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

(Mark One)

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

For the quarterly period ended September 30, 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	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) (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: 6,333,795 shares of Class A Common Stock, $0.01 par value, and 3,011,049 shares of Class B Common Stock, $0.01 par value, outstanding on October 30, 2003.

Part 1. Financial Information

Item 1. Financial Statements.

Donegal Group Inc. and Subsidiaries
Consolidated Balance Sheets

	September 30, 2003 (Unaudited)	December 31, 2002
Assets		
Investments		
Fixed maturities		
Held to maturity, at amortized cost	$ 113,746,157	$ 86,701,556
Available for sale, at market value	178,898,282	194,731,660
Equity securities, available for sale, at market	24,955,565	21,836,460
Short-term investments, at cost, which approximates market	40,719,827	29,029,418
Total investments	358,319,831	332,299,094
Cash	4,953,416	1,124,604
Accrued investment income	3,552,475	3,815,449
Premiums receivable	28,618,329	26,286,482
Reinsurance receivable	82,776,225	83,207,272
Deferred policy acquisition costs	16,223,275	14,567,070
Federal income tax receivable	867,226	-
Deferred federal income taxes	7,102,419	6,955,707
Prepaid reinsurance premiums	31,929,612	27,853,996
Property and equipment, net	4,193,920	4,430,394
Accounts receivable - securities	-	146,507
Due from affiliate	1,987,655	-
Other	1,073,673	531,589
Total assets	$ 541,598,056	$ 501,218,164

Liabilities and Stockholders' Equity

Liabilities		
Losses and loss expenses	$ 216,652,733	$ 210,691,752
Unearned premiums	135,529,373	121,002,447
Accrued expenses	6,668,348	6,583,825
Reinsurance balances payable	1,395,557	1,100,443
Federal income taxes payable	-	357,547
Cash dividend declared to stockholders	-	887,315
Borrowings under line of credit	12,800,000	19,800,000
Subordinated debentures	15,000,000	-
Accounts payable - securities	1,000,000	2,121,619
Due to affiliate	4,441,311	4,080,415
Other	1,711,291	1,409,951
Total liabilities	395,198,613	368,035,314
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 6,403,342 and 6,269,093 shares and outstanding 6,321,818 and 6,187,569 shares	64,034	62,691
Class B common stock, $.01 par value, authorized 10,000,000 shares, issued 3,051,811 and 3,024,742 shares and outstanding 3,011,049 and 2,983,980 shares	30,518	30,247
Additional paid-in capital	63,288,003	60,651,751
Accumulated other comprehensive income	5,328,261	4,911,953
Retained earnings	78,580,375	68,417,956
Treasury stock	(891,748)	(891,748)
Total stockholders' equity	146,399,443	133,182,850
Total liabilities and stockholders' equity	$ 541,598,056	$ 501,218,164

See accompanying notes to consolidated financial statements.

Donegal Group Inc. and Subsidiaries
Consolidated Statements of Income
(Unaudited)

	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
Revenues:		
Net premiums earned	$ 146,082,154	$ 138,355,520
Investment income, net of investment expenses	10,006,831	11,063,848
Realized investment gains (losses)	494,763	(13,931)
Lease income	628,749	589,660
Service charge income	1,879,643	1,861,169
Other income	205,850	-
Total revenues	159,297,990	151,856,266
Expenses:		
Net losses and loss expenses	94,268,337	95,857,481
Amortization of deferred policy acquisition costs	22,861,000	22,095,000
Other underwriting expenses	21,531,514	19,812,982
Policy dividends	711,160	851,741
Interest	879,496	870,079
Other expenses	985,478	872,160
Total expenses	141,236,985	140,359,443
Income before income taxes	18,061,005	11,496,823
Income taxes	4,946,235	3,121,597
Net income	$ 13,114,770	$ 8,375,226
Earnings per common share		
Basic	$ 1.42	$ 0.92
Diluted	$ 1.37	$ 0.91

Consolidated Statements of Comprehensive Income
(Unaudited)

	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
Net income	$ 13,114,770	$ 8,375,226
Other comprehensive income, net of tax		
Unrealized gains on securities:		
Unrealized holding gain during the period, net of income tax	737,904	2,307,524
Reclassification adjustment, net of income tax	(321,596)	9,194
Other comprehensive income	416,308	2,316,718
Comprehensive income	$ 13,531,078	$ 10,691,944

See accompanying notes to consolidated financial statements.

