Securities and Exchange Commission
Washington, D.C. 20549
Form 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 1998

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 x . 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: 8,173,491 shares of Common Stock, $1.00 par value, outstanding on October 31, 1998.

Part I. Financial Information

Item 1. Financial Statements.

Donegal Group Inc. and Subsidiaries
Consolidated Balance Sheet

Assets	September 30, 1998 (Unaudited)	December 31, 1997
Investments		
Fixed maturities		
Held to maturity, at amortized cost	$ 115,403,514	$ 117,246,205
Available for sale, at market value	69,984,731	57,731,251
Equity securities, available for sale at market	11,383,150	7,274,562

Short-term investments, at cost, which approximates market	13,395,559	22,712,787
Other investments, at market	960,000	--
Total Investments	211,126,954	204,964,805
Cash	2,465,595	3,413,315
Accrued investment income	2,746,358	2,741,207
Premiums receivable	12,703,016	11,244,628
Reinsurance receivable	47,010,656	40,953,032
Deferred policy acquisition costs	9,315,731	8,448,060
Federal income tax receivable	882,816	56,454
Deferred federal income taxes	3,248,648	3,302,043
Prepaid reinsurance premiums	26,983,034	22,882,283
Property and equipment, net	5,070,118	4,938,524
Accounts receivable - securities	--	456,493
Due from affiliate	--	141,313
Other	1,228,997	562,348
Total Assets	$ 322,781,923	$ 304,104,505
Liabilities and Stockholders' Equity		
Liabilities		
Losses and loss expenses	$ 128,343,472	$ 118,112,390
Unearned premiums	79,987,414	71,367,691
Accrued expenses	2,857,218	3,214,767
Reinsurance balances payable	685,300	735,009
Cash dividend declared to stockholders	--	604,054
Line of credit	5,000,000	10,500,000
Accounts payable - securities	1,649,865	2,499,059
Other	893,612	283,098
Due to affiliate - Pioneer acquisition	5,191,774	5,191,774
- Other	600,257	--
Total Liabilities	225,208,912	212,507,842
Stockholders' Equity		
Preferred stock, $1.00 par value, authorized 1,000,000 shares; none issued		
Common stock, $1.00 par value, authorized 15,000,000 shares, issued 8,279,857 and 6,122,431 shares and outstanding 8,157,569 and 6,030,715 shares	8,279,857	6,122,431
Additional paid-in capital	40,686,408	38,932,117
Accumulated other comprehensive income	1,248,331	1,011,417
Retained earnings	48,250,171	46,422,454
Treasury stock	(891,756)	(891,756)
Total Stockholders' Equity	97,573,011	91,596,663
Total Liabilities and Stockholders' Equity	$ 322,781,923	$ 304,104,505

See accompanying notes to consolidated financial statements.

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

For the three months ended September 30, 1998 and 1997

	Three Months Ended September 30, 1998	1997
Revenues:		
Premiums earned	$ 42,214,525	$ 40,572,081
Premiums ceded	14,149,761	13,311,388
Net premiums earned	28,064,764	27,260,693
Investment income, net of investment expenses	2,825,718	2,937,109
Realized gain	147,659	120,098
Lease income	188,888	165,997
Service charge income	427,707	426,019
Total Revenues	31,654,736	30,909,916
Expenses:		
Losses and loss expenses	32,826,321	27,136,180
Reinsurance recoveries	12,391,787	10,025,051
Net losses and loss expenses	20,434,534	17,111,129
Amortization of deferred policy acquisition costs	4,835,000	4,638,000
Other underwriting expenses	5,693,443	4,301,001
Policy dividends	478,736	279,070
Interest	210,749	256,852
Other expenses	417,875	380,619
Total Expenses	32,070,337	26,966,671
Income (loss) before income taxes	(415,601)	3,943,245
Income taxes	(459,475)	1,031,517
Net income	$ 44,414	$ 2,911,728
Earnings per common share		
Basic	$ .01	$ .37*
Diluted	$ .01	$ .36*

Statement of Comprehensive Income
(Unaudited)

	Three Months Ended September 30, 1998	1997
Net Income	$ 44,414	$2,911,728
Other comprehensive income (loss), net of tax		
Unrealized gains on securities:		
Unrealized holding gain arising during the period	(192,684)	406,349
Less: Reclassification adjustment for gains and (losses) included in Net income	14,545	1,750
Other comprehensive income (loss)	(207,229)	404,599
Comprehensive income	$ 162,815	$3,316,327

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* Restated

See accompanying notes to consolidated financial statements.

