance sheet at market value, has exposure to price risk. Price risk is defined as the potential loss in market value resulting from an adverse change in prices. Portfolio characteristics are analyzed regularly and market risk is actively managed through a variety of techniques. The portfolio is diversified across industries, and concentrations in any one company or industry are limited by parameters established by management.

The combined total of realized and unrealized equity investment gains and (losses) were \$(655,716), \$(404,147), and \$(307,147) in 2000, 1999 and 1998, respectively. During these three years the largest total equity investment gain and (loss) in a quarter was \$897,972 and \$(1,395,103), respectively.

Donegal Group Inc.
CONSOLIDATED BALANCE SHEETS

December 31,	2000	1999

ASSETS		
Investments		
Fixed maturities		
Held to maturity, at amortized cost (fair value \$141,488,936 and \$133,995,994)	\$140,023,170	\$136,173,547
Available for sale, at fair value (amortized cost \$111,905,848 and \$103,419,994)	111,990,683	100,043,548
Equity securities, available for sale, at fair value (cost \$12,476,948 and \$9,043,818)	12,053,211	9,229,498
Short-term investments, at cost, which approximates fair value	18,583,856	15,995,257

Total investments	282,650,920	261,441,850
Cash	5,185,797	3,922,403
Accrued investment income	3,926,603	3,474,430
Premiums receivable	21,480,058	18,218,525
Reinsurance receivable	63,153,764	53,070,283
Deferred policy acquisition costs	12,020,257	11,203,302
Federal income taxes receivable	222,181	698,969
Deferred tax asset, net	7,627,883	9,121,232
Prepaid reinsurance premiums	37,007,587	32,154,837
Property and equipment, net	5,016,664	5,516,688
Accounts receivable-securities	234,817	--
Due from affiliate	--	262,954
Other	574,270	647,184

Total assets	\$439,100,801	\$399,732,657
=====		
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Losses and loss expenses	\$163,899,270	\$149,979,141
Unearned premiums	111,000,905	97,657,020
Accrued expenses	5,722,395	5,888,392
Drafts payable	48,640	597,775
Reinsurance balances payable	1,225,896	1,216,034
Cash dividend declared to stockholders	797,282	760,673
Borrowings under line of credit	40,000,000	37,000,000
Accounts payable-securities	959,652	2,500,000
Due to affiliate	87,685	--
Other	1,613,821	719,010

Total liabilities	325,355,546	296,318,045

Stockholders' Equity		
Preferred stock, \$1.00 par value, authorized 2,000,000 shares; none issued		
Common stock, Class A, authorized 15,000,000 shares; none issued		
Common stock, \$1.00 par value, authorized 20,000,000 shares, issued 8,980,977 and 8,574,210 shares and outstanding 8,858,689 and 8,451,922 shares	8,980,977	8,574,210
Additional paid-in capital	45,911,151	43,536,748
Accumulated other comprehensive loss	(223,675)	(2,073,989)
Retained earnings	59,968,558	54,269,399
Treasury stock, at cost	(891,756)	(891,756)

Total stockholders' equity	113,745,255	103,414,612

Total liabilities and stockholders' equity	\$439,100,801	\$399,732,657
=====		

See accompanying notes to consolidated financial statements.

Donegal Group Inc.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Year Ended December 31,	2000	1999	1998
STATEMENTS OF INCOME			
Revenues			
Premiums earned	\$225,498,302	\$211,361,789	\$172,507,090
Premiums ceded	75,784,740	67,487,819	56,338,098
Net premiums earned	149,713,562	143,873,970	116,168,992
Investment income, net of investment expenses	15,992,495	13,223,537	11,997,661
Installment payment fees	1,509,093	1,439,334	895,283
Lease income	836,997	819,474	753,408
Service fees	--	393,494	784,583
Net realized investment gains (losses)	170,852	(38,702)	(13,562)
Total revenues	168,222,999	159,711,107	130,586,365
Expenses			
Losses and loss expenses	157,734,790	145,493,825	110,448,552
Reinsurance recoveries	54,592,885	46,288,823	37,281,467
Net losses and loss expenses	103,141,905	99,205,002	73,167,085
Amortization of deferred policy acquisition costs	24,925,000	24,608,000	19,490,000
Other underwriting expenses	22,552,217	28,034,876	21,712,346
Policy dividends	1,330,330	1,341,294	1,635,300
Interest	3,285,036	1,535,249	1,292,992
Other	1,165,236	1,357,585	1,611,627
Total expenses	156,399,724	156,082,006	118,909,350
Income before income tax expense (benefit)	11,823,275	3,629,101	11,677,015
Income tax expense (benefit)	2,935,918	(3,027,836)	2,659,175
Net income	\$ 8,887,357	\$ 6,656,937	\$ 9,017,840
Net income per common share			
Basic	\$ 1.02	\$.80	\$ 1.11
Diluted	\$ 1.02	\$.80	\$ 1.09

STATEMENTS OF COMPREHENSIVE INCOME

Net income	\$ 8,887,357	\$ 6,656,937	\$ 9,017,840
Other comprehensive income (loss), net of tax			
Unrealized gains (losses) on securities:			
Unrealized holding gain (loss) arising during the period, net of income tax expense (benefit) of \$1,027,717, \$(1,781,261) and \$151,999	1,963,076	(3,414,957)	295,057
Reclassification adjustment for (gains) losses included in net income, net of income tax expense (benefit) of \$58,090, \$(13,159) and \$(4,611)	(112,762)	25,543	8,951
Other comprehensive income (loss)	1,850,314	(3,389,414)	304,008
Comprehensive income	\$ 10,737,671	\$ 3,267,523	\$ 9,321,848

See accompanying notes to consolidated financial statements.

Donegal Group Inc.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders' Equity
	Shares	Amount					
Balance, January 1, 1998	6,122,431	\$6,122,431	\$38,932,117	\$ 1,011,417	\$46,422,454	\$(891,756)	\$ 91,596,663
Issuance of common stock	141,542	141,542	2,339,205				2,480,747
Net income					9,017,840		9,017,840
Other comprehensive income				304,008			304,008
Cash dividends \$.3375 per share					(2,768,254)		(2,768,254)
Stock dividend	2,061,248	2,061,248			(2,061,248)		
Balance, December 31, 1998	8,325,221	\$8,325,221	\$41,271,322	\$ 1,315,425	\$50,610,792	\$(891,756)	\$100,631,004
Issuance of common stock	248,989	248,989	2,265,426				2,514,415
Net income					6,656,937		6,656,937
Other comprehensive loss				(3,389,414)			(3,389,414)
Cash dividends \$.36 per share					(2,998,330)		(2,998,330)
Balance, December 31, 1999	8,574,210	\$8,574,210	\$43,536,748	\$(2,073,989)	\$54,269,399	\$(891,756)	\$103,414,612
Issuance of common stock	406,767	406,767	2,349,773				2,756,540
Net income					8,887,357		8,887,357
Other comprehensive income				1,850,314			1,850,314
Grant of stock options			24,630		(24,630)		--
Cash dividends \$.36 per share					(3,163,568)		(3,163,568)
Balance, December 31, 2000	8,980,977	\$8,980,977	\$45,911,151	\$ (223,675)	\$59,968,558	\$(891,756)	\$113,745,255

See accompanying notes to consolidated financial statements.