Donegal Group Inc. and Subsidiaries
Consolidated Statements of Income
(Unaudited)

	Three Months Ended September 30, 2003	2002
Revenues:		
Net premiums earned	$ 49,719,584	$ 46,792,748
Investment income, net of investment expenses	3,326,603	3,623,262
Realized investment gains (losses)	408,873	(201,190)
Lease income	215,017	200,574
Service charge income	615,676	670,023
Total revenues	54,285,753	51,085,417
Expenses:		
Net losses and loss expenses	32,759,356	32,423,893
Amortization of deferred policy acquisition costs	7,874,000	7,365,000
Other underwriting expenses	7,239,091	6,511,832
Policy dividends	242,003	280,375
Interest	357,965	249,271
Other expenses	310,250	158,583
Total expenses	48,782,665	46,988,954
Income before income taxes	5,503,088	4,096,463
Income taxes	1,501,703	1,080,787
Net income	$ 4,001,385	$ 3,015,676
Earnings per common share		
Basic	$ 0.43	$ 0.33
Diluted	$ 0.40	$ 0.33

Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended September 30, 2003	2002
Net income	$ 4,001,385	$ 3,015,676
Other comprehensive income, net of tax		
Unrealized gains on securities:		
Unrealized holding gain (loss) during the period, net of income tax	(727,636)	1,846,413
Reclassification adjustment, net of income tax	(265,767)	132,785
Other comprehensive income (loss)	(993,403)	1,979,198
Comprehensive income	$ 3,007,982	$ 4,994,874

See accompanying notes to consolidated financial statements.

Donegal Group Inc. and Subsidiaries
Consolidated Statement of Stockholders' Equity
(Unaudited)
Nine Months Ended September 30, 2003

	Class A Shares	Class B Shares	Class A Amount	Class B Amount	Additional Paid-In Capital	Other Comprehensive Income
Balance, December 31, 2002	6,269,093	3,024,742	$ 62,691	$ 30,247	$ 60,651,751	$ 4,911,953
Issuance of common stock	134,249	27,069	1,343	271	1,487,936	
Net income						
Cash dividends						
Grant of stock options					969,219	
Tax benefit on exercise of stock options					179,097	
Other comprehensive income						416,308
Balance, September 30, 2003	6,403,342	3,051,811	$ 64,034	$ 30,518	$ 63,288,003	$ 5,328,261

	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2002			
Issuance of common stock	$ 68,417,956	$ (891,748)	133,182,850
Net income			1,489,550
Cash dividends	13,114,770		13,114,770
Grant of stock options	(1,983,132)		(1,983,132)
Tax benefit on exercise of stock options	(969,219)		-
Other comprehensive income			179,097
Balance, September 30, 2003			416,308
	$ 78,580,375	$ (891,748)	$146,399,443

See accompanying notes to consolidated financial statements.

Donegal Group Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30, 2003	2002
Cash Flows from Operating Activities:		
Net income	$ 13,114,770	$ 8,375,226
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,177,226	898,350
Realized investment (gains) losses	(494,763)	13,931
Changes in assets and liabilities:		
Losses and loss expenses	5,960,981	17,204,081
Unearned premiums	14,526,926	9,392,067
Premiums receivable	(2,331,847)	(3,173,917)
Deferred policy acquisition costs	(1,656,205)	(1,442,805)
Deferred income taxes	(442,847)	(781,528)
Reinsurance receivable	431,047	(5,450,622)
Prepaid reinsurance premiums	(4,075,616)	1,050,029
Accrued investment income	262,974	272,591
Due to affiliate	(1,626,759)	(1,508,039)
Reinsurance balances payable	295,114	229,633
Current income taxes	(1,224,773)	887,019
Accrued expenses	84,523	(802,829)
Other, net	(240,744)	357,935
Net adjustments	10,645,237	17,145,896
Net cash provided by operating activities	23,760,007	25,521,122
Cash Flows from Investing Activities:		
Purchase of fixed maturities		
Held to maturity	(47,007,788)	(28,117,044)
Available for sale	(65,381,246)	(50,953,675)
Purchase of equity securities, available for sale	(12,217,011)	(11,251,602)
Maturity of fixed maturities		
Held to maturity	18,692,360	28,917,827
Available for sale	67,426,694	38,528,033
Sale of fixed maturities		
Held to maturity	-	415,000
Available for sale	13,819,634	461,965
Sale of equity securities, available for sale	9,882,789	9,243,147
Net purchase of property and equipment	(254,418)	(482,379)
Net purchase of short-term investments	(11,690,409)	(440,410)
Net cash used in investing activities	(26,729,395)	(13,679,138)
Cash Flows from Financing Activities:		
Cash dividends paid	(2,870,447)	(2,625,006)
Issuance of common stock	1,668,647	1,163,428
Issuance of subordinated debt	15,000,000	-
Line of credit, net	(7,000,000)	(7,800,000)
Net cash provided by (used in) financing activities	6,798,200	(9,261,578)
Net increase in cash	3,828,812	2,580,406
Cash at beginning of period	1,124,604	4,075,288
Cash at end of period	$ 4,953,416	$ 6,655,694
Cash paid during period - Interest	$ 705,515	$ 584,185
Net cash paid during period - Taxes	$ 6,430,000	$ 3,390,000

