

SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, D.C. 20549
 FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 of the Securities Exchange Act of 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 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 NO. 0-15341

DONEGAL GROUP INC.

(Exact name of registrant as specified in its charter)

DELAWARE

23-2424711

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

1195 RIVER ROAD, P.O. BOX 302, MARIETTA, PA 17547-0302

(Address of principal executive offices, including zip code)

(717) 426-1931

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes . No .

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 8,820,824 shares of Common Stock, \$1.00 par value, outstanding on October 31, 2000.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

DONEGAL GROUP INC. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEET

ASSETS	SEPTEMBER 30, 2000	DECEMBER 31, 1999
	-----	-----
	(UNAUDITED)	
Investments		
Fixed maturities		
Held to maturity, at amortized cost	\$ 137,241,256	\$ 136,173,547
Available for sale, at fair value	111,989,488	100,043,548
Equity securities, available for sale at fair value	16,755,091	9,229,498
Short-term investments, at cost, which approximates fair value	11,693,164	15,995,257
	-----	-----
Total Investments	277,678,999	261,441,850
Cash	3,657,898	3,922,403
Accrued investment income	3,967,282	3,474,430

Premiums receivable	22,588,317	18,218,525
Reinsurance receivable	57,658,048	53,070,283
Deferred policy acquisition costs	12,989,737	11,203,302
Federal income tax receivable	28,955	698,969
Deferred federal income taxes	8,608,943	9,121,232
Prepaid reinsurance premiums	38,584,536	32,154,837
Property and equipment, net	5,130,068	5,516,688
Accounts receivable	1,797,277	-
Due from affiliate	124,876	262,954
Other	608,252	647,184
	-----	-----
Total Assets	\$ 433,423,188	\$ 399,732,657
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

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LIABILITIES

Losses and loss expenses	\$ 159,056,494	\$ 149,979,141
Unearned premiums	114,809,252	97,657,020
Accrued expenses	5,410,899	5,888,392
Drafts payable	95,534	597,775
Reinsurance balances payable	1,060,620	1,216,034
Cash dividend declared to stockholders	-	760,673
Line of credit	40,000,000	37,000,000
Accounts payable - securities	803,543	2,500,000
Other	1,130,796	719,010
	-----	-----
Total Liabilities	322,367,138	296,318,045
	-----	-----

STOCKHOLDERS' EQUITY

Preferred stock, \$1.00 par value, authorized 1,000,000 shares; non issued		
Common stock, \$1.00 par value authorized 20,000,000 shares, issued 8,925,425 and 8,574,210 shares and outstanding 8,803,137 and 8,451,922 shares	8,925,425	8,574,210
Additional paid-in capital	45,493,760	43,536,748
Accumulated other comprehensive loss	(1,491,049)	(2,073,989)
Retained earnings	59,019,670	54,269,399
Treasury stock	(891,756)	(891,756)
	-----	-----
Total Stockholders' Equity	111,056,050	103,414,612
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 433,423,188	\$ 399,732,657
	=====	=====

See accompanying notes to consolidated financial statements

DONEGAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
(UNAUDITED)

	Nine Months Ended September 30,	
	2000	1999
	----	----
REVENUES:		
Premiums earned	\$ 166,049,694	\$ 157,663,660
Premiums ceded	55,791,406	49,784,318
	-----	-----
Net premiums earned	110,258,288	107,879,342
Investment income, net of investment expenses	11,710,056	9,763,940
Realized gains (losses)	442,927	(67,437)
Lease income	625,070	612,138
Service charge income	1,141,296	1,512,228
	-----	-----
Total Revenues	124,177,637	119,700,211
	-----	-----
EXPENSES:		
Losses and loss expenses	114,779,873	112,959,768
Reinsurance recoveries	38,149,452	37,895,855
	-----	-----
Amortization of deferred policy acquisition costs	76,630,421	75,063,913
Other underwriting expenses	18,766,000	18,376,000
Policy dividends	16,117,258	23,105,011
Interest	957,319	955,854
Other expenses	2,394,889	974,089
	852,754	1,213,493
	-----	-----
Total Expenses	115,718,641	119,688,360
	-----	-----
Income before taxes	8,458,996	11,851
Income tax expense (benefit)	2,136,317	(997,372)
	-----	-----
Net income	\$ 6,322,679	\$ 1,009,223
	=====	=====
Earnings per common share		
Basic	\$ 0.73	\$ 0.12
	=====	=====
Diluted	\$ 0.73	\$ 0.12
	=====	=====