Donegal Group Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31,	2000	1999	1998
Cash Flows from Operating Activities:			
Net income	\$ 8,887,357	\$ 6,656,937	\$ 9,017,840
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	838,805	936,373	520,675
Realized investment (gains) losses	(170,852)	38,702	13,562
Changes in Assets and Liabilities, net of acquisition:			
Losses and loss expenses	13,920,129	8,570,133	7,125,806
Unearned premiums	9,499,675	2,934,235	6,478,435
Accrued expenses	(165,997)	1,066,798	(542,693)
Premiums receivable	(3,261,533)	1,606,369	(1,253,529)
Deferred policy acquisition costs	(294,776)	130,999	(399,428)
Deferred income taxes	491,799	(3,790,122)	158,593
Reinsurance receivable	(10,083,481)	(4,731,060)	(6,182,621)
Accrued investment income	(452,173)	(309,831)	(186,170)
Amounts due to/from affiliate	350,639	(1,133,037)	(4,180,378)
Reinsurance balances payable	9,862	(569,880)	(127,931)
Prepaid reinsurance premiums	(4,852,750)	(4,951,726)	(3,819,226)
Current income taxes	476,788	(471,128)	(171,387)
Change in pooling participation	3,322,031	--	--
Other, net	357,599	519,441	100,292
Net adjustments	9,985,765	(153,734)	(2,466,000)
Net cash provided by operating activities	18,873,122	6,503,203	6,551,840
Cash Flows from Investing Activities:			
Purchase of fixed maturities			
Held to maturity	(16,938,751)	(23,132,805)	(24,774,417)
Available for sale	(29,855,234)	(32,233,424)	(43,662,157)
Purchase of equity securities	(28,286,533)	(14,258,861)	(15,824,465)
Sale of fixed maturities			
Available for sale	8,719,165	503,895	2,207,500
Maturity of fixed maturities			
Held to maturity	12,790,715	14,393,638	24,815,155
Available for sale	11,623,622	19,049,880	16,106,644
Sale of equity securities	24,572,288	11,767,268	16,155,130
Sale of Atlantic Insurance Services, net	--	(48,810)	--
Acquisition of Southern Heritage	--	--	(18,028,072)
Purchase of property and equipment	(275,982)	(443,498)	(650,014)
Net sales (purchases) of short-term investments	(2,588,599)	14,526,630	15,099,631
Net cash used in investing activities	(20,239,309)	(9,876,087)	(28,555,065)
Cash Flows from Financing Activities:			
Issuance of common stock	2,756,540	2,514,415	2,480,747
Borrowings (payments) under line of credit, net	3,000,000	(500,000)	27,000,000
Cash dividends paid	(3,126,959)	(2,946,170)	(2,663,795)
Net cash provided by (used in) financing activities	2,629,581	(931,755)	26,816,952
Net increase (decrease) in cash	1,263,394	(4,304,639)	4,813,727
Cash at beginning of year	3,922,403	8,227,042	3,413,315
Cash at end of year	\$ 5,185,797	\$ 3,922,403	\$ 8,227,042

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND BUSINESS

Donegal Group Inc. (the "Company") was organized as a regional insurance holding company by Donegal Mutual Insurance Company (the "Mutual Company") and operates in the Mid-Atlantic and Southern states through its wholly owned stock insurance companies, Atlantic States Insurance Company ("Atlantic States"), Southern Insurance Company of Virginia ("Southern"), Southern Heritage Insurance Company ("Southern Heritage"), Delaware Atlantic Insurance Company ("Delaware"), and Pioneer Insurance Company of Ohio ("Pioneer-Ohio") (collectively "Insurance Subsidiaries"). The Company has three operating segments: the investment function, the personal lines of insurance and the commercial lines of insurance. Products offered in the personal lines of insurance consist primarily of homeowners and private passenger automobile policies. Products offered in the commercial lines of insurance consist primarily of commercial automobile, commercial multiple peril and workers' compensation policies. The Insurance Subsidiaries are subject to regulation by Insurance Departments in those states in which they operate and undergo periodic examination by those departments. The Insurance Subsidiaries are also subject to competition from other insurance carriers in their operating areas. Atlantic States participates in an intercompany pooling arrangement with the Mutual Company and assumes 70% of the pooled business (65% prior to July 1, 2000). Southern cedes 50% of its business to the Mutual Company and prior to January 1, 2000, Delaware ceded 70% of its workers' compensation business to the Mutual Company. At December 31, 2000, the Mutual Company held 62% of the outstanding common stock of the Company.

In addition to the Company's Insurance Subsidiaries, it also owned all of the outstanding stock of Atlantic Insurance Services, Inc. ("AIS"), an insurance services organization. The Company sold all of the stock of AIS on October 1, 1999.

During 2000, the Company acquired 45% of the outstanding stock of Donegal Financial Services Corporation ("DFSC"), a bank holding company, for \$3,042,000 in cash. The remaining 55% of the outstanding stock of DFSC is owned by the Mutual Company.

On January 3, 2001, the Company announced that it had purchased all of the outstanding shares of Pioneer Insurance Company of New York ("Pioneer-NY") from the Mutual Company effective January 1, 2001. The purchase price was \$4,441,311, representing Pioneer-NY's adjusted statutory equity at December 31, 2000. The acquisition will be accounted for as a pooling of interests.

BASIS OF CONSOLIDATION

The consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America, include the accounts of Donegal Group Inc. and its wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation. The term "Company" as used herein refers to the consolidated entity.

USE OF ESTIMATES

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the liabilities for losses and loss expenses. While management uses available information to provide for such liabilities, future changes to these liabilities may be necessary based on changes in trends in claim frequency and severity.

INVESTMENTS

The Company classifies its debt and equity securities into the following categories:

Held to Maturity -- Debt securities that the Company has the positive intent and ability to hold to maturity; reported at amortized cost.

Available for Sale -- Debt and equity securities not classified as held to maturity; reported at fair value, with unrealized gains and losses excluded from income and reported as a separate component of stockholders' equity (net of tax effects).

Short-term investments are carried at amortized cost, which approximates fair value.

If there is a decline in fair value below amortized cost which is other than temporary, the cost basis for such investments in the held to maturity and available for sale categories is reduced to fair value. Such decline in cost basis is recognized as a realized loss and charged to income.

Premiums and discounts on debt securities are amortized over the life of the security as an adjustment to yield using the effective interest method. Realized investment gains and losses are computed using the specific identification method.

Premiums and discounts for mortgage-backed debt securities are amortized using anticipated prepayments.

FAIR VALUES OF FINANCIAL INSTRUMENTS

The Company has used the following methods and assumptions in estimating its fair value disclosures:

Investments -- Fair values for fixed maturity securities are based on quoted market prices, when available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments or values obtained from independent pricing services through a bank trustee. The fair values for equity securities are based on quoted market prices.

Cash and Short-Term Investments -- The carrying amounts reported in the balance sheet for these instruments approximate their fair values.

Premium and Reinsurance Receivables and Payables -- The carrying amounts reported in the balance sheet for these instruments approximate their fair values.

Borrowings Under Line of Credit -- The carrying amounts reported in the balance sheet for the line of credit approximate fair value due to the variable rate nature of the line of credit.

REVENUE RECOGNITION

Insurance premiums are recognized as income over the terms of the policies. Unearned premiums are calculated on a daily pro-rata basis.

POLICY ACQUISITION COSTS

Policy acquisition costs, consisting primarily of commissions, premium taxes and certain other variable underwriting costs, are deferred and amortized over the period in which the premiums are earned. Anticipated losses and loss expenses, expenses for maintenance of policies in force and anticipated investment income are considered in the determination of the recoverability of deferred acquisition costs.

PROPERTY AND EQUIPMENT

Property and equipment are reported at depreciated cost that is computed using the straight-line method based upon estimated useful lives of the assets.

LOSSES AND LOSS EXPENSES

The liability for losses and loss expenses includes amounts determined on the basis of estimates for losses reported prior to the close of the accounting period and other estimates, including those for incurred but not reported losses and salvage and subrogation recoveries.