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

For the nine months ended September 30, 1998 and 1997

	Nine Months Ended September 30, 1998	1997
Revenues:		
Premiums earned	$123,953,613	$119,335,186
Premiums ceded	41,106,048	38,846,655
Net premiums earned	82,847,565	80,488,531
Investment income, net of investment expenses	8,439,124	8,663,863
Realized gain	494,894	193,452
Lease income	560,072	462,845
Service charge income	1,232,251	1,178,456
Total Revenues	93,573,906	90,987,147
Expenses:		
Losses and loss expenses	86,186,915	76,842,909
Reinsurance recoveries	30,725,338	25,489,834
Net losses and loss expenses	55,461,577	51,353,075
Amortization of deferred policy acquisition costs	14,560,000	13,368,000
Other underwriting expenses	13,840,760	13,018,871
Policy dividends	1,298,860	1,020,839
Interest	594,364	699,777
Other expenses	1,240,927	1,154,432
Total Expenses	86,996,488	80,614,994
Income before income taxes	6,577,418	10,372,153
Income taxes	1,323,459	2,497,395
Net income	$ 5,253,959	$ 7,874,758
Earnings per common share		
Basic	$.64	$.99*
Diluted	$.63	$.98*

Statement of Comprehensive Income
(Unaudited)

	Nine Months Ended September 30, 1998	1997
Net Income	$ 5,253,959	$ 7,874,758
Other comprehensive income, net of tax		
Unrealized gains (losses) on securities:		
Unrealized holding gain arising during the period	264,013	405,043
Less: Reclassification adjustment for gains and (losses) included in Net income	(27,099)	1,033
Other comprehensive income (loss)	236,914	404,010
Comprehensive income	$ 5,490,873	$ 8,278,768

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* Restated

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, 1998

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock	Total Stockholders' Equity
	Shares	Amount					
Balance, December 31, 1997	6,122,431	$6,122,431	$ 38,932,117	$ 1,011,417	$ 46,422,454	$ (891,756)	$ 91,596,663
Issuance of Common Stock	96,178	96,178	1,754,291				1,850,469
Net Income					5,253,959		5,253,959
Other Comprehensive Income				236,914			236,914
Stock Dividend	2,061,248	2,061,248			2,061,248		--
Cash Dividend					(1,364,994)		(1,364,994)
Balance, September 8, 1998	8,279,857	$8,279,857	$ 40,686,408	$ 1,248,331	$ 48,250,171	$ (891,756)	$ 97,573,011

See accompanying notes to consolidated financial statements.

Donegal Group Inc. and Subsidiaries
Consolidated Statement of Cash Flows
(Unaudited)
For the nine months ended September 30, 1998 and 1997

	Nine Months Ended September 30, 1998	1997
Cash Flows from Operating Activities:		
Net income	$ 5,253,959	$ 7,874,758
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	345,591	280,359
Realized investment gain (loss)	(494,894)	(193,452)
Changes in Assets and Liabilities:		
Losses and loss expenses	10,231,082	2,107,898
Unearned premiums	8,619,723	1,684,349
Premiums receivable	(1,458,388)	(242,952)
Deferred policy acquisition costs	(867,671)	(335,156)
Deferred federal income taxes	(68,652)	(91,710)
Reinsurance receivable	(6,057,624)	1,521,971
Prepaid reinsurance premiums	(4,100,751)	(658,089)
Accrued investment income	(197)	2,389
Due from affiliate	741,570	(514,557)
Reinsurance balances payable	(49,709)	(22,563)
Current income taxes payable	(826,362)	(617,504)
Other, net	(413,684)	(1,007,277)
Net adjustments	5,600,034	1,913,706
Net cash provided by operating activities	10,853,993	9,788,464
Cash flows from investing activities:		
Purchase of fixed maturities		
Held to maturity	(13,800,482)	(15,583,302)
Available for sale	(26,025,429)	(15,332,409)
Purchase of equity securities, available for sale	(13,612,002)	(4,539,449)
Maturity of fixed maturities		
Held to maturity	17,476,597	9,074,739
Available for sale	11,898,065	7,444,999
Sale of fixed maturities - available for sale	535,765	4,010,313
Sale of equity securities, available for sale	9,545,064	2,804,257
Purchase of other investments	(1,000,000)	--
Purchase of property and equipment	(517,939)	(2,594,311)
Net sales of short-term investments	9,317,228	9,139,037
Net cash used in investing activities	(6,183,133)	(5,576,126)
Cash flows from financing activities:		
Cash dividends paid	(1,969,049)	(1,650,444)
Issuance of common stock	1,850,469	543,283
Line of credit, net	(5,500,000)	(3,500,000)
Net cash provided by (used in) financing activities	(5,618,580)	(4,607,161)
Net decrease in cash	(947,720)	(394,823)
Cash at beginning of year	3,413,315	3,700,163
Cash at end of quarter	$ 2,465,595	$ 3,305,340
Cash paid during period - Interest	$ 102,306	$ 375,780
- Income taxes	$ 2,218,473	$ 3,450,055

