

Edgar Filing: DONEGAL GROUP INC - Form 424B3

DONEGAL GROUP INC  
Form 424B3  
June 04, 2003

Filed pursuant to Rules 424(b)(3) and 424(c)  
Registration No. 333-63102

DONEGAL GROUP INC.

2001 AGENCY STOCK PURCHASE PLAN

PROSPECTUS SUPPLEMENT  
TO PROSPECTUS DATED APRIL 12, 2002

On May 14, 2003, Donegal Group Inc. (the "Company") filed with the Securities and Exchange Commission a Form 10-Q Quarterly Report for the quarter ended March 31, 2003, a copy of which, without exhibits, is attached to this Prospectus Supplement.

This Prospectus Supplement should be read in conjunction with the Company's Prospectus dated April 12, 2002.

The date of this Prospectus Supplement is June 3, 2003.

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

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2003

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.)

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

-----  
(Address of principal executive offices) (Zip code)

(717) 426-1931

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

N/A

-----  
(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 x . No .

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 6,258,185 shares of Class A Common Stock, \$0.01 par value, and 2,988,757 shares of Class B Common Stock, \$0.01 par value, outstanding on April 24, 2003.

## Part 1. Financial Information

### ITEM 1. FINANCIAL STATEMENTS.

#### DONEGAL GROUP INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

MARCH 31, 2003

-----  
(Unaudited)

#### ASSETS

##### Investments

Fixed maturities	
Held to maturity, at amortized cost	\$ 91,674,740
Available for sale, at market value	195,273,919
Equity securities, available for sale, at market value	23,549,976
Short-term investments, at cost, which approximates market value	32,106,928
	-----
Total investments	342,605,563
Cash	4,923,685
Accrued investment income	3,579,287
Premiums receivable	27,725,714
Reinsurance receivable	77,538,821
Deferred policy acquisition costs	14,735,831
Deferred federal income taxes	7,275,816
Prepaid reinsurance premiums	29,307,185
Property and equipment, net	4,249,969
Accounts receivable - securities	-

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Due from affiliate	1,026,731
Other	585,754
	-----
Total assets	\$513,554,356
	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

Losses and loss expenses	\$210,708,185
Unearned premiums	124,867,011
Accrued expenses	6,151,680
Reinsurance balances payable	1,288,139
Federal income taxes payable	1,555,504
Cash dividend declared to stockholders	-
Borrowings under line of credit	19,800,000
Accounts payable - securities	5,636,993
Due to affiliate	4,441,311
Other	1,493,526
	-----
Total liabilities	375,942,349
	-----

STOCKHOLDERS' EQUITY

Preferred stock, \$1.00 par value, authorized 2,000,000 shares; none issued	
Class A common stock, \$.01 par value, authorized 30,000,000 shares, issued 6,323,139 and 6,269,093 shares and outstanding 6,241,615 and 6,187,569 shares	63,232
Class B common stock, \$.01 par value, authorized 10,000,000 shares, issued 3,029,519 and 3,024,742 shares and outstanding 2,988,757 and 2,983,980 shares	30,295
Additional paid-in capital	61,253,404
Accumulated other comprehensive income	4,896,072
Retained earnings	72,260,752
Treasury stock	(891,748)
	-----
Total stockholders' equity	137,612,007
	-----
Total liabilities and stockholders' equity	\$513,554,356
	=====

See accompanying notes to consolidated financial statements.

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REVENUES:	
Net premiums earned	\$ 47,928,881
Investment income, net of investment expenses	3,364,518
Realized investment gains (losses)	(130,480)
Lease income	202,617
Service charge income	614,033
Other income	205,850
	-----
Total revenues	52,185,419
	-----
EXPENSES:	
Net losses and loss expenses	\$ 31,850,515
Amortization of deferred policy acquisition costs	7,442,000
Other underwriting expenses	7,023,217
Policy dividends	241,843
Interest	214,741
Other expenses	330,576
	-----
Total expenses	47,102,892
	-----
Income before income taxes	5,082,527
Income taxes	1,238,095
	-----
Net income	\$ 3,844,432
	=====
Earnings per common share	
Basic	\$ 0.42
	=====
Diluted	\$ 0.41
	=====

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)

	THREE MONTHS ENDED
	2003
	-----
Net income	\$ 3,844,432
Other comprehensive loss, net of tax	
Unrealized losses on securities:	
Unrealized holding loss during the period, net of income tax benefit	(100,693)
Reclassification adjustment, net of income tax	84,812
	-----
Other comprehensive loss	(15,881)
	-----
Comprehensive income	\$ 3,828,551
	=====

See accompanying notes to consolidated financial statements.