See accompanying notes to consolidated financial statements.

DONEGAL GROUP INC. AND SUBSIDIARIES
(Unaudited)
Summary Notes to Consolidated Financial Statements

1 - Organization

Donegal Group Inc. 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 Southeastern regions through its wholly owned insurance subsidiaries, Atlantic States Insurance Company ("Atlantic States") and Southern Insurance Company of Virginia ("Southern") (collectively, the "Insurance Subsidiaries"). We have 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. Our Insurance Subsidiaries are subject to regulation by Insurance Departments in those states in which they operate and undergo periodic examinations by those departments. Our Insurance Subsidiaries are also subject to competition from other insurance companies in their operating areas. Atlantic States participates in an inter-company pooling agreement with the Mutual Company and assumes 70% of the pooled business. At September 30, 2003, the Mutual Company held approximately 65% of our outstanding Class A and approximately 62% of our outstanding Class B common stock.

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, our 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 us related to this termination. We did not recognize a gain or loss on this transaction.

As of September 30, 2003, we owned 47.5% of the outstanding stock of Donegal Financial Services Corporation ("DFSC"), a thrift holding company, which we acquired for $3,042,000 in cash during 2000 and $3,500,000 of cash in June of 2003. The remaining 52.5% of the outstanding stock of DFSC is owned by the Mutual Company. DFSC owns Province Bank, a Federal savings bank that began operations in 2000.

We have streamlined our corporate structure by merging a number of our 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 reorganizations 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" or "Excellent") as the Mutual Company. These agreements do not transfer insurance risk. While these insurance subsidiaries ceded and reassumed amounts received from policyholders of $34,914,840 and $36,796,527 and claims of $20,954,958 and $23,320,493 under these agreements in the nine months ended September 30, 2003 and 2002, respectively, the amounts are not reflected in the consolidated financial statements. The aggregate liabilities ceded and reassumed under these agreements were $44,503,193 and $43,541,766 at September 30, 2003 and December 31, 2002, respectively.

On September 4, 2003, we announced our intention to acquire Le Mars Insurance Company ("Le Mars") from the Mutual Company. Our acquisition is subject to the approval of the Insurance Commissioner of Iowa, which we anticipate receiving in November 2003. We expect the Le Mars acquisition to be completed on or about January 1, 2004. We will invest approximately $12,500,000 in cash to fund the acquisition of Le Mars.

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, that, in the opinion of management, are necessary to a fair presentation of our financial position, results of operations and cash flows for the interim periods included herein. Our results of operations for the nine months ended September 30, 2003 are not necessarily indicative of our results of operations for the twelve months ending December 31, 2003.

These financial statements should be read in conjunction with the financial statements and notes thereto contained in our 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 September 30:			
2003			
Basic	$ 4,001,385	9,315,339	$0.43
Effect of stock options	---	590,153	(0.03)
Diluted	$ 4,001,385	9,905,492	$0.40
2002			
Basic	$ 3,015,676	9,098,935	$0.33
Effect of stock options	---	98,998	---
Diluted	$ 3,015,676	9,197,933	$0.33
Nine Months Ended September 30:			
2003			
Basic	$13,114,770	9,265,308	$1.42
Effect of stock options	---	325,501	(0.05)
Diluted	$13,114,770	9,590,809	$1.37
2002			
Basic	$ 8,375,226	9,063,109	$0.92
Effect of stock options	---	103,205	(0.01)
Diluted	$ 8,375,226	9,166,314	$0.91

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 September 30, 2003	For The Three Months Ended September 30, 2002	For The Nine Months Ended September 30, 2003	For The Nine Months Ended September 30, 2002
Number of shares	5,000	941,501	5,000	941,501

4 - Segment Information

We evaluate 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 our total business. Financial data by segment is as follows:

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002
	($ in thousands)	
Revenues:		
Premiums earned:		
Commercial lines	$ 18,024	$ 16,473
Personal lines	31,695	30,319
Total premiums earned	49,719	46,792
Net investment income	3,327	3,623
Realized investment gains (losses)	409	(201)
Other	831	871
Total revenues	$ 54,286	$ 51,085
Income before income taxes:		
Underwriting income (loss):		
Commercial lines	$ 1,967	$ 1,944
Personal lines	(985)	(1,116)
SAP underwriting income	982	828
GAAP adjustments	623	(616)
GAAP underwriting income	1,605	212
Net investment income	3,327	3,623
Realized investment gains (losses)	409	(201)
Other	162	463
Income before income taxes	$ 5,503	$ 4,097

	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
	($ in thousands)	
Revenues:		
Premiums earned:		
Commercial lines	$ 52,667	$ 49,245
Personal lines	93,415	89,110
Total premiums earned	146,082	138,355
Net investment income	10,007	11,064
Realized investment gains (losses)	495	(14)
Other	2,714	2,451
Total revenues	$159,298	$151,856
Income before income taxes:		
Underwriting income (loss):		
Commercial lines	$ 6,222	$ 4,548
Personal lines	(794)	(5,289)
SAP underwriting income (loss)	5,428	(741)
GAAP adjustments	1,282	479
GAAP underwriting income (loss)	6,710	(262)
Net investment income	10,007	11,064
Realized investment gains (losses)	495	(14)
Other	849	709
Income before income taxes	$ 18,061	$ 11,497

5- Subordinated Debentures

On May 15, 2003, we received $15.0 million in proceeds from the issuance of floating rate junior subordinated debentures. The debentures mature on May 15, 2033 and are callable at our option, at par, after five years. The debentures carry an interest rate equal to the three-month LIBOR rate plus 4.10%, which is adjustable quarterly. At September 30, 2003 the interest rate on the debentures was 5.23%, and the rate will next be subject to adjustment on November 15, 2003.

6- Stock-Based Compensation Plans

We account for stock-based compensation plans under the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. During 2001, we adopted an Equity Incentive Plan for key employees that made 1,500,000 shares of Class A common stock available. The plan provides 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. During 2001, we also adopted an Equity Incentive Plan for Directors that made 200,000 shares of Class A common stock available. Awards may be made in the form of stock options, and the plan additionally provides for the issuance of 175 shares of restricted stock to each director on the first business day of January in each year. No stock-based employee compensation is reflected in income, except for expense associated with restricted stock issued, as all options granted under those plans had an exercise price equal to, or greater than, the market value of the underlying common stock on the date of the grant. The following table illustrates the effect on net income and earnings per share as if we had applied the provisions of statement of Financial Accounting Standards (SFAS) No. 123 (as amended by SFAS No. 148), "Accounting for Stock-Based Compensation."

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	(in thousands, except per share data)			
Net income, as reported	$4,001	$3,016	$13,115	$8,375
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(127)	(62)	(231)	(185)
Pro forma net income	$ 3,874	$ 2,954	$12,884	$ 8,190
Basic earnings per share:				
As reported	$ 0.43	$ 0.33	$ 1.42	$ 0.92
Pro forma	$ 0.42	$ 0.32	$ 1.39	$ 0.90
Diluted earnings per share:				
As reported	$ 0.40	$ 0.33	$ 1.37	$ 0.91
Pro forma	$ 0.39	$ 0.32	$ 1.34	$ 0.89

7- Subsequent Events

On October 30, 2003, we announced the signing of an agreement to purchase all of the outstanding capital stock of the Peninsula Insurance Group ("Peninsula") from Folksamerica Holding Company, Inc., for approximately $23.0 million in cash. Peninsula does business in Maryland, Delaware and Virginia. We expect this acquisition to be consummated on or about January 1, 2004.

On October 29, 2003, we received $10.0 million in proceeds from the issuance of floating rate junior subordinated debentures. The debentures mature on October 29, 2033 and are callable at our option, at par, after five years. The debentures carry an interest rate equal to the three-month LIBOR rate plus 3.85%, which is adjustable quarterly. The interest rate for the initial period ending approximately January 29, 2004 is 5.010%.

Item 2. Management's Discussion and Analysis of
Financial Condition and Results of Operations.