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)

	Nine Months Ended September 30,	
	2000	1999
	----	----
Net Income	\$ 6,322,679	1,009,223
	-----	-----
Other comprehensive income (loss), net of tax		
Unrealized gains on securities:		
Unrealized holding gain (loss) during the period		
net of income tax	875,272	(2,985,556)
Reclassification adjustment	(292,332)	44,508
	-----	-----
Other comprehensive income (loss)	582,940	(2,985,556)
	-----	-----
Comprehensive income (loss)	\$ 6,905,619	\$ (1,931,825)
	=====	=====

See accompanying notes to consolidated financial statements

DONEGAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
(UNAUDITED)

	Three Months Ended September 30,	
	2000	1999
	----	----
REVENUES:		
Premiums earned	\$ 58,173,509	\$ 53,173,772
Premiums ceded	19,522,963	17,218,216
	-----	-----
Net premiums earned	38,650,546	35,955,556
Investment income, net of investment expenses	4,034,217	3,238,862
Realized gain (loss)	333,720	(82,852)
Lease income	210,076	209,777
Service charge income	401,944	480,891
	-----	-----
Total Revenues	43,630,503	39,802,234
	-----	-----
EXPENSES:		
Losses and loss expenses	40,061,623	39,853,059
Reinsurance recoveries	13,574,944	13,403,097
	26,489,679	26,449,962
Amortization of deferred policy acquisition costs	6,578,000	5,020,000
Other underwriting expenses	5,577,170	11,584,127
Policy dividends	370,084	325,842
Interest	813,901	279,658
Other expenses	284,747	352,535
	-----	-----
Total Expenses	40,110,581	44,012,124
	-----	-----
Income (loss) before income taxes	3,519,922	(4,209,890)
Income tax expense (benefit)	917,877	(1,767,010)
	-----	-----
Net income (loss)	\$ 2,602,045	\$ (2,442,880)
	=====	=====
Earnings (loss) per common share		
Basic	\$ 0.30	\$ (0.29)
	-----	-----
Diluted	\$ 0.30	\$ (0.29)
	=====	=====

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended September 30,	
	2000	1999
	----	----
Net income (loss)	\$ 2,602,045	\$ (2,442,880)
	-----	-----
Other comprehensive loss, net of tax		
Unrealized gains on securities:		
Unrealized holding gain (loss) during the period	868,012	(776,043)
Reclassification adjustment	(220,255)	54,682
	-----	-----
Other comprehensive income (loss)	647,757	(721,361)
	-----	-----
Comprehensive income (loss)	\$ 3,249,802	\$ (3,164,241)
	=====	=====

See accompanying notes to consolidated financial statements

DONEGAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000

	Common Stock -----		Additional Paid-In Capital -----	Accumulated Other Com- prehensive Loss -----	Retained Earnings -----	Treasury Stock -----	Stock- holders' Equity -----
	Shares -----	Amount -----					
Balance, December 31, 1999	8,574,210	\$ 8,574,210	\$ 43,536,748	\$ (2,073,089)	\$ 54,269,399	\$ (891,756)	\$103,414,612
Issuance of Common Stock	351,215	351,215	1,957,012				2,308,227
Net Income					6,322,679		6,322,679
Cash Dividends					(1,572,408)		(1,572,408)
Other Comprehensive Income				582,940			582,940
Balance, September 30, 2000	8,925,425 =====	\$ 8,925,425 =====	\$ 45,493,760 =====	\$ (1,491,049) =====	\$ 59,019,670 =====	\$ (891,756) =====	\$111,056,050 =====

See accompanying notes to consolidated financial statements.

DONEGAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	NINE MONTHS ENDED SEPTEMBER 30, 2000 ----	1999 ----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 6,322,679	\$ 1,009,223
	-----	-----
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	691,245	788,044
Realized investment (gains) losses	(442,927)	67,437
Changes in assets and liabilities:		
Losses and loss expenses	9,077,353	6,339,268
Unearned premiums	13,308,022	6,675,118
Premiums receivable	(4,369,792)	313,413
Deferred policy acquisitions costs	(1,264,256)	(252,390)
Deferred federal income taxes	156,700	(172,251)
Reinsurance receivable	(4,587,765)	(4,196,826)
Prepaid reinsurance premiums	(6,429,699)	(6,173,645)
Accrued investment income	(492,852)	110,838
Due from affiliate	138,078	2,287,196
Reinsurance balances payable	(155,414)	(464,588)
Current income taxes	670,014	(2,063,129)
Change in pooling participation	3,322,031	-
Other, net	(567,828)	2,142,862
	-----	-----
Net adjustments	9,052,910	5,401,347
	-----	-----
Net cash provided by operating activities	15,375,589	6,410,570
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed maturities		
Held to maturity	(11,323,932)	(10,825,788)
Available for sale	(20,731,731)	(19,558,519)
Purchase of equity securities, available for sale	(23,163,599)	(9,602,686)
Maturity of fixed maturities		
Held to maturity	10,410,429	12,834,588
Available for sale	6,276,600	11,950,518
Sale of fixed maturities, available for sale	1,490,469	-
Sale of equity securities, available for sale	14,318,432	7,744,072
Purchase of property and equipment	(194,001)	(968,852)
Net sales of short-term investments	4,302,093	18,962,473
	-----	-----
Net cash provided by (used in) investing activities	(18,615,240)	10,535,806
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	(2,333,081)	(2,190,857)
Issuance of common stock	2,308,227	1,842,145
Line of credit, net	3,000,000	(22,500,000)
	-----	-----
Net cash provided by (used in) financing activities	2,975,146	(22,848,712)
	-----	-----
Net decrease in cash	(264,505)	(5,902,336)
Cash at beginning of period	3,922,403	8,227,042
	-----	-----
Cash at end of period	\$ 3,657,898	\$ 2,324,706
	=====	=====
Cash paid during period - Interest	\$ 2,214,867	\$ 975,500
Net cash paid during period - Taxes	\$ 1,310,456	\$ 933,415

See accompanying notes to consolidated financial statements

DONEGAL GROUP INC. AND SUBSIDIARIES
(UNAUDITED)
SUMMARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 - ORGANIZATION

Donegal Group Inc. (the "Company") was organized as a regional insurance holding company by Donegal Mutual Insurance Company (the "Mutual Company") on August 26, 1986 and operates in the Mid-Atlantic and Southern states, through its wholly-owned stock insurance companies, Atlantic States Insurance Company ("Atlantic States"), Southern Heritage Insurance Company ("Southern Heritage"), Southern Insurance Company of Virginia ("Southern"), Delaware Atlantic Insurance Company ("Delaware") and Pioneer Insurance Company ("Pioneer") (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 examinations by those departments. The Insurance Subsidiaries are also subject to competition from other insurance companies in their operating areas. Atlantic States participates in an inter-company pooling arrangement with the Mutual Company and assumed 65% of the pooled business through June 30, 2000. Effective July 1, 2000 the pooling arrangement was amended changing Atlantic States' portion of the pooled business to 70%. Southern cedes 50% of its business to the Mutual Company. At September 30, 2000, the Mutual Company held 62% of the outstanding common stock of the Company.

The Company and Donegal Mutual were granted approval from the Federal Office of Thrift Supervision to form a savings bank. The bank, Province Bank, which opened for business September 12, 2000, is 45% owned by the Company and 55% by Donegal Mutual. The Company contributed \$2.8 million for its 45% interest.

2 - BASIS OF PRESENTATION

The financial information for the interim periods included herein is unaudited; however, such information reflects all adjustments, consisting only of normal recurring adjustments, which, in the opinion of management, are necessary to a fair presentation of the financial position, results of operations and cash flow for the interim periods included herein. The results of operations for the three and nine months ended September 30, 2000, are not necessarily indicative of results of operations to be expected for the twelve months ended December 31, 2000.

As interim period financial statements, these financial statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. As such, these financial statements should be read in conjunction with the financial statements and notes thereto contained in the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999.