These liabilities are continuously reviewed and updated by management, and management believes that such liabilities are adequate to cover the ultimate net cost of claims and expenses. When management determines that changes in estimates are required, such changes are included in current earnings.

The Company has no material exposures to environmental liabilities.

INCOME TAXES

The Company and its subsidiaries currently file a consolidated federal income tax return.

The Company accounts for income taxes using the asset and liability method. The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled.

CREDIT RISK

The Company provides property and liability coverages through its Insurance Subsidiaries' independent agency systems located throughout its operating area. The majority of this business is billed directly to the insured, although a portion of the Company's commercial business is billed through its agents, who are extended credit in the normal course of business.

The Company's Insurance Subsidiaries have reinsurance agreements in place with the Mutual Company and with a number of other authorized reinsurers with at least an A.M. Best rating of A- or an equivalent financial condition.

REINSURANCE ACCOUNTING AND REPORTING

The Company relies upon reinsurance agreements to limit its maximum net loss from large single risks or risks in concentrated areas, and to increase its capacity to write insurance. Reinsurance does not relieve the primary insurer from liability to its policyholders. To the extent that a reinsurer may be unable to pay losses for which it is liable under the terms of a reinsurance agreement, the Company is exposed to the risk of continued liability for such losses. However, in an effort to reduce the risk of non-payment, the Company requires all of its reinsurers to have an A.M. Best rating of A- or better or, with respect to foreign reinsurers, to have a financial condition which, in the opinion of management, is equivalent to a company with at least an A- rating.

STOCK-BASED COMPENSATION

Effective July 1, 2000, the Company adopted Financial Accounting Standards Board Interpretation No. 44 (FIN No. 44), "Accounting for Certain Transactions Involving Stock Compensation," and Emerging Issues Task Force Issue No. 00-23 (EITF 00-23), "Issues Related to the Accounting for Stock Compensation under Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and FIN No. 44, Accounting for Certain Transactions Involving Stock Compensation." FIN No. 44 states that APB Opinion No. 25 does not apply in the separate financial statements of a subsidiary to the accounting for stock compensation granted by the subsidiary to employees of the parent or another subsidiary. EITF 00-23 states that when employees of a controlling entity are granted stock compensation, the entity granting the stock compensation should measure the fair value of the award at the grant date and recognize that fair value as a dividend to the controlling entity. These provisions apply to the Company, as the Mutual Company is the employer of record for all employees that provide services to the Company.

Prior to July 1, 2000, the Company's stock-based compensation plans were accounted for under the provisions of APB Opinion No. 25 and related interpretations. As such, compensation expense was recorded on the date of stock option grant only if the current market price of the underlying stock exceeded the exercise price. Additionally, the Company provides the pro-forma net income and earnings per share disclosures required by Statement of Financial Accounting Standards (SFAS No. 123), "Accounting for Stock-Based Compensation," for grants prior to the adoption of FIN No. 44.

EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net income by the weighted-average number of common shares outstanding for the period, while diluted earnings per share reflects the dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

2--ACQUISITIONS OF BUSINESSES

In November 1998, the Company acquired all of the outstanding stock of Southern Heritage for a cash price of \$18,824,950. Southern Heritage primarily writes personal automobile and homeowners policies in the Southeastern region of the country. This transaction was accounted for as a "purchase." The Company's financial statements include Southern Heritage as a consolidated subsidiary from November 1, 1998.

Assets in the amount of \$56,568,710 were acquired, and liabilities in the amount of \$38,330,912 were assumed in the purchase transaction. The purchase price exceeded the fair value of net assets acquired by \$587,152, which was recognized as goodwill and is being amortized over five years.

On January 3, 2001, the Company announced that it had purchased all of the outstanding shares of Pioneer-NY from the Mutual Company effective January 1, 2001. The purchase price was \$4,441,311, representing Pioneer-NY's adjusted statutory equity at December 31, 2000. The acquisition will be accounted for as a pooling of interests. The pro-forma impact of this acquisition on 2000 premiums, net income and earnings per share was not considered to be material.

3--TRANSACTIONS WITH AFFILIATES

The Company conducts business and has various agreements with the Mutual Company which are described below:

A. REINSURANCE POOLING AND OTHER REINSURANCE ARRANGEMENTS

Atlantic States cedes to the Mutual Company all of its insurance business and assumes from the Mutual Company 70% (65% prior to July 1, 2000) of the Mutual Company's total pooled insurance business, including that assumed from Atlantic States and substantially all of the business assumed and retained by the Mutual Company from Southern and Delaware (prior to January 1, 2000). Atlantic States, Southern, Delaware, Pioneer-Ohio and Southern Heritage each have a catastrophe reinsurance agreement with the Mutual Company which limits the maximum liability under any one catastrophic occurrence to \$400,000, \$300,000, \$300,000, \$200,000 and \$400,000 (effective January 1, 2000) respectively, and \$1,000,000 (\$700,000 in 1999 and 1998) for a catastrophe involving more than one of the companies. The Mutual Company and Delaware have an excess of loss reinsurance agreement in which the Mutual Company assumes up to \$200,000 of losses in excess of \$50,000 and prior to January 1, 2000, a workers' compensation quota share agreement whereby Delaware ceded 70% of that business. The Mutual Company and Pioneer-Ohio have an excess of loss reinsurance agreement in which the Mutual Company assumes up to \$200,000 of losses in excess of \$50,000. The Mutual Company and Pioneer-Ohio also had an aggregate excess of loss reinsurance agreement, entered into as part of the sale of Pioneer-Ohio from the Mutual Company to Donegal Group Inc., in which the Mutual Company agreed to assume the adverse loss development of claims with dates of loss prior to December 31, 1996, as developed through December 31, 1998, and to assume losses in excess of a 60% loss ratio through December 31, 1998. The Mutual Company and Southern have an excess of loss reinsurance agreement in which the Mutual Company assumes up to

\$25,000 of losses in excess of \$100,000 and a quota share agreement whereby Southern cedes 50% of its direct business less certain reinsurance to the Mutual Company. Effective October 1, 2000, the Mutual Company and Southern Heritage have an excess of loss reinsurance agreement in which the Mutual Company assumes up to \$125,000 of losses in excess of \$125,000. Southern, Delaware and Pioneer-Ohio each have retrocessional reinsurance agreements with the Mutual Company under which they cede, and then assume back, 100% of their business net of other reinsurance.

The following amounts represent reinsurance transactions with the Mutual Company during 2000, 1999 and 1998:

CEDED REINSURANCE:	2000	1999	1998
Premiums written	\$ 74,847,463	\$ 66,090,699	\$ 55,372,556
Premiums earned	\$ 70,072,022	\$ 60,977,975	\$ 51,617,429
Losses and loss expenses	\$ 51,661,595	\$ 41,775,579	\$ 32,791,739
Unearned premiums	\$ 35,774,818	\$ 30,999,377	\$ 25,886,653
Liability for losses and loss expenses	\$ 54,962,818	\$ 43,907,885	\$ 39,039,648

ASSUMED REINSURANCE:	2000	1999	1998
Premiums written	\$142,324,929	\$124,433,678	\$114,667,549
Premiums earned	\$132,195,646	\$119,364,863	\$111,333,956
Losses and loss expenses	\$ 89,152,108	\$ 80,325,374	\$ 69,869,999
Unearned premiums	\$ 67,017,098	\$ 56,887,815	\$ 51,819,000
Liability for losses and loss expenses	\$ 96,462,837	\$ 90,397,135	\$ 85,766,514

Losses and loss expenses assumed from the Mutual Company for 2000, 1999 and 1998 are reported net of inter-company catastrophe recoveries which amounted to approximately \$0.4 million, \$2.0 million, and \$2.3 million, respectively.