Results of Operations -Three Months Ended September 30, 2003 Compared to Three Months Ended September 30, 2002

Net Premiums Written. Net premiums written for the three months ended September 30, 2003 were $53.0 million, compared to $48.8 million for the same period in 2002. Commercial lines net premiums written increased $2.0 million, or 12.1%, in the third quarter of 2003 compared to same period in 2002. Personal lines net premiums written increased $2.2 million, or 6.8%, in the third quarter of 2003 compared to same period in 2002. We have benefited during these periods, and expect to continue to benefit, from premium increases by the insurance subsidiaries that have resulted from pricing actions approved by regulators. These increases related primarily to private passenger automobile, commercial multiple-peril, workers' compensation and homeowners lines of business realized across most of the states in which we operate. In addition to pricing increases, we have also benefited from organic growth in most of the states in which we operate.

Net Premiums Earned. Net premiums earned increased to $49.7 million for the third quarter of 2003, an increase of $2.9 million, or 6.3%, over the third quarter of 2002. Earned premiums have grown during the 2003 period due to the increase in written premiums in the past year. Premiums are earned, or recognized as revenue, over the terms of our policies, which are one year or less in duration. Therefore, increases or decreases in net premiums earned will generally reflect increases or decreases in net premiums written in the preceding twelve-month period compared to the same period in one year earlier.

Investment Income. For the three months ended September 30, 2003, our net investment income decreased 8.2% to $3.3 million, compared to $3.6 million for the same period one year ago. An increase in average invested assets from $312.3 million in the third quarter of 2002 to $359.9 million in the third quarter of 2003 was more than offset by a decrease in the annualized average return on investments from 4.6% for the third quarter of 2002 to 3.7% for the third quarter of 2003, and accounted for the decrease in investment income in the 2003 period compared to the 2002 period. The decrease in our annualized average return during both periods reflects a declining interest rate environment.

Net Realized Investment Gains/Losses. Net realized investment gains in the third quarter of 2003 were $408,873, compared to net realized investment losses of $201,190 for the same period in 2002. No impairment charges were recognized in the third quarter of 2003, compared to impairment charges of $226,244 recognized in the third quarter of 2002. The impairment charges for 2002 were the result of declines in the market value of common stocks that we determined to be other than temporary. The remaining net realized investment gains and losses in both periods resulted from normal turnover within our investment portfolio.

Losses and Loss Expenses. Our loss ratio, which is the ratio of incurred losses and loss expenses to premiums earned, in the third quarter of 2003 was 65.9%, compared to 69.3% in the third quarter of 2002. The commercial lines loss ratio decreased to 58.9% in the third quarter of 2003, compared to 60.2% in the third quarter of 2002. The personal lines loss ratio also improved from 72.6% in the third quarter of 2002 to 70.3% in the third quarter of 2003. Improvements in our 2003 loss ratios reflect the benefits of premium pricing increases and more favorable prior accident year loss development compared to the same period in 2002.

Underwriting Expenses. Our expense ratio, which is the ratio of policy acquisition and other underwriting expenses to premiums earned, for the third quarter of 2003 was 30.4%, compared to 29.7% for the third quarter of 2002. Improvements from expense control efforts were offset by higher underwriting-based incentive costs incurred in the third quarter of 2003 compared to the third quarter of 2002.

Combined Ratio. The combined ratio was 96.8% and 99.5% for the three months ended September 30, 2003 and 2002, respectively. The combined ratio represents the sum of the loss ratio, expense ratio and dividend ratio, which is the ratio of workers' compensation policy dividends incurred to premiums earned. The improvement in the combined ratio was primarily attributable to the decrease in the loss ratio for the 2003 period compared to the 2002 period.

Interest Expense. Interest expense for the third quarter of 2003 was $357,965, compared to $249,271 for the third quarter of 2002, and reflected an increase in interest expense related to the issuance of $15 million of subordinated debentures in May 2003, offset by decreases in the average interest rates and average borrowings under our line of credit for the 2003 period compared to the 2002 period.

Income Taxes. Income tax expense was $1.5 million for the third quarter of 2003, representing an effective tax rate of 27.3%, compared to $1.1 million for the third quarter of 2002, representing an effective tax rate of 26.4%. The change in effective tax rates is due to tax-exempt interest income representing a smaller proportion of net income before taxes in the 2003 period compared to the 2002 period.

Net Income and Earnings Per Share. Our net income for the third quarter of 2003 was $4.0 million, an increase of 32.7% over the $3.0 million reported for the third quarter of 2002. Diluted earnings per share were $0.40 for the third quarter of 2003 compared to $0.33 for the same period last year.