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DONEGAL GROUP INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
 (Unaudited)  
 THREE MONTHS ENDED MARCH 31, 2003

	Class A Shares -----	Class B Shares -----	Class A Am -----
Balance, December 31, 2002	6,269,093	3,024,742	\$ 62,69
Issuance of common stock	54,046	4,777	54
Net income			
Cash dividends			
Exercise of stock options			
Other comprehensive loss			
	-----		
Balance, March 31, 2003	6,323,139	3,029,519	\$ 63,23
	=====		

	Additional Paid-In Capital -----	Accumulated Other Comprehensive Income -----	Retained Earnings -----
Balance, December 31, 2002	\$ 60,651,751	\$ 4,911,953	\$ 68,417,95
Issuance of common stock	586,226		
Net income			3,844,43
Cash dividends			(1,63
Exercise of stock options	15,427		
Other comprehensive loss		(15,881)	
	-----		
Balance, March 31, 2003	\$ 61,253,404	\$ 4,896,072	\$ 72,260,75
	=====		

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	Total Stockholders' Equity
	-----
Balance, December 31, 2002	\$ 133,182,850
Issuance of common stock	586,815
Net income	3,844,432
Cash dividends	(1,636)
Exercise of stock options	15,427
Other comprehensive loss	(15,881)
	-----
Balance, March 31, 2003	\$ 137,612,007
	=====

See accompanying notes to consolidated financial statements.

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

	THREE MONTHS ENDED MARCH 31, 2003	2002
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 3,844,432	\$ 2,100,000
	-----	-----
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	386,815	2,000,000
Realized investment (gains) losses	130,480	(1,000,000)
Changes in assets and liabilities:		
Losses and loss expenses	16,433	6,100,000
Unearned premiums	3,864,564	(3,500,000)
Premiums receivable	(1,439,232)	(1,500,000)
Deferred policy acquisition costs	(168,761)	(700,000)
Deferred income taxes	(383,527)	(1,000,000)
Reinsurance receivable	5,668,451	(1,300,000)
Prepaid reinsurance premiums	(1,453,189)	6,400,000
Accrued investment income	236,162	1,000,000
Due to affiliate	(665,835)	(1,300,000)
Reinsurance balances payable	187,696	(1,000,000)
Current income taxes	1,197,957	1,200,000
Accrued expenses	(432,145)	(1,200,000)
Other, net	(176,440)	1,000,000
	-----	-----
Net adjustments	6,969,429	4,200,000

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Net cash provided by operating activities	10,813,861	6,4
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed maturities		
Held to maturity	(9,261,443)	(7,2
Available for sale	(22,199,356)	(20,9
Purchase of equity securities, available for sale	(2,402,873)	(1,3
Maturity of fixed maturities		
Held to maturity	6,803,087	8,6
Available for sale	22,592,599	12,7
Sale of fixed maturities		
Held to maturity	-	4
Available for sale	-	4
Sale of equity securities, available for sale	594,036	5
Net sale (purchase) of property and equipment	223,389	(1
Net sale (purchase) of short-term investments	(3,077,510)	
Net cash used in investing activities	(6,728,071)	(6,8
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	(888,951)	(8
Issuance of common stock	602,242	4
Net cash used in financing activities	(286,709)	(3
Net increase (decrease) in cash	3,799,081	(7
Cash at beginning of period	1,124,604	4,0
Cash at end of period	\$ 4,923,685	\$ 3,3
Cash paid during period - Interest	\$ 178,129	\$
Net cash paid during period - Taxes	\$ 410,000	\$ 3

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 insurance subsidiaries, Atlantic States Insurance Company ("Atlantic States") and Southern Insurance Company of Virginia ("Southern") (collectively, the "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

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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 assumes 70% of the pooled business. At March 31, 2003, the Mutual Company held approximately 66% of the outstanding Class A and approximately 62% of the outstanding Class B common stock of the Company.

Prior to 2002, Southern ceded 50% of its business to the Mutual Company. On January 1, 2002, the Mutual Company and Southern terminated their quota share agreement, under which Southern ceded 50% of its direct business, less reinsurance, to the Mutual Company. As a result of this termination, the Company's prepaid reinsurance premiums decreased \$7,310,471, unearned premiums decreased \$5,117,330, and deferred policy acquisition costs increased \$714,853. The Mutual Company transferred \$1,478,288 in cash to the Company related to this termination. The Company did not recognize a gain or loss on this transaction.

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

The Company has streamlined its corporate structure by merging a number of its subsidiaries. Delaware Atlantic Insurance Company ("Delaware"), Pioneer Insurance Company, New York, ("Pioneer-New York") and Pioneer Insurance Company, Ohio ("Pioneer-Ohio"), previously wholly owned subsidiaries, were merged into Atlantic States on August 1, 2001, September 30, 2001 and May 8, 2002, respectively. Southern Heritage Insurance Company ("Southern Heritage"), previously a wholly owned subsidiary, was merged into Southern on April 30, 2002. The mergers were accounted for as a reorganization of entities under common control as they were all within the consolidated group. The mergers had no financial impact on the consolidated entity.