B. EXPENSE SHARING

The Mutual Company provides facilities, management and other services to the Company, and the Company reimburses the Mutual Company for such services on a periodic basis under usage agreements and pooling arrangements. The charges are based upon the relative participation of the Company and the Mutual Company in the pooling arrangement, and management of both the Company and the Mutual Company consider this allocation to be reasonable. Charges for these services totalled \$26,677,399, \$27,466,898 and \$25,250,873 for 2000, 1999 and 1998, respectively.

C. LEASE AGREEMENT

The Company leases office equipment and automobiles to the Mutual Company under a 10-year lease dated January 1, 2000.

D. WORKERS' COMPENSATION AGREEMENTS

The Mutual Company has agreements in place with Delaware, Southern and Pioneer-Ohio to reallocate the loss results of workers' compensation business written by those companies as part of commercial accounts primarily written by the Mutual Company or Atlantic States. These agreements provide for the workers' compensation loss ratios of each company to be no worse than the average workers' compensation loss ratio for all of the companies combined.

E. LEGAL SERVICES

Donald H. Nikolaus, President and a director of the Company, is also a partner in the law firm of Nikolaus & Hohenadel. Such firm has served as general counsel to the Company since 1986, principally in connection with the defense of claims litigation arising in Lancaster, Dauphin and York counties. Such firm is paid its customary fees for such services.

4--INVESTMENTS

The amortized cost and estimated fair values of fixed maturities and equity securities at December 31, 2000 and 1999, are as follows:

	2000			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
HELD TO MATURITY				

U.S. Treasury securities and obligations of

U.S. government corporations and agencies	\$ 37,072,395	\$ 319,061	\$ 251,956	\$ 37,139,500
Canadian government obligation	498,559	11,441	--	510,000
Obligations of states and political subdivisions	66,831,090	1,499,955	45,904	68,285,141
Corporate securities	21,319,759	221,564	195,287	21,346,036
Mortgage-backed securities	14,301,367	47,120	140,228	14,208,259
Totals	\$140,023,170	\$2,099,141	\$ 633,375	\$141,488,936

2000

AVAILABLE FOR SALE	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 66,796,158	\$ 536,019	\$ 645,247	\$ 66,686,930
Obligations of states and political subdivisions	17,766,511	326,924	36,885	18,056,550
Corporate securities	22,702,528	312,426	304,604	22,710,350
Mortgage-backed securities	4,640,651	9,790	113,588	4,536,853
Equity securities	12,476,948	845,004	1,268,741	12,053,211
Totals	\$124,382,796	\$2,030,163	\$2,369,065	\$124,043,894

1999

HELD TO MATURITY	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 36,860,655	\$ 34,292	\$1,219,840	\$ 35,675,107
Canadian government obligation	498,245	--	8,245	490,000
Obligations of states and political subdivisions	67,823,291	819,155	1,005,936	67,636,510
Corporate securities	15,819,143	73,228	639,010	15,253,361
Mortgage-backed securities	15,172,213	30,077	261,274	14,941,916
Totals	\$136,173,547	\$ 956,752	\$3,134,305	\$133,995,994

1999

AVAILABLE FOR SALE	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 63,645,993	\$ 1,982	\$2,443,578	\$ 61,204,397
Obligations of states and political subdivisions	20,524,977	204,284	506,415	20,222,846
Corporate securities	15,472,456	578	419,871	15,053,163
Mortgage-backed securities	3,776,568	321	213,747	3,563,142
Equity securities	9,043,818	1,384,882	1,199,202	9,229,498
Totals	\$112,463,812	\$1,592,047	\$4,782,813	\$109,273,046

The amortized cost and estimated fair value of fixed maturities at December 31, 2000, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
HELD TO MATURITY		
Due in one year or less	\$ 6,905,865	\$ 6,965,000
Due after one year through five years	35,501,879	35,811,000
Due after five years through ten years	71,017,355	72,274,485
Due after ten years	12,296,704	12,230,192
Mortgage-backed securities	14,301,367	14,208,259
Total held to maturity	\$140,023,170	\$141,488,936
AVAILABLE FOR SALE		
Due in one year or less	\$ 10,385,517	\$ 10,385,000
Due after one year through five years	39,390,838	39,599,950
Due after five years through ten years	40,768,456	41,176,880
Due after ten years	16,720,386	16,292,000
Mortgage-backed securities	4,640,651	4,536,853
Total available for sale	\$111,905,848	\$111,990,683

The amortized cost of fixed maturities on deposit with various regulatory authorities at December 31, 2000 and 1999, amounted to \$5,532,145 and \$5,655,877, respectively.

Net investment income of the Company, consisting primarily of interest and dividends, is attributable to the following sources:

	2000	1999	1998
Fixed maturities	\$14,849,555	\$12,738,765	\$ 10,981,353
Equity securities	634,403	439,660	294,646
Short-term investments	1,174,926	770,562	1,385,500
Real estate	175,250	236,139	175,250
Investment income	16,834,134	14,185,126	12,836,749
Investment expenses	841,639	961,589	839,088
Net investment income	\$15,992,495	\$13,223,537	\$ 11,997,661

Gross realized gains and losses from investments and the change in the difference between fair value and cost of investments, before applicable income taxes, are as follows:

2000 1999 1998

Gross realized gains:			
Fixed maturities	\$ 237,748	\$ --	\$ 132,431
Equity securities	1,813,242	586,745	1,119,679
	2,050,990	586,745	1,252,110
Gross realized losses:			
Fixed maturities	20,597	6,083	5,180
Equity securities	1,859,541	619,364	1,260,492
	1,880,138	625,447	1,265,672
Net realized gains (losses)	\$ 170,852	\$ (38,702)	\$ (13,562)
Change in difference between fair value and cost of investments:			
Fixed maturities	\$ 7,104,600	\$(11,439,370)	\$ 1,439,782
Equity securities	(609,417)	(371,528)	(166,335)
	\$ 6,495,183	\$(11,810,898)	\$ 1,273,447

Income taxes (benefits) on realized investment gains were \$58,090, \$(13,159), and \$(4,611) for 2000, 1999 and 1998, respectively. Deferred income tax benefits applicable to net unrealized investment losses included in shareholders' equity were \$115,227 and \$1,116,777 at December 31, 2000 and 1999, respectively.

During 2000, certain investments trading below cost had declined on an other-than-temporary basis. Losses of \$436,943 were included in net realized investment gains for these investments in 2000.

Donegal Group has not held or issued derivative financial instruments.

5--DEFERRED POLICY ACQUISITION COSTS

Changes in deferred policy acquisition costs are as follows:

	2000	1999	1998
Balance, January 1	\$ 11,203,302	\$ 11,334,301	\$ 8,448,060
Acquisition of Southern Heritage	--	--	2,486,813
Acquisition costs deferred	25,741,955	24,477,001	19,889,428
Amortization charged to earnings	24,925,000	24,608,000	19,490,000
Balance, December 31	\$ 12,020,257	\$ 11,203,302	\$11,334,301

6-PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2000 and 1999, consisted of the following:

	2000	1999	Estimated Useful Life
Cost -- office equipment	\$ 4,731,613	\$ 4,615,884	5-15 years
automobiles	938,958	958,313	3 years
real estate	2,627,599	2,627,599	15-50 years
software	325,323	315,973	5 years
Accumulated depreciation	8,623,493 (3,606,829)	8,517,769 (3,001,081)	
	\$ 5,016,664	\$ 5,516,688	

Depreciation expense for 2000, 1999, and 1998 amounted to \$776,006, \$847,228 and \$559,710, respectively.