Results of Operations - Nine Months Ended September 30, 2003 Compared to Nine Months Ended September 30, 2002

Net Premiums Written. During the first nine months of 2003, our net premiums written increased by 5.2% to $156.5 million, compared to $148.8 million for the first nine months of 2002. Commercial lines net premiums written increased $4.5 million, or 8.4%, for the first nine months of 2003 compared to the first nine months of 2002. Personal lines net premiums written increased $3.2 million, or 3.4%, for the first nine months of 2003 compared to the same period in 2002. We have benefited during these periods, and expect to continue to benefit, from premium increases by our insurance subsidiaries that have resulted from pricing actions approved by regulators. These increases related primarily to private passenger automobile, commercial multiple peril, workers' compensation and homeowners lines of business realized in most of the states in which we operate. In addition to pricing increases, we have also benefited from organic growth in most of the states in which we operate.

Net Premiums Earned. Our net premiums earned increased to $146.1 million for the first nine months of 2003, an increase of $7.7 million, or 5.6%, over the first nine months of 2002. Our net earned premiums during the 2003 period have grown due to the increase in written premiums during the period. Premiums are earned, or recognized as revenue, over the terms of our policies, which are one year or less in duration. Therefore, increases or decreases in net premiums earned will generally reflect increases or decreases in net premiums written in the preceding twelve-month period compared to the same period in one year earlier.

Investment Income. For the nine months ended September 30, 2003, our net investment income decreased 9.6% to $10.0 million, compared to $11.1 million for the same period one year ago. An increase in our average invested assets from $310.0 million for the first nine months of 2002 to $345.3 million for the first nine months of 2003 was more than offset by a decrease in our annualized average return on investments from 4.8% for the first nine months of 2002 to 3.9% for the first nine months of 2003, and accounted for the decrease in investment income in the 2003 period compared to the 2002 period. The decrease in our annualized average return during both periods compared to prior periods reflects a declining interest rate environment.

Net Realized Investment Gains/Losses. Our net realized investment gains for the first nine months of 2003 were $494,763, compared to net realized investment losses of $13,931 for the same period in 2002. Our net realized investment gains in the first nine months of 2003 were net of impairment charges of $255,874, compared to impairment charges of $358,574 recognized in the first nine months of 2002. Our impairment charges for both years were the result of declines in the market value of common stocks that we determined to be other than temporary. The remaining net realized investment gains and losses in both periods resulted from normal turnover within our investment portfolio.

Losses and Loss Expenses. Our loss ratio, which is the ratio of incurred losses and loss expenses to premiums earned, for the first nine months of 2003 was 64.5%, compared to 69.3% for the first nine months of 2002. Our commercial lines loss ratio decreased to 56.2% for the first nine months of 2003, compared to 60.3% for the first nine months of 2002. Our commercial automobile and workers' compensation loss ratios showed improvement for the first nine months of 2003, with the commercial automobile loss ratio decreasing to 54.0% for 2003, compared to 59.8% for the same period in 2002, and the workers' compensation loss ratio decreasing to 63.2% for 2003, compared to 69.7% for the same period of 2002. The personal lines loss ratio improved from 73.9% for the first nine months of 2002 to 69.2% for the first nine months of 2003, primarily as a result of improvement in the personal automobile loss ratio. Improvements in our 2003 loss ratios reflect the benefits of premium pricing increases and more favorable prior accident year loss development compared to the same period in 2002.

Underwriting Expenses. Our expense ratio, which is the ratio of policy acquisition and other underwriting expenses to premiums earned, for the first nine months of 2003 was 30.4%, compared to 30.3% for the first nine months of 2002. Improvements from expense control efforts were offset by higher underwriting-based incentive costs incurred in the first nine months of 2003 compared to the first nine months of 2002.

Combined Ratio. Our combined ratio was 95.4% and 100.2% for the nine months ended September 30, 2003 and 2002, respectively. The combined ratio represents the sum of the loss ratio, expense ratio and dividend ratio, which is the ratio of workers' compensation policy dividends incurred to premiums earned. The improvement in our combined ratio was primarily attributable to the decrease in the loss ratio between periods.

Interest Expense. Our interest expense for the first nine months of 2003 was $879,496, compared to $870,079 for the first nine months of 2002, reflecting an increase in interest expense related to the issuance of $15.0 million of subordinated debentures in May 2003, offset by decreases in the average interest rates and average borrowings under our line of credit for the 2003 period compared to the 2002 period.