3 - EARNINGS PER SHARE

THE COMPUTATION OF BASIC AND DILUTED EARNINGS PER SHARE IS AS FOLLOWS:

	NET INCOME	WEIGHT AVERAGE SHARES OUTSTANDING	EARNINGS PER SHARE
	-----	-----	-----
Three Months Ended September 30:			
2000			

Basic	\$ 2,602,045	\$ 8,768,751	\$.30
Effect of stock options	-	-	-
	-----	-----	-----
Diluted	\$ 2,602,045	\$ 8,768,751	\$.30
	-----	-----	-----
1999			

Basic	\$ 2,442,880	\$ 8,347,396	\$ (.29)
Effect of stock options	-	-	-
	-----	-----	-----
Diluted	\$ 2,442,880	\$ 8,347,396	\$ (.29)
	-----	-----	-----
Nine Months Ended September 30:			
2000			

Basic	\$ 6,322,679	\$ 8,674,174	\$.73
Effect of stock options	-	-	-
	-----	-----	-----
Diluted	\$ 6,322,679	\$ 8,674,174	\$.73
	-----	-----	-----
1999			

Basic	\$ 1,009,223	\$ 8,292,462	\$.12
Effect of stock options	-	-	-
	-----	-----	-----
Diluted	\$ 1,009,223	\$ 8,292,462	\$.12
	-----	-----	-----

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

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999	2000	1999
	----	----	----	----
Number of Options	<u>1,425,281</u>	<u>1,011,116</u>	<u>1,425,281</u>	<u>1,011,116</u>

4 - Segment Information

The Company evaluates the performance of the personal lines and commercial lines based upon underwriting results as determined under statutory accounting practices (SAP) which is used by management to measure performance for the total business of the Company.

Financial data by segment is as follows:

	THREE MONTHS ENDED SEPTEMBER 30,	
	2000	1999
----- (\$ in thousands) -----		
Revenues:		
Premiums earned:		
Commercial lines	\$ 14,170	\$ 12,069
Personal lines	24,481	23,886

Total net premiums earned	38,651	35,955

Net investment income	4,034	3,239
Realized investment gains (losses)	334	(82)
Other	612	690

Total revenues	\$ 43,631	\$ 39,802
=====		
Income (loss) before income taxes:		
Underwriting income gain (loss)		
Commercial lines	\$ 1,801	\$ (9)
Personal lines	(3,401)	(7,326)

SAP underwriting loss	(1,600)	(7,335)
GAAP adjustments	1,238	(90)

GAAP underwriting loss	(362)	(7,425)
Net investment income	4,034	3,239
Realized investment gains (losses)	334	(82)
Other	(486)	58

Income (loss) before income taxes	\$ 3,520	\$ (4,210)
=====		

NINE MONTHS ENDED SEPTEMBER 30,
2000 1999

(\$ in thousands)

Revenues:

Revenues:		
Premiums earned:		
Commercial lines	\$ 39,472	\$ 35,251
Personal lines	70,786	72,628

Total net premiums earned	110,258	107,879

Net investment income	11,710	9,764
Realized investment gains (losses)	443	(67)
Other	1,767	2,124

Total revenues	\$ 124,178	\$ 119,700
=====		

Income before income taxes:

Underwriting income gain (loss)		
Commercial lines	\$ 1,901	\$ (214)
Personal lines	(6,029)	(9,495)

SAP underwriting loss	(4,128)	(9,709)
GAAP adjustments	1,915	87

GAAP underwriting loss	(2,213)	(9,622)
Net investment income	11,710	9,764
Realized investment gain (losses)	443	(67)
Other	(1,481)	(63)

Income before income taxes	\$ 8,459	\$ 12
=====		

5 - 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 in 1999 of \$2,044,000 for employee termination benefits, occupancy charges, lease cancellation costs, and asset impairments. The charge was included in other underwriting expenses. The consolidation has been completed.

Employee termination benefits include severance payments, which were paid either 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 are future lease obligations, less anticipated sublease benefits, for leased space which is no longer being used by the Delaware and Southern Heritage subsidiary support functions.

Also included in the restructuring charges were 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 benefits to the Company as a result of the restructuring. By December 31, 1999 all such assets had 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 in 1999. By December 31, 1999 all such assets were taken out of service.