7--LIABILITY FOR LOSSES AND LOSS EXPENSES

Activity in the liability for losses and loss expenses is summarized as follows:

	2000	1999	1998
Balance at January 1	\$149,979,141	\$141,409,008	\$118,112,390
Less reinsurance recoverable	52,485,149	47,545,592	40,638,565
Net balance at January 1	97,493,992	93,863,416	77,473,825
Acquisition of Southern Heritage	--	--	14,967,242
New balance at beginning as adjusted	97,493,992	93,863,416	92,441,067
Incurred related to:			
Current year	102,222,144	99,659,002	75,463,085
Prior years	919,761	(454,000)	(2,296,000)
Total incurred	103,141,905	99,205,002	73,167,085
Paid related to:			
Current year	60,865,275	58,906,426	44,388,736
Prior years	38,477,111	36,668,000	27,356,000
Total paid	99,342,386	95,574,426	71,744,736
Net balance at December 31	101,293,511	97,493,992	93,863,416
Plus reinsurance recoverable	62,605,759	52,485,149	47,545,592
Balance at December 31	\$163,899,270	\$149,979,141	\$141,409,008

The Company recognized an increase (decrease) in the liability for losses and loss expenses of prior years of \$0.9 million, \$(0.5 million) and \$(2.3 million) in 2000, 1999 and 1998, respectively. These developments are primarily attributable to variations from expected claim severity in the private passenger automobile liability, workers' compensation and commercial multiple peril lines of business.

8--LINE OF CREDIT

At December 31, 2000 and 1999, pursuant to a credit agreement dated December 29, 1995, and amended as of July 27, 1998, with Fleet National Bank, the Company had unsecured borrowings of \$40 million and \$37 million, respectively. Such borrowings were made in connection with the acquisitions of Delaware, Pioneer-Ohio, and Southern Heritage and various capital contributions to the subsidiaries. Per the terms of the credit agreement, the Company may borrow up to \$40 million at interest rates equal to the bank's then current prime rate or the then current London interbank Eurodollar bank rate plus 1.70%. At December 31, 2000, the interest rates were 9.5% on an outstanding prime rate balance of \$3 million, 8.48% on an outstanding Eurodollar rate balance of \$15 million and 8.50188% on another Eurodollar rate balance of \$22 million. In addition, the Company pays a rate of 3/10 of 1% per annum on the average daily unused portion of the bank's commitment. On each July 27, commencing July 27, 2001, the credit line will be reduced by \$8 million. Any outstanding loan in excess of the remaining credit line, after such reduction, will then be payable.

9--UNAFFILIATED REINSURERS

In addition to the primary reinsurance in place with the Mutual Company, the Insurance Subsidiaries have other reinsurance in place, principally with four unaffiliated reinsurers. The following amounts represent reinsurance transactions with unaffiliated reinsurers during 2000, 1999 and 1998:

Ceded reinsurance:	2000	1999	1998
Premiums written	\$ 5,790,027	\$ 6,348,846	\$ 4,784,768
Premiums earned	\$ 5,712,718	\$ 6,509,844	\$ 4,720,669
Losses and loss expenses	\$ 2,931,290	\$ 4,513,244	\$ 4,489,728
Unearned premiums	\$ 1,232,769	\$ 1,155,460	\$ 1,316,458
Liability for losses and loss expenses	\$ 7,642,941	\$ 8,577,264	\$ 8,505,944

10--INCOME TAXES

The provision for income tax consists of the following:

	2000	1999	1998
Current	\$ 2,444,119	\$ 762,286	\$ 2,500,582
Deferred	491,799	(3,790,122)	158,593
Federal tax provision	\$ 2,935,918	\$(3,027,836)	\$ 2,659,175

The effective tax rate is different than the amount computed at the statutory federal rate of 34% for 2000, 1999 and 1998. The reason for such difference and the related tax effect are as follows:

	2000	1999	1998
Income before income taxes	\$11,823,275	\$ 3,629,101	\$11,677,015
Computed "expected" taxes at 34%	4,019,914	1,233,894	\$ 3,970,185
Recognition of net operating loss carryover of Southern Heritage	--	(3,004,524)	--
Tax-exempt interest	(1,344,933)	(1,352,657)	(1,180,773)
Dividends received deduction	(25,423)	(83,948)	(177,374)
Other, net	286,360	179,399	47,137
Federal income tax provision	\$ 2,935,918	\$(3,027,836)	\$ 2,659,175

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2000 and 1999, are as follows:

	2000	1999

Deferred tax assets:		
Unearned premium	\$ 5,050,224	\$ 4,454,147
Loss reserves	4,817,874	4,666,536
AMT credit carryforward	--	577,611
Net operating loss carryforward - Southern Heritage	2,339,133	2,646,172
Unrealized loss	115,227	1,116,777
Other	174,886	306,412

Total	\$12,497,344	\$13,767,655
=====		
Deferred tax liabilities:		
Depreciation expense	\$ 473,867	\$ 469,426
Deferred policy acquisition costs	4,086,887	3,809,123
Salvage recoverable	308,707	367,874

Total	\$ 4,869,461	\$ 4,646,423
=====		
Net deferred tax assets	\$ 7,627,883	\$ 9,121,232
=====		

A valuation allowance is provided when it is more likely than not that some portion of the tax asset will not be realized. Management has determined that it is not required to establish a valuation allowance for any deferred tax asset at December 31, 2000, since it is more likely than not that the deferred tax assets will be realized through reversals of existing temporary differences, future taxable income, carryback to taxable income in prior years and the implementation of tax planning strategies.

A change in the federal income laws was enacted during 1999 which allows net operating loss carryforwards of an acquired company to be used to offset future taxable income of other affiliated companies filing as part of a consolidated tax return. Prior law allowed such net operating loss carryforward to be used to offset taxable income of the acquired company only. Due to this law change, the net operating loss carryforward, obtained as part of the acquisition of Southern Heritage, can now be used to offset taxable income generated by the other consolidated affiliates. This was the primary factor in management's determination that no valuation allowance was required at the end of 1999. Accordingly, the tax benefit of this carryforward, as adjusted for the 1998 tax return as filed, of \$3,004,524 was recognized in 1999.

At December 31, 2000, the Company has a net operating loss carryforward of \$6,879,803, which is available to offset taxable income of the Company. Such net operating loss carryforward will expire beginning in 2009. Federal income tax laws limit the amount of net operating loss carryforward that the Company can use in any one year to approximately \$1 million.

11--STOCK COMPENSATION PLANS

EQUITY INCENTIVE PLANS

The Company has had an Equity Incentive Plan for key employees since 1986 and adopted a nearly identical new plan in 1996. Both plans provide for the granting of awards by the Board of Directors in the form of stock options, stock appreciation rights, restricted stock or any combination of the above. The new plan was adopted in 1996 and amended in 1997 and 1999 making a total of 1,800,000 shares available. The plans provide that stock options may become exercisable up to 10 years from date of grant, with an option price not less than fair market value on date of grant. The stock appreciation rights permit surrender of the option and receipt of the excess of current market price over option price in cash. No stock appreciation rights have been issued.

During 1996 the Company adopted an Equity Incentive Plan For Directors. The plan was amended in 1998, making 265,735 shares available for award. Awards may be made in the form of stock options, and the plan additionally provides for the issuance of 177 shares of restricted stock to each director on the first business day of January in each year, commencing January 2, 1997. As of December 31, 2000, the Company has 71,112 unexercised options under this plan. Additionally 1,947, 2,124 and 2,124 shares of restricted stock were issued on January 2, 2000, 1999 and 1998, respectively.