See accompanying notes to consolidated financial statements.

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

1 - Organization

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 Pennsylvania, Maryland, Delaware, Virginia and Ohio through its wholly owned stock insurance companies, Atlantic States Insurance Company ("Atlantic States"), Southern Insurance Company of Virginia ("Southern"), Delaware Atlantic Insurance Company ("Delaware"), Pioneer Insurance Company ("Pioneer") and Atlantic Insurance Services, Inc. ("AIS"). The Company's major lines of business are Automobile Liability, Automobile Physical Damage, Homeowners, Commercial Multiple Peril and Workers' Compensation. Atlantic, Southern, Delaware and Pioneer are subject to regulation by Insurance Departments in those states in which they operate and undergo periodic examination by those departments. They are also subject to competition from other insurance carriers in their operating areas. Atlantic States engages in the insurance business primarily through an intercompany pooling arrangement with the Mutual Company. Southern was acquired by the Company on December 31, 1988 pursuant to a plan of conversion from a mutual to a stock company and cedes 50% of its business to the Mutual Company, 80% prior to 1991. On December 29, 1995, the Company acquired all of the outstanding stock of Delaware. This transaction was accounted for as if it were a "Pooling of Interest," and as such, the Company's financial statements have been restated to include Delaware as a consolidated subsidiary from January 1, 1994 to the present. On March 31, 1997, the Company acquired all of the outstanding stock of Pioneer. This transaction was accounted for as if it were a "Pooling of Interest", and as such the Company's financial statements have been restated to include Pioneer as a consolidated subsidiary from January 1, 1994 to the present. At September 30, 1998, the Mutual Company held 58% of the outstanding common stock of the Company.

2 - Basis of Presentation

The financial information for the interim period 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 period included herein. The results of operations for the three months ended and for the nine months ended September 30, 1998, are not necessarily indicative of results of operations to be expected for the twelve months ended December 31, 1998.

On June 25, 1998, the Company issued a 4 for 3 stock split in the form of a 33 1/3% stock dividend to stockholders of record as of June 10, 1998. Per share information prior to June 25, 1998, has been restated for this change.

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, 1997.

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:			
1998			
Basic	$44,414	8,144,510	$ .01
Effect of stock options	---	108,982	--
Diluted	$44,414	8,253,492	$ .01
1997*			
Basic	$2,911,728	8,000,267	$ .37
Effect of stock options	--	45,881	(.01)
Diluted	$2,911,728	8,046,148	$ .36
Nine Months Ended September 30:			
1998			
Basic	$5,253,959	8,105,566	$ .64
Effect of stock options	--	148,613	(.01)
Diluted	$5,253,959	8,254,179	$ .63
1997*			
Basic	$7,874,758	7,983,703	$ .99
Effect of stock options	--	19,762	(.01)
Diluted	$7,874,758	8,003,465	$ .98

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* Restated

Management's Discussion and Analysis of
Financial Condition and Results of Operations
- --

Overview

Donegal Group Inc. ("DGI" or the "Company") is a regional insurance holding company doing business in Pennsylvania, Maryland, Delaware, Virginia and Ohio through its four wholly owned property-casualty insurance subsidiaries, Atlantic States Insurance Company ("Atlantic"), Southern Insurance Company of Virginia ("Southern"), Pioneer Insurance Company ("Pioneer") and Delaware Atlantic Insurance Company ("Delaware"). The Company's major lines of business in 1997 and their percentage of total net earned premiums were Automobile Liability (27.8%), Workers' Compensation (15.9%), Automobile Physical Damage (17.1%), Homeowners (17.6%), and Commercial Multiple Peril (15.6%). The subsidiaries are subject to regulation by Insurance Departments in those states in which they operate and undergo periodic examination by those departments. The subsidiaries are also subject to competition from other insurance carriers in their operating areas. DGI was formed in September 1986 by Donegal Mutual Insurance Company (the "Mutual Company"), which owns 58% of the outstanding common shares of the Company as of September 30, 1998.