Activity in the restructuring accrual is as follows:

	EMPLOYEE TERMINATION BENEFITS	OCCUPANCY	CONTRACT CANCELLATIONS	TOTALS
BALANCE AT 12/31/99	\$ 368,000	\$ 441,000	\$ 73,000	\$ 882,000
CASH PAYMENTS	(337,000)	(112,000)	(73,000)	(522,000)
BALANCE AT 9/30/00	\$ 31,000	\$ 329,000	\$ -	\$ 360,000

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations - Three Months Ended September 30, 2000
to Three Months Ended September 30, 1999

Revenues for the three months ended September 30, 2000 were \$43,630,503 an increase of \$3,828,269 or 9.6%, over the same period of 1999. An increase in premiums earned of \$2,694,990, or 7.5% and an increase in investment income of \$795,355, or 24.6% represented most of this change. Premiums earned were affected by an increase from 65% to 70% in Atlantic States Insurance Company's share of the pooled business of itself and Donegal Mutual Insurance Company which was effective July 1, 2000. This change accounted for \$1,381,083, or 3.8 percentage points of the earned premium increase with the remaining increase coming from normal growth. An increase in the annualized average return on investments from 5.4% in the third quarter of 1999 to 5.9% in the third quarter of 2000 and an increase in average invested assets from \$239.0 million in the third quarter of 1999 to \$272.4 million in the third quarter of 2000, accounted for most of the investment income change. A change in realized gains and losses from a loss of \$82,852 in the third quarter of 1999 to a gain of \$333,720 in the third quarter of 2000 accounted for most of the remaining change in revenues. The realized gains (losses) in the third quarter of both 2000 and 1999 resulted from the normal turnover of the Company's portfolio.

The GAAP combined ratio of insurance operations in the third quarter of 2000 was 100.9% compared to 120.6% for the same period in 1999. The GAAP combined ratio is the sum of the ratios of incurred losses and loss adjusting expenses to premiums earned (loss ratio), policyholders' dividends to premiums earned (dividend ratio), and underwriting expenses to premiums earned (expense ratio). The Company's loss ratio in the third quarter of 2000 was 68.5% compared to 73.5% for the same period of 1999. The expense ratio for the third quarter of 2000 improved to 31.4% compared to 46.2% for the third quarter of 1999. The improvement in the expense ratio resulted primarily from the Company's restructuring plan that was implemented at the end of the third quarter in 1999. Expenses in the third quarter of 1999 included a charge of \$2.2 million for the restructuring. The dividend ratio remained virtually unchanged at 1.0% for the third quarter of 2000 compared to 0.9% for the same period of 1999.

Federal income taxes for the three months ended September 30, 2000 represented 26.1% of the income before income taxes compared to a tax benefit 42.0% for the same period of 1999 as a result of the Company's restructuring. The effective tax rate for the third quarter of 2000 varies from the expected rate of 34% primarily due to the effect of tax exempt investment income.

RESULTS OF OPERATIONS - NINE MONTHS ENDED SEPTEMBER 30, 2000
TO NINE MONTHS ENDED SEPTEMBER 30, 1999

Revenues for the nine months ended September 30, 2000 were \$124,177,637 an increase of \$4,477,426 or 3.7%, over the same period of 1999. An increase in premiums earned of \$2,378,946, or 2.2% and an increase in investment income of \$1,946,116, or 19.9% represented most of this change. Premiums earned were affected by an increase from 65% to 70% in Atlantic States Insurance Company's share of the pooled business of itself and Donegal Mutual Insurance Company which was effective July 1, 2000. This change accounted for \$1,381,083, or 1.3 percentage points of the earned premium increase with the remaining increase coming from normal growth which was somewhat offset by a \$5,614,161 decrease in earned premiums of Southern Heritage Insurance Company resulting from the reunderwriting of its book of business. An increase in the annualized average return on investments from 5.2% for the first nine months of 1999 to 5.8% for the first nine months of 2000 and an increase in average invested assets from \$247.4 million in the first three quarters of 1999 to \$269.6 million in the first three quarters of 2000, accounted for most of the investment income change. A change in realized gains and losses from a loss of \$67,437 in the nine months ended September 30, 1999 to a gain of \$442,927 in the nine months ended September 30, 2000 accounted for most of the remaining change in revenues. The realized gains (losses) in the nine-month periods ended September 30, 2000 and 1999 resulted from the normal turnover of the Company's portfolio.