Information regarding activity in the Company's stock option plans is presented below:

Number of Options	Weighted-Average Exercise Price Per Share
----------------------	---

Outstanding at December 31, 1997	595,860	\$13.50
Granted - 1998	505,333	18.00
Exercised - 1998	10,073	13.50
Forfeited - 1998	--	--
Outstanding at December 31, 1998	1,091,120	15.73
Granted - 1999	433,500	8.00
Exercised - 1999	--	--
Forfeited - 1999	28,227	15.52
Outstanding at December 31, 1999	1,496,393	13.50
Granted - 2000	59,500	8.05
Exercised - 2000	--	--
Forfeited - 2000	39,555	12.84
Outstanding at December 31, 2000	1,516,338	\$13.19
Exercisable at:		
December 31, 1998	556,301	\$14.86
December 31, 1999	897,338	\$15.99
December 31, 2000	1,190,004	\$16.68

Options available for future grants at December 31, 2000 are 549,397.

The following table summarizes information about fixed stock options at December 31, 2000:

	Exercise Prices			
	\$8.00	\$9.00	\$13.50	\$18.00
Options outstanding at December 31, 2000:				
Number of options	471,000	3,000	552,004	490,334
Weighted-average remaining contractual life	4.0 years	5.0 years	1.0 years	2.25 years
Options exercisable at December 31, 2000:				
Number of options	151,000	--	552,004	487,000

EMPLOYEE STOCK PURCHASE PLANS

During 1996 the Company adopted an Employee Stock Purchase Plan which made 162,873 shares available for issuance.

The plan extends over a 10-year period and provides for shares to be offered to all eligible employees at a purchase price equal to the lesser of 85% of the fair market value of the Company's common stock on the last day before the first day of the enrollment period (June 1 and December 1) of the plan or 85% of the fair market value of the Company's common stock on the last day of the subscription period (June 30 and December 31). A summary of plan activity follows:

	Shares Issued	
	Price	Shares
January 1, 1998	\$11.65430	8,901
July 1, 1998	\$13.06875	9,179
January 1, 1999	\$13.28125	10,227
July 1, 1999	\$ 9.66875	11,876
January 1, 2000	\$ 5.41875	23,906
July 1, 2000	\$ 4.88750	21,714

On January 1, 2001, the Company issued an additional 16,438 shares at a price of \$5.95 per share under this plan.

AGENCY STOCK PURCHASE PLAN

On December 31, 1996, the Company adopted the Agency Stock Purchase Plan which made 514,102 shares available for issuance. The plan provides for agents of affiliated companies of Donegal Group Inc. to invest up to \$12,000 per subscription period (April 1 to September 30 and October 1 to March 31) under various methods. Stock is issued at the end of the subscription period at a price equal to 90% of the average market price during the last ten trading days of the subscription period. During 2000, 1999 and 1998, 46,603, 47,841, and 35,003 shares, respectively, were issued under this plan. Expense recognized under the plan was not material.

PRO-FORMA DISCLOSURES

The weighted-average grant date fair value of options granted for the various plans during 2000, 1999 and 1998 was \$2.23, \$1.98 and \$4.48, respectively.

The fair values above were calculated based upon risk-free interest rates of 5.75% for the Stock Purchase Plans and the Equity Incentive Plans, expected lives of 6 months for the Stock Purchase Plans and 5 years for the Equity Incentive Plans, expected volatility of 54% for 2000, 47% for 1999 and 34% for 1998, and an expected dividend yield of 4.5% for 2000, 5.0% for 1999 and 2.4% for 1998.

Through June 30, 2000, the Company applied APB Opinion No. 25 in accounting for its stock-based compensation plans. Accordingly, no compensation cost has been recognized for its fixed stock option plans and certain of its stock purchase plans. Had the Company recognized stock compensation expense in accordance with SFAS No. 123, net income and earnings per share would have been reduced to the pro-forma amounts shown below:

	2000	1999	1998
Net income:			
As reported	\$8,887,357	\$6,656,937	\$9,017,840
Pro-forma	8,122,402	5,457,591	8,362,764
Basic earnings per share:			
As reported	1.02	.80	1.11
Pro-forma	.93	.66	1.03
Diluted earnings per share:			
As reported	1.02	.80	1.09
Pro-forma	.93	.66	1.01

12--STATUTORY NET INCOME, CAPITAL AND SURPLUS AND DIVIDEND RESTRICTIONS

The following is selected information, as filed with insurance regulatory authorities, for the Insurance Subsidiaries as determined in accordance with accounting practices prescribed or permitted by such insurance regulatory authorities:

2000	1999	1998
------	------	------

 ATLANTIC STATES

Statutory capital and surplus	\$ 74,144,186	\$ 68,518,020	\$ 62,672,151
Statutory unassigned surplus	\$ 43,183,322	\$ 37,557,156	\$ 31,711,287
Statutory net income	\$ 6,974,230	\$ 3,855,803	\$ 6,480,524

 SOUTHERN

Statutory capital and surplus	\$ 9,082,587	\$ 7,293,856	\$ 6,388,316
Statutory unassigned surplus	\$ 3,980,317	\$ 2,191,586	\$ 1,636,046
Statutory net income	\$ 1,543,128	\$ 184,285	\$ 66,297

 DELAWARE

Statutory capital and surplus	\$ 10,051,711	\$ 9,563,808	\$ 8,548,354
Statutory unassigned surplus	\$ 4,851,711	\$ 4,363,808	\$ 3,348,354
Statutory net income	\$ 1,223,992	\$ 898,360	\$ 1,085,807

 PIONEER-OHIO

Statutory capital and surplus	\$ 5,811,315	\$ 5,677,926	\$ 5,300,349
Statutory unassigned deficit	\$ (1,188,685)	\$ (1,322,074)	\$ (1,699,651)
Statutory net income (loss)	\$ (176,011)	\$ 108,322	\$ 188,579

 SOUTHERN HERITAGE

Statutory capital and surplus	\$ 16,975,171	\$ 16,508,422	\$ 15,805,641
Statutory unassigned deficit	\$ (15,540,144)	\$ (16,006,893)	\$ (16,709,674)
Statutory net income (loss)	\$ 1,486,698	\$ 487,098	\$ (3,937,548)

The Company's principal source of cash for payment of dividends are dividends from its Insurance Subsidiaries which are required by law to maintain certain minimum capital and surplus on a statutory basis and are subject to regulations under which payment of dividends from statutory surplus is restricted and may require prior approval of their domiciliary insurance regulatory authorities. Atlantic States, Southern, Delaware, Pioneer-Ohio and Southern Heritage are also subject to Risk Based Capital (RBC) requirements which may further impact their ability to pay dividends. At December 31, 2000, all five companies' statutory capital and surplus were substantially above the RBC requirements. At December 31, 2000, amounts available for distribution as dividends to Donegal Group Inc. without prior approval of insurance regulatory authorities are \$5,414,419 from Atlantic States, \$908,259 from Southern, \$323,992 from Delaware, \$581,132 from Pioneer-Ohio and \$973,796 from Southern Heritage.

The National Association of Insurance Commissioners (NAIC) has adopted the Codification of Statutory Accounting Principles with an effective date of January 1, 2001. The codified principles are intended to provide a basis of accounting recognized and adhered to in the absence of conflict with, or silence of, state statutes and regulations. The impact of the codified principles on the statutory capital and surplus of the Company's Insurance Subsidiaries is not expected to decrease statutory capital and surplus as of January 1, 2001.

13--RECONCILIATION OF STATUTORY FILINGS TO
AMOUNTS REPORTED HEREIN

The Company's Insurance Subsidiaries are required to file statutory financial statements with state insurance regulatory authorities. Accounting principles used to prepare these statutory financial statements differ from financial statements prepared on the basis of generally accepted accounting principles.