Income Taxes. Income tax expense was $4.9 million for the first nine months of 2003, compared to $3.1 million for the first nine months of 2002, representing effective tax rates of 27.4% and 27.2%, respectively.

Net Income and Earnings Per Share. Our net income for the first nine months of 2003 was $13.1 million, an increase of 56.6% over the $8.4 million reported for the first nine months of 2002. Our diluted earnings per share were $1.37 for the first nine months of 2003 compared to $0.91 for the same period last year.

Liquidity and Capital Resources

Liquidity is a measure of an entity's ability to secure enough cash to meet its contractual obligations and operating needs as they arise. Our major sources of funds from operations are the net cash flows generated from our insurance subsidiaries' underwriting results, investment income and maturing investments.

We generate sufficient net positive cash flow from our operations to fund our commitments and build our investment portfolio, thereby increasing future investment returns. We maintain a high degree of liquidity in our investment portfolio in the form of readily marketable fixed maturities, equity securities and short-term investments. Net cash flows provided by operating activities in the first nine months of 2003 and 2002 were $23.8 million and $25.5 million, respectively. Net cash flows provided by operating activities in 2002, 2001 and 2000, were $34.1 million, $22.0 million and $18.5 million, respectively.

On May 15, 2003, we received $15.0 million in proceeds from the issuance of subordinated debentures. The debentures mature on May 15, 2033 and are callable at our option, at par, after five years. The debentures carry an interest rate equal to the three-month LIBOR rate plus 4.10%, which is adjustable quarterly. At September 30, 2003, the interest rate on the debentures was 5.23% and the rate will next be subject to adjustment on November 15, 2003.

We also had unsecured borrowings of $12.8 million as of September 30, 2003 under a credit agreement with Fleet National Bank of Connecticut ("the Bank"). Per the terms of the credit agreement, we may currently borrow up to $16.0 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 September 30, 2003, the interest rate on the outstanding balances was 2.825% on an outstanding eurodollar balance of $4.8 million and 2.84% on an outstanding eurodollar balance of $8.0 million. In addition, we 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. Each July 27th, the credit line is reduced by $8.0 million and was $16.0 million as of September 30, 2003. Any outstanding loan in excess of the remaining credit line, after such reduction, will then be payable.

We have received a commitment letter from Manufacturers and Traders Trust Company relating to a $35.0 million line of credit. We anticipate this financing will be completed by November 30, 2003, at which time we would draw against the line of credit to repay our existing indebtedness of $12.8 million to Fleet National Bank. We currently have no other plans to draw against this line of credit.

On October 29, 2003, DGI Statutory Trust II (the "Trust"), which is a wholly owned Connecticut statutory trust, issued $10 million aggregate principal amount of trust preferred securities. The Company owns all of the common securities of the Trust. The proceeds from the issuance of the common securities and the trust preferred securities were used by the Trust to purchase $10.31 million of floating rate junior subordinated deferrable interest debentures of the Company, which pay interest at a floating rate adjustable quarterly equal to the three-month LIBOR plus 385 basis points. The interest rate for the initial period ending January 29, 2004 is 5.010%.

The following table shows our significant contractual obligations as of September 30, 2003.

(amounts in thousands)	Total	2003	2004	2005	2006	2007	After 2007
Borrowings under line of credit	$12,800	$ ---	$4,800	$8,000	$ ---	$---	$---
Subordinated debentures	15,000	---	---	---	---	---	15,000
Total contractual obligations	$27,800	$ ---	$4,800	$8,000	$ ---	$ ---	$15,000

Dividends declared to stockholders totaled $3.5 million, $3.5 million and $3.2 million in 2002, 2001 and 2000, respectively. There are no regulatory restrictions on the payment of dividends to our stockholders, although there are state law restrictions on the payment of dividends from our Insurance Subsidiaries to us. 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, Atlantic States' and Southern's capital were each substantially above RBC requirements. At January 1, 2003, amounts available for distribution as dividends to us without prior approval of their domiciliary insurance regulatory authorities were $10.6 million from Atlantic States and $2.5 from Southern, and a total of $4.7 million remained available at September 30, 2003.

On September 4, 2003, we announced our intention to acquire Le Mars from the Mutual Company. We expect the Le Mars acquisition to be completed on or about January 1, 2004. We will invest approximately $12.5 million in cash to fund this acquisition.

On October 30, 2003, we announced that we entered into an agreement to purchase Peninsula from Folksamerica Holding Company, Inc. for approximately $23.0 million in cash. We expect this acquisition to be consummated on or about January 1, 2004.