Southern has (and Delaware, Pioneer-Ohio, Southern Heritage and Pioneer-New York had prior to their mergers) an agreement with the Mutual Company under which it cedes, and then reassumes back, 100% of its business net of reinsurance. The primary purpose of these agreements is to assist Southern and the former subsidiaries, in maintaining the same A. M. Best rating (currently "A") as the Mutual Company. These agreements do not transfer insurance risk. While these subsidiaries ceded and reassumed amounts received from policyholders of \$11,677,018 and \$20,541,417 and claims of \$ 6,408,617 and \$7,559,925 under these agreements in the three months ended March 31, 2003 and 2002, respectively, the amounts are not reflected in the consolidated financial statements. The aggregate liabilities ceded and reassumed under these agreements were \$43,661,149 and \$43,541,766 at March 31, 2003 and December 31, 2002, respectively.

## 2. BASIS OF PRESENTATION

The financial information for the interim periods included herein are unaudited; however, such information reflects all adjustments, consisting only of normal recurring adjustments, that, in the opinion of management, are necessary to a fair presentation of the Company's financial position, results of operations and cash flows for the interim periods included herein. The Company's results of operations for the three months ended March 31, 2003 are not necessarily indicative of its results of operations for the twelve months ending December 31, 2003.

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These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2002

### 3. EARNINGS PER SHARE

The computation of basic and diluted earnings per share is as follows:

	NET INCOME	WEIGHTED AVERAGE SHARES OUTSTANDING	EARNINGS PER SHARE
	-----	-----	-----
THREE MONTHS ENDED MARCH 31:			
2003			
Basic	\$3,844,432	9,210,402	\$ .42
Effect of stock options	---	120,453	(.01)
	-----	-----	-----
Diluted	\$3,844,432	9,330,855	\$ .41
	=====	=====	-----
2002			
Basic	\$2,180,716	9,030,160	\$ .24
Effect of stock options	---	94,365	---
	-----	-----	-----
Diluted	\$2,180,716	9,124,525	\$ .24
	=====	=====	-----

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 during the relevant period:

	FOR THE THREE MONTHS ENDED MARCH 31,	
	-----	-----
	2003	2002
	-----	-----
Number of Options	948,832	942,834
	=====	=====

### 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:

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	THREE MONTHS ENDED MARCH 31,	
	2003	2002
	(\$ in thousands)	
Revenues:		
Premiums earned:		
Commercial lines	\$ 17,305	\$ 16,494
Personal lines	30,624	28,958
	-----	-----
Total net premiums earned	47,929	45,452
	-----	-----
Net investment income, net of investment expense	3,365	3,730
Realized investment gain (loss)	(131)	127
Other	1,022	725
	-----	-----
Total revenues	\$ 52,185	\$ 50,034
	=====	=====
Income before income taxes:		
Underwriting income (loss)		
Commercial lines	\$ 2,347	\$ 1,130
Personal lines	(1,133)	(2,517)
	-----	-----
SAP underwriting income (loss)	1,214	(1,387)
GAAP adjustments	157	579
	-----	-----
GAAP underwriting income (loss)	1,371	(808)
Net investment income, net of investment expense	3,365	3,730
Realized investment gain (loss)	(131)	127
Other	478	(103)
	-----	-----
Income before income taxes	\$ 5,083	\$ 2,946
	=====	=====

5. INVESTMENTS

During the first quarter of 2002, the Company sold Halliburton Company bonds that had been classified as held to maturity due to significant deterioration in the issuer's credit worthiness. These bonds had an amortized cost of \$488,901, and the sale resulted in a realized loss of \$73,901. There were no other sales or transfers from the held to maturity portfolio.

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

RESULTS OF OPERATIONS -THREE MONTHS ENDED MARCH 31, 2003 COMPARED TO THREE MONTHS ENDED MARCH 31, 2002

Total revenues for the three months ended September 30, 2003 were \$52,185,419, which were \$2,151,373, or 4.3%, greater than the same period in 2002. Net premiums earned increased to \$47,928,881, an increase of \$2,476,621, or 5.4%, over the first quarter of 2002. Direct premiums written of the combined

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pool of Atlantic States and the Mutual Company increased \$6,983,057, or 12.9%, in the first quarter of 2003 compared to the first quarter of 2002. A 3.0% increase in the direct written premiums of Southern accounted for a majority of the remaining change. The Company reported net realized investment losses of \$130,480 in the first quarter of 2003, compared to net realized investment gains of \$126,778 for the same period of 2002. The realized loss in 2003 included realized losses of \$223,499 that resulted from changes in the market value of securities that were determined to be other than temporary. The realized gain in 2002 was net of realized losses of \$60,078 that resulted from changes in the market value of securities that were determined to be other than temporary. Investment income was \$3,364,518, a decrease of \$365,786, or 9.8%, from the first quarter of 2002. An increase in average invested assets from \$304.0 million in the first quarter of 2002 to \$337.5 million in the first quarter of 2003 that was more than offset by a decrease in the annualized average return on investments from 4.9% in the first quarter of 2002 to 4.0% in the first quarter of 2003 accounted for the decrease in investment income.