Reconciliations of statutory net income and capital and surplus, as determined using statutory accounting principles, to the amounts included in the accompanying financial statements are as follows:

	Year Ended December 31,		
	2000	1999	1998
Statutory net income of Insurance Subsidiaries	\$11,052,037	\$5,533,868	\$8,301,081
Increases (decreases):			
Deferred policy acquisition costs	816,955	(130,999)	399,428
Deferred federal income taxes	(491,799)	3,790,122	(158,593)
Salvage and subrogation recoverable	305,918	(226,617)	1,217,092
Consolidating eliminations and adjustments	(4,318,624)	(1,387,864)	(967,940)
Parent-only net income (loss)	1,522,870	(908,987)	178,249
Non-insurance subsidiary net income (loss)	--	(12,586)	48,523
Net income as reported herein	\$ 8,887,357	\$6,656,937	\$9,017,840

	December 31,		
	2000	1999	1998
Statutory capital and surplus of Insurance Subsidiaries	\$116,064,970	\$107,562,032	\$ 98,714,811
Increases (decreases):			
Deferred policy acquisition costs	12,020,257	11,203,302	11,334,301
Deferred federal income taxes	7,627,883	9,121,232	3,592,605
Salvage and subrogation recoverable	8,042,860	7,736,942	7,963,559
Statutory reserves	2,623,921	5,066,505	9,066,998
Non-admitted assets and other adjustments, net	839,042	793,715	1,178,102
Fixed maturities	491,179	(2,889,365)	2,038,604
Consolidating eliminations and adjustments	(36,531,786)	(36,630,839)	(36,383,362)
Parent-only equity	2,566,929	1,451,088	2,843,990
Non-insurance subsidiary equity	--	--	281,396
Stockholders' equity as			

14--SUPPLEMENTARY INFORMATION ON STATEMENT OF CASH FLOWS

The following reflects income taxes and interest paid during 2000, 1999 and 1998:

	2000	1999	1998
Income taxes	\$ 1,967,331	\$ 1,233,414	\$ 2,671,969
Interest	\$ 2,731,048	\$ 1,370,155	\$ 1,270,646

During 1999, the Company wrote off fixed assets with a net carrying value of \$407,000 which was a non-cash charge to earnings.

15--EARNINGS PER SHARE

The following information illustrates the computation of net income, outstanding shares and earnings per share on both a basic and diluted basis for the years ending December 31, 2000, 1999 and 1998:

	Net Income	Weighted- Average Shares Outstanding	Earnings Per Share
2000:			
Basic	\$ 8,887,357	8,715,899	\$1.02
Effect of stock options	--	21,011	--
Diluted	\$ 8,887,357	8,736,910	\$1.02
1999:			
Basic	\$ 6,656,937	8,327,356	\$.80
Effect of stock options	--	--	--
Diluted	\$ 6,656,937	8,327,356	\$.80
1998:			
Basic	\$ 9,017,840	8,126,286	\$1.11
Effect of stock options	--	123,404	(0.02)
Diluted	\$ 9,017,840	8,249,690	\$1.09

The following options to purchase shares of common stock were not included in the computation of diluted earnings per share because the exercise price of the options was greater than the average market price:

	2000	1999	1998
Options excluded from diluted earnings per share	1,045,338	1,496,393	585,337

16--CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY

CONDENSED BALANCE SHEETS

(\$ in thousands)

December 31,	2000	1999
ASSETS		
Investment in subsidiaries (equity method)	\$150,774	\$138,702
Cash	2,381	371
Property and equipment	1,997	2,232
Other	715	750
Total assets	\$155,867	\$142,055
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Cash dividends declared to stockholders	\$ 797	\$ 761
Line of credit	40,000	37,000
Other	1,325	879
Total liabilities	42,122	38,640
Stockholders' equity	113,745	103,415
Total liabilities and stockholders' equity	\$155,867	\$142,055

CONDENSED STATEMENTS OF INCOME

(\$ in thousands)

Year Ended December 31,	2000	1999	1998
Revenues			
Dividends-subsiidiaries	\$ 3,900	\$ 820	\$ 1,000
Other	866	865	776
Total revenues	4,766	1,685	1,776
Expenses			
Operating expenses	1,165	938	718
Interest	3,304	2,463	1,293
Total expenses	4,469	3,401	2,011
Income (loss) before income tax benefit and equity in undistributed net income of subsidiaries	297	(1,716)	(235)
Income tax benefit	(1,226)	(807)	(413)
Income (loss) before equity in undistributed net income of subsidiaries	1,523	(909)	178
Equity in undistributed net income of subsidiaries	7,364	7,566	8,840
Net income	\$ 8,887	\$ 6,657	\$ 9,018

CONDENSED STATEMENTS OF CASH FLOWS

(\$ in thousands)

Year Ended December 31,	2000	1999	1998

Cash flows from operating activities:			
Net income	\$ 8,887	\$ 6,657	\$ 9,018

Adjustments:			
Equity in undistributed net income of subsidiaries	(7,364)	(7,566)	(8,840)
Other	1,123	2,365	(921)

Net adjustments	(6,241)	(5,201)	(9,761)

Net cash provided (used)	2,646	1,456	(743)

Cash flows from investing activities:			
Net purchase of property and equipment	(262)	(426)	(564)
Capital contribution to subsidiaries	--	--	(2,000)
Sale of AIS	--	100	--
Acquisition of Donegal Financial Services Corp.	(3,042)	--	--
Acquisition of Southern Heritage	--	--	(18,028)
Other	38	(426)	(5,613)

Net cash used	(3,266)	(752)	(26,205)

Cash flows from financing activities:			
Cash dividends paid	(3,127)	(2,946)	(2,664)
Issuance of common stock	2,757	2,514	2,481
Line of credit, net	3,000	(500)	27,000

Net cash provided (used)	2,630	(932)	26,817

Net change in cash	2,010	(228)	(131)
Cash at beginning of year	371	599	730

Cash at ending of year	\$ 2,381	\$ 371	\$ 599
=====			

17--SEGMENT INFORMATION

As an underwriter of property and casualty insurance, the Company has three reportable segments which consist of the investment function, the personal lines of insurance and the commercial lines of insurance. Using independent agents, the Company markets personal lines of insurance to individuals and commercial lines of insurance to small and medium-sized businesses.

The Company evaluates the performance of the personal lines and commercial lines primarily based upon underwriting results as determined under statutory accounting practices (SAP) for the total business of the Company.

Assets are not allocated to the personal and commercial lines and are reviewed in total by management for purposes of decision making. Donegal Group Inc. operates only in the United States and no single customer or agent provides 10 percent or more of revenues.

Financial data by segment is as follows:

	2000	1999	1998
----- (\$ in thousands) -----			
Revenues:			
Premiums earned:			
Commercial lines	\$ 54,515	\$ 47,707	\$ 44,493
Personal lines	95,199	96,167	71,676

Total premiums earned	149,714	143,874	116,169

Net investment income	15,992	13,224	11,998
Realized investment gains (losses)	171	(39)	(14)
Other	2,346	2,652	2,433

Total revenues	\$168,223	\$159,711	\$130,586
=====			
Income before income taxes:			
Underwriting income (loss):			
Commercial lines	\$ 736	\$ (826)	\$ 3,688
Personal lines	(4,094)	(8,238)	(5,327)

SAP underwriting loss	(3,358)	(9,064)	(1,639)
GAAP adjustments	1,122	(251)	1,803

GAAP underwriting loss	(2,236)	(9,315)	164
Net investment income	15,992	13,224	11,998
Realized investment gains (losses)	171	(39)	(14)
Other	(2,104)	(241)	(471)

Income before income taxes	\$ 11,823	\$ 3,629	\$ 11,677
=====			

18--RESTRUCTURING CHARGE

On September 29, 1999, the Company announced a plan to consolidate certain subsidiary support functions into its Marietta, Pennsylvania office. As a result of this consolidation, the Company recorded a restructuring charge of \$2,206,000 in 1999 for employee termination benefits, occupancy charges, lease cancellation costs, and asset impairments. The charge was included in other underwriting expenses. The consolidation was completed by the end of the first quarter of 2000.