The GAAP combined ratio of insurance operations in the nine months ended September 30, 2000 was 102.0% compared to 108.9% for the same period in 1999. The GAAP combined ratio is the sum of the ratios of incurred losses and loss adjusting expenses to premiums earned (loss ratio), policyholders' dividends to premiums earned (dividend ratio), and underwriting expenses to premiums earned (expense ratio). The Company's loss ratio in the first nine months of 2000 was 69.5% compared to 69.6% for the same period of 1999. An improvement in the expense ratio for the first nine months of 2000 to 31.6% compared to 38.4% for the same period of 1999 resulted primarily from the Company's restructuring plan that was implemented at the end of the third quarter in 1999. Expenses for the first nine months of 1999 included a charge of \$2.2 million for the restructuring. The dividend ratio remained unchanged at 0.9% for the first nine months of both 1999 and 2000.

Federal income taxes for the nine months ended September 30, 2000 represented 25.3% of income before income taxes. This rate varies from the expected rate of 34% primarily due to the effect of tax exempt investment income. For the first nine months of 1999, the Company recorded a Federal income tax benefit of \$997,372, which resulted from a carryback of a taxable loss resulting primarily from the deduction of tax-free interest from its operating income.

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.

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 September 30, 2000, pursuant to a credit agreement dated December 29, 1995, with Fleet National Bank of Connecticut, (the "Bank") the Company had unsecured borrowings of \$40.0 million. 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 rate plus 1.70%. At September 30, 2000, the interest rates on the outstanding balances were 8.43125% on an outstanding eurodollar rate balance of \$22.0 million and 8.48% on an outstanding eurodollar rate balance of \$15.0 million and 9.5% on a prime rate balance of \$3.0 million. In addition, the Company will pay a non-use fee at 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 source of cash with which to pay stockholder dividends is dividends from Atlantic States, Southern, Pioneer, Southern Heritage and Delaware, 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. Atlantic States, Southern, Pioneer, Southern Heritage and Delaware are subject to Risk Based Capital (RBC) requirements. At December 31, 1999, each of the five Companies' capital was substantially above the RBC requirements. At December 31, 1999, amounts available for distribution as dividends to Donegal Group without prior approval of the insurance regulatory authorities are \$6,851,802 from Atlantic States, \$184,285 from Southern, \$567,793 from Pioneer, \$956,381 from Delaware and \$1,650,842 from Southern Heritage.

CREDIT RISK

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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 Donegal Group's commercial business is billed through its agents who are extended credit in the normal course of business.

The Company's subsidiaries have reinsurance agreements in place with the Mutual Company and with a number of other major authorized reinsurers.

IMPACT OF INFLATION

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Property and casualty insurance premiums are established before the amount of losses and loss settlement 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.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None.

ITEM 2. CHANGES IN SECURITIES.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company's market risk generally represents the risk of gain or loss that may result from the potential change in the fair value of the Company's investment portfolio as a result of fluctuations in prices and interest rates and, to a lesser extent, its debt obligations. The Company attempts to manage its interest rate risk by maintaining an appropriate relationship between the average duration of the investment portfolio and the approximate duration of its liabilities, i.e., policy claims and debt obligations.

The Company has maintained approximately the same duration of its investment portfolio to its liabilities from December 31, 1999 to September 30, 2000. In addition, the Company has maintained approximately the same investment mix during this period.

There have been no material changes to the Company's quantitative or qualitative market risk exposure from December 31, 1999 through September 30, 2000.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

- (a) EX-27 Financial Data Schedule
- (b) Reports on 8-K:
none

SIGNATURES

Pursuant to the requirements 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.

NOVEMBER 10, 2000

BY: _____
DONALD H. NIKOLAUS, PRESIDENT
AND CHIEF EXECUTIVE OFFICER

NOVEMBER 10, 2000

BY: _____
RALPH G. SPONTAK, SENIOR VICE PRESIDENT,
CHIEF FINANCIAL OFFICER AND SECRETARY

9-MOS
DEC-31-2000
SEP-30-2000
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136,422,229
16,755,091
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277,678,999
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114,809,252
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0
40,000,000
0
0
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102,130,625
433,423,188
110,258,288
11,710,056
442,927
1,766,366
76,630,421
18,766,000
16,117,258
8,458,996
2,136,317
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0
0
0
6,322,679
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.73
97,494
78,038
(1,408)
50,147
22,579
101,398
(1,408)