Atlantic States participates in an intercompany pooling arrangement with the Mutual Company and assumes 65% of the pooled business, 60% prior to January 1, 1996. Southern cedes 50% of its business to the Mutual Company and Delaware cedes 70% of its Workers' Compensation business to the Mutual Company. Because the Mutual Company places substantially all of the business assumed from Southern and Delaware into the pool, from which the Company has a 65% allocation, the Company's results of operations include approximately 80% of the business written by Southern and approximately 75% of the Workers' Compensation business written by Delaware.

In addition to the Company's insurance subsidiaries, it also owns all of the outstanding stock of Atlantic Insurance Services, Inc. ("AIS"), an insurance services organization currently providing inspection and policy auditing information on a fee for service basis to its affiliates and the insurance industry.

Results of Operations - Three Months Ended September 30, 1998
to Three Months Ended September 30, 1997
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Revenues for the three months ended September 30, 1998 were $31,654,736, an increase of $744,820 or 2.4%, over the same period of 1997. An increase in net premiums earned of $804,071 or 2.9%, represented most of this change. Investment income for the third quarter fell $111,391 or 3.8% due to a decrease in the annualized average return on investments from 6.0% in the third quarter 1997 to 5.4% in the third quarter 1998, offset by an increase in average invested assets from $194.9 million in the third quarter 1997 to $208.1 million in the third quarter 1998. Realized investment gains, which resulted from normal turnover of the Company's investment portfolio, were $147,659 in the third quarter 1998 compared to $120,098 for the same period of 1997.

The GAAP combined ratio of insurance operations in the third quarter of 1998 was 112.0% compared to 96.6% for the same period in 1997. 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 expense ratio in the third quarter was effected by a charge to earnings from an unprecedented large mandatory Pennsylvania Guaranty Association assessment arising from the insolvency of two medical malpractice companies. The Company's share of the Guaranty Association liability arising from these two companies is $1.34 million. This charge is equal to the 1998 cash assessment plus the anticipated maximum potential assessment to be made in 1999. The expense ratio for the third quarter 1998 was 37.5% compared to 32.8% for the third quarter 1997. The Guaranty Fund assessment accounted for 4.8% of the 1998 ratio which would have been 32.7% without this charge. Guaranty Association assessments represent mandatory regulatory charges that must be absorbed by substantially all property and casualty insurance companies doing business in a state where an insolvent company had been writing business, including companies, like Donegal, who do not write lines of business that the insolvent companies were writing. The Company's loss ratio was impacted by a continuation into the summer of the unusual severe weather pattern that began in June. As a result of claims from these storms, the Company's loss ratio in the third quarter of 1998 was 72.8% compared to 62.8% in the third quarter of 1997. The dividend ratio increased to 1.7% for the third quarter of 1998 compared to 1.0% for the same period of 1997 do to higher levels of profitability in the workers' compensation line of business.

Federal income taxes for the third quarter represented 110.6% of the loss before income taxes compared to 26.2% for the same period of 1997. Decreased underwriting profits, due to the storm activity and the guaranty assessment, resulted in tax free investment income increasing the taxable loss and distorting the normal effective rate.

Results of Operations - Nine Months Ended September 30, 1998 to Nine Months Ended September 30, 1997

Revenues for the nine months ended September 30, 1998 were $93,573,906, an increase of $2,586,759 or 2.8%, over the same period of 1997. An increase in net premiums earned of $2,359,034 or 2.9%, represented most of this change. Investment income for the first nine months of 1998 fell $224,739 or 2.6% due to a decrease in the annualized average return on investments from 6.0% for the first three quarters of 1997 to 5.4% for the first three quarters of 1998, offset by an increase in average invested assets from $193.1 million in the first nine months of 1997 to $208.0 million in the first nine months of 1998. Realized investment gains, which resulted from normal turnover of the Company's investment portfolio, were $494,894 for the first nine months of 1998 compared to $193,452 for the same period of 1997.