Employee termination benefits of \$782,000 included severance payments, which were paid in a lump sum or over a defined period, and related benefits for approximately 60 employees. Of the terminated employees, approximately 50% were from subsidiary support functions and approximately 50% were from the Marietta, Pennsylvania office. By December 31, 1999, all of the terminated employees had left the employment of the Company.

Included in occupancy charges of \$488,000 were future lease obligations, less anticipated sublease benefits, for leased space which is no longer used by the Delaware and Southern Heritage subsidiary support functions.

Also included in the restructuring charge was \$529,000 related to contract cancellation costs that represented the estimated cost to buy out of the remaining term on printer, copier, and computer processing contracts that provided no future benefit to the Company as a result of the restructuring. All such assets have been taken out of service.

Asset impairments, which were a direct result of the consolidation of subsidiary functions, amounted to \$407,000. They consisted of capitalized programming and data center costs, voice systems, and leasehold and office

improvements. These assets were written-down to zero. All such assets have been taken out of service.

Activity in the restructuring accrual is as follows:

	Employee Termination Benefits	Occupancy	Contract Cancellations	Total
Restructuring charge	\$782,000	\$488,000	\$529,000	\$1,799,000
Cash payments	(343,000)	(47,000)	(365,000)	(755,000)
Reversal of prior accrual	(71,000)	--	(91,000)	(162,000)
Balance at December 31, 1999	\$368,000	\$441,000	\$ 73,000	\$ 882,000
Cash payments	(339,000)	(155,000)	(73,000)	(567,000)
Accrual adjustment	--	12,000	--	12,000
Balance at December 31, 2000	\$ 29,000	\$298,000	--	\$ 327,000

Based on revised estimates, \$162,000 of the restructuring accrual was reversed by a reduction to the restructuring charge in other underwriting expenses in the fourth quarter of 1999. Employee termination benefits and contract cancellation costs were lower than original estimates.

19--GUARANTY FUND AND OTHER INSURANCE-RELATED ASSESSMENTS

The Company accrues for guaranty-fund and other insurance-related assessments in accordance with Statement of Position (SOP) 97-3, "Accounting by Insurance and Other Enterprises for Insurance- Related Assessments." SOP 97-3 provides guidance for determining when an entity should recognize a liability for guaranty-fund and other insurance-related assessments, how to measure that liability, and when an asset may be recognized for the recovery of such assessments through premium tax offsets or policy surcharges. The Company's liabilities for guaranty-fund and other insurance-related assessments were \$880,154 and \$582,480 at December 31, 2000 and 1999, respectively. These liabilities included \$397,832 and \$47,962 related to surcharges collected by the Company on behalf of regulatory authorities for 2000 and 1999, respectively. The Company expects to pay most of the December 31, 2000 liability in 2001.

20--INTERIM FINANCIAL DATA (UNAUDITED)

	2000			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net premiums earned	\$35,585,093	\$36,022,649	\$38,650,546	\$39,455,274
Total revenues	39,745,534	40,801,600	43,630,503	44,045,362
Net losses and loss expenses	25,537,992	24,605,750	26,486,679	26,511,484
Net income	1,250,234	2,470,400	2,602,045	2,564,678
Net income per common share				
Basic	\$.15	\$.28	\$.30	\$.29
Diluted	.15	.28	.30	.29

	1999			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net premiums earned	\$36,093,971	\$35,829,815	\$35,955,556	\$35,994,628
Total revenues	40,109,990	39,787,987	39,802,234	40,010,896
Net losses and loss expenses	24,451,651	24,162,300	26,449,962	24,141,089
Net income (loss)	2,151,367	1,300,736	(2,442,880)	5,647,714
Net income (loss) per common share				
Basic	\$.26	\$.16	\$(.29)	\$.67
Diluted	.26	.16	(.29)	.67

INDEPENDENT AUDITORS' REPORT

The Stockholders and Board of Directors
Donegal Group Inc.

We have audited the accompanying consolidated balance sheets of Donegal Group Inc. and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Donegal Group Inc. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP
Philadelphia, Pennsylvania
February 23, 2001

CORPORATE INFORMATION

ANNUAL MEETING

April 19, 2001 at the Company's headquarters
at 10:00 a.m.

FORM 10-K

A copy of Donegal Group's Annual Report on Form 10-K will be furnished free upon written request to Ralph G. Spontak, Senior Vice President and Chief Financial Officer, at the corporate address.

MARKET INFORMATION

Donegal Group's common stock is traded on NASDAQ under the symbol "DGIC." During 1999 and 2000, the stock price ranged as follows:

QUARTER	HIGH	LOW	CASH DIVIDEND DECLARED PER SHARE
1999			
1st	16.250	10.500	--
2nd	13.000	10.063	.09
3rd	11.625	6.125	.09
4th	10.625	5.750	.18
2000			
1st	8.625	5.750	--
2nd	8.250	5.750	.09
3rd	8.000	5.750	.09
4th	13.938	7.125	.18

CORPORATE OFFICES

1195 River Road
P.O. Box 302
Marietta, Pennsylvania 17547-0302
(717) 426-1931
E-mail Address: info@donegalgroup.com
Donegal Website: www.donegalgroup.com

TRANSFER AGENT

First Chicago Trust Co., a Division of EquiServe
P.O. Box 2500
Jersey City, NJ 07303-2500
(800) 317-4445
E-mail Address: fctc@em.fcncbd.com
FCTC Website: www.fctc.com
Hearing Impaired: TDD: 201-222-4955

DIVIDEND REINVESTMENT PLAN

The Company offers a dividend reinvestment plan through its transfer agent.

For information contact:
Donegal Group Inc. Dividend Reinvestment Plan
c/o First Chicago Trust Co., a Division of EquiServe
P.O. Box 2598
Jersey City, NJ 07303-2598
(800) 317-4445

STOCKHOLDERS

The number of common stockholders of record as of December 31, 2000 was 656.

SUBSIDIARIES OF REGISTRANT

Registrant owns 100% of the outstanding stock of the following insurance companies:

Name - - - - -	State of Formation -----
Atlantic States Insurance	Pennsylvania
Southern Insurance Company of Virginia	Virginia
Pioneer Insurance Company	Ohio
Delaware Atlantic Insurance Company	Delaware
Southern Heritage Insurance Company	Georgia
Pioneer Insurance Company	New York

Independent Auditors' Consent and Report on Schedules

The Board of Directors
Donegal Group Inc.:

The audits referred to in our report dated February 23, 2001 include the related financial statement schedules as of December 31, 2000, and for each of the years in the three-year period ended December 31, 2000, included in the annual report on Form 10-K. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement schedules based on our audits. In our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We consent to incorporation by reference in the registration statements (Nos. 333-1287, 333-06681, 33-26693, 33-61095, 333-93785 and 333-94301) on Forms S-8 and registration statement (No. 333-36585) on Form S-3 of Donegal Group Inc. of our reports dated February 23, 2001, relating to the consolidated balance sheets of Donegal Group Inc. as of December 31, 2000 and 1999, and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows and related financial statement schedules for each of the years in the three-year period ended December 31, 2000, which reports appear in the December 31, 2000 annual report on Form 10-K of Donegal Group Inc.

KPMG LLP

Philadelphia, Pennsylvania
March 29, 2001