The GAAP combined ratio of insurance operations in the first quarter of 2003 was 97.2% compared to 101.8% for the same period in 2002. 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 quarter of 2003 was 66.5% compared to 68.9% in the first quarter of 2002. The commercial loss ratio decreased significantly to 52.5% in the first quarter of 2003 compared to 57.7% in the first quarter of 2002 with Workers' Compensation showing the largest improvement decreasing from 60.7% in the first quarter of 2002 to 50.9% in the first quarter of 2003. The personal lines loss ratio showed a modest improvement from 74.9% in the first quarter of 2002 to 74.1% in the first quarter of 2003. The Company's expense ratio for the first quarter of 2003 was 30.2% compared to 31.9% for the first quarter of 2002. The dividend ratio decreased to 0.5% for the first quarter of 2003 compared to 1.0% in the first quarter of 2002 because of more stringent qualification standards.

Federal income taxes for the first quarter of 2003 represented 24.4% of income before income taxes compared to 26.0% for the same period of 2002. The decrease in the effective tax rate was due to an increase in tax-exempt investment 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 income and maturing investments. The Company had no significant commitments for capital expenditures as of March 31, 2003.

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 March 31, 2003, under a credit agreement dated December 29, 1995, and amended as of July 27, 1998, with Fleet National Bank of Connecticut ("the Bank"), the Company had unsecured borrowings of \$19.8 million. Per the terms of the credit agreement, the Company may borrow up to \$24 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 March 31, 2003, the interest rate on the outstanding balances was 3.05% on outstanding eurodollar balances of \$19.8 million. In addition, the Company pays 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. Each July

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27th the credit line is reduced by \$8 million and is currently \$24 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 and Southern. Atlantic States and Southern 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 and Southern are subject to Risk-Based Capital (RBC) requirements. At December 31, 2002 each Atlantic States' and Southern's capital was substantially above the RBC requirements. In 2003 amounts available for distribution as dividends to the Company without prior approval of their domiciliary insurance regulatory authorities were \$10,646,804 from Atlantic States and \$2,493,398 from Southern.

### CREDIT RISK

The Company provides property and liability insurance coverages through independent insurance agencies 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 subsidiaries have reinsurance agreements in place with the Mutual Company and with a number of other major unaffiliated authorized reinsurers.

### IMPACT OF INFLATION

Property and casualty insurance premium rates 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.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES 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, 2002 to March 31, 2003. 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, 2002 through March 31, 2003.

### ITEM 4. CONTROL AND PROCEDURES

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Within 90 days prior to the date of filing of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including its Chief Executive Officer and its Chief Financial Officer, of the design and operation of the Company's disclosure controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective for gathering, analyzing and disclosing the information the Company is required to disclose in the reports it files under the Securities Exchange Act of 1934, within the time periods specified in the SEC's rules and forms. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of this evaluation.

### PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

NONE.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

NONE.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

NONE.

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

Annual Stockholders meeting held April 17, 2003.

Directors elected at meeting:

Donald H. Nikolaus	
Votes for	3,238,525
Votes withheld	20,099

ITEM 5. OTHER INFORMATION.

NONE.

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

(a) Exhibits

Exhibit No. -----	Description -----
Exhibit	99.1 Statement of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 of Title 18 of the United States Code
Exhibit	99.2 Statement of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 of Title 18 of the United States Code

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(b) Reports on Form 8-K:

On April 16, 2003, the Company filed a report on form 8-K including as an exhibit the Company's first quarter 2003 earnings press release.

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.

May , 2003

By:

-----  
Donald H. Nikolaus, President  
and Chief Executive Officer

May , 2003

By:

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

CERTIFICATION

I, Donald H. Nikolaus, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Donegal Group, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

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- (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
- (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
- (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

- (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May , 2003

-----  
Donald H. Nikolaus  
President and Chief Executive Officer

CERTIFICATION

I, Ralph G. Spontak, certify that:

- 1. I have reviewed this quarterly report on Form 10-Q of Donegal Group, Inc.;
- 2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- 3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

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4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

- (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
- (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
- (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

- (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May , 2003

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Ralph G. Spontak  
Senior Vice President and Chief Financial Officer