As of September 30, 2003, we had no material commitments for capital expenditures.

Equity Price Risk

Our portfolio of marketable equity securities, which is carried on the consolidated balance sheets at estimated fair value, has exposure to the risk of loss resulting from an adverse change in prices. We manage this risk by performing an analysis of prospective investments and through regular reviews of our portfolio by our investment staff.

Credit Risk

Our portfolio of fixed-maturity securities and, to a lesser extent, short-term investments are subject to credit risk. This risk is defined as the potential loss in market value resulting from adverse changes in the borrower's ability to repay the debt. We manage this risk by performing an analysis of prospective investments and through regular reviews of our portfolio by our investment staff. We also limit the amount that any one security can constitute of our total investment portfolio.

We provide property and liability insurance coverages through independent insurance agencies located throughout our operating area. The majority of this business is billed directly to the insured, although a portion of our commercial business is billed through our agents who are extended credit in the normal course of business.

Because the pooling agreement does not relieve Atlantic States of primary liability as the originating insurer, we are subject to a concentration of credit risk arising from business ceded to the Mutual Company. Our insurance subsidiaries maintain 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, we attempt, in establishing rates, to anticipate the potential impact of inflation.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

We have maintained approximately the same duration of our investment portfolio to our liabilities from December 31, 2002 to September 30, 2003. In addition, we have maintained approximately the same investment mix during this period.

There have been no material changes to our quantitative or qualitative market risk exposure from December 31, 2002 through September 30, 2003.

Item 4. Control and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the our disclosure controls and procedures are effective to ensure that information required to be disclosed by us (including our consolidated subsidiaries) in our periodic filings with the Securities and Exchange Commission is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. There has been no change in our internal control over financial reporting during the quarter covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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.

None.

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

Exhibit No.	Description
Exhibit 31.1	Certification of Chief Executive Officer
Exhibit 31.2	Certification of Chief Financial Officer
Exhibit 32.1	Statement of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 of Title 18 of the United States Code
Exhibit 32.2	Statement of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 of Title 18 of the United States Code

(b) Reports on Form 8-K:

On July 22, 2003, we filed a report on Form 8-K including as an exhibit our second quarter 2003 earnings press release.

On September 4, 2003, we filed a report of Form 8-K including as an exhibit our press release related to our agreement to acquire Le Mars Mutual Insurance Company.

On September 26, 2003, we filed a report of Form 8-K including as an exhibit our press release related to the financial impact of Hurricane Isabel.

On October 17, 2003, we filed a report on Form 8-K including as an exhibit our third 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.

October 31, 2003	By: /s/ Donald H. Nikolaus ----------------------- Donald H. Nikolaus, President and Chief Executive Officer
October 31, 2003	By: /s/ Ralph G. Spontak ------------------------- Ralph G. Spontak, Senior Vice President, Chief Financial Officer and Secretary

Certification Exhibit
31.1

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-15(e) and 15d-15(e)) for the registrant and we have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; 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 over financial reporting.

Date: October 31, 2003

/s/ Donald H. Nikolaus

Donald H. Nikolaus
President and Chief Executive Officer

Certification
Exhibit 31.2

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;

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-15(e) and 15d-15(e)) for the registrant and we have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; 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 over financial reporting.

Date: October 31, 2003

/s/ Ralph G. Spontak

Ralph G. Spontak
Senior Vice President and
Chief Financial Officer

Exhibit 32.1

Statement of Chief Executive Officer
Pursuant to Section 1350 of Title 18 of the United States Code

Pursuant to Section 1350 of Title 18 of the United States Code, the undersigned, Donald H. Nikolaus, the President and Chief Executive Officer of Donegal Group Inc., hereby certifies that, to the best of his knowledge:

1. Our Form 10-Q Quarterly Report for the period ended September 30, 2003 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, our financial condition and results of operations.

Dated: October 31, 2003

/s/ Donald H. Nikolaus

Donald H. Nikolaus, President
and Chief Executive Officer

Exhibit 32.2

Statement of Chief Financial Officer
Pursuant to Section 1350 of Title 18 of the United States Code

Pursuant to Section 1350 of Title 18 of the United States Code, the undersigned, Ralph G. Spontak, the Senior Vice President and Chief Financial Officer of Donegal Group Inc., hereby certifies that, to the best of his knowledge:

1. Our Form 10-Q Quarterly Report for the period ended September 30, 2003 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, our financial condition and results of operations.

Dated: October 31, 2003

/s/ Ralph G. Spontak

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