The GAAP combined ratio of insurance operations for the nine months ended September 30, 1998 was 102.8% compared to 97.9% for the same period in 1997. 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 expense ratio was effected by a third quarter charge to earnings from an unprecedented large mandatory Pennsylvania Guaranty Association assessment arising from the insolvency of two medical malpractice companies. The Company's share of the Guaranty Association liability arising from these two companies is $1.34 million. This charge is equal to the 1998 cash assessment plus the anticipated maximum potential assessment to be made in 1999. The expense ratio for the nine months ended September 30, 1998 was 34.3% compared to 32.8% for the same period in 1997. The Guaranty Fund assessment accounted for 1.6% of the 1998 ratio which would have been 32.7% without this charge. Guaranty Association assessments represent mandatory regulatory charges that must be absorbed by substantially all property and casualty insurance companies doing business in a state where an insolvent company had been writing business, including companies, like Donegal, who do not write lines of business that the insolvent companies were writing. The Company's loss ratio was impacted by unusual severe weather patterns that began in June and continued into the summer. As a result of claims from these storms, the Company's year to date loss ratio through September 30, 1998 was 66.9% compared to 63.8% for the same period of 1997. The dividend ratio increased to 1.6% for the first nine months of 1998 compared to 1.3% for the same period of 1997 do to higher levels of profitability in the workers' compensation line of business.

Federal income taxes for the nine months ended September 30, 1998 represented 20.1% of the income before income taxes compared to 24.1% for the same period of 1997. Decreased underwriting profits, due to the storm activity and the guaranty assessment, resulted in tax free investment income representing a higher level of the income before income taxes and reducing the effective tax rate in 1998.

Liquidity and Capital Resources

The Company generates sufficient funds from its operations and maintains a high degree of liquidity in its investment portfolio. The primary source of funds to meet the demands of claim settlements and operating expenses are premium collections, investment earnings and maturing investments. As of September 30, 1998, the Company had announced it has entered into an agreement to purchase all of the outstanding shares of Southern Heritage Insurance Company, Tucker, Georgia, for $21 million in cash. The acquisition is pending regulatory approval. The Company has amendmended its credit agreement with Fleet Bank to expand the credit available under that agreement from $20 million to $40 million to fund the acquisition.

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, 1998, pursuant to a credit agreement dated December 29, 1995, with Fleet National Bank of Connecticut, the Company had unsecured borrowings of $5.0 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 bank rate plus 1.70%. At September 30, 1998, the interest rate on the outstanding balance was 7.60625%. 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 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 and Delaware are subject to Risk Based Capital (RBC) requirements effective for 1994. At December 31, 1997, all four Companies' capital was substantially above the RBC requirements. At December 31, 1997, amounts available for distribution as dividends to Donegal Group without prior approval of the insurance regulatory authorities are $7,349,284 from Atlantic States, $703,688 from Southern, $542,799 from Pioneer and $1,070,463 from Delaware.

Credit Risk

The company provides property and liability coverages through its subsidiaries' independent agency systems located throughout its operating area. The majority of this business is billed directly to the insured although a portion of 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

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.

Year 2000 Issues

The year 2000 issue (i.e. the ability of computer systems to properly process information which contains dates beginning with January 1, 2000 and thereafter) affects virtually all companies. All computer systems used for processing of business for the Company are owned and operated by the Mutual Company. Certain of these computer systems utilized by the Mutual Company to process information use only two digits to identify a year. Because of this, the year 2000 would be represented in the system as "00" and would in most cases be interpreted by the computer as "1900" rather than "2000", resulting in processing errors.

The ability to process information in a timely and accurate manner is vital to the Company's property and casualty insurance business. The Company recognizes that the systems used to process its business must be able to accurately identify and process information containing year 2000 dates by the end of 1998. The Mutual Company has a vigorous and comprehensive project underway to ensure compliance in time to meet this deadline. This project was initiated as part of a review of the main application systems in 1995. The Mutual Company is taking the steps it deems appropriate to meet this challenge, including migrating to the most current version of vendors' software, which improves functionality in addition to being year 2000 compliant, replacing existing software with new software systems and rewriting existing computer programs. The goal of this project is to be substantially year 2000 complaint by the end of 1998.

Impact of New Accounting Standards

Accounting for Derivative Instruments and Hedging Activities

In June, 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. SFAS No. 133 is effective for fiscal years beginning after June 15, 1999, with earlier adoption permitted.

Insurance Related Assessments

In December 1997, the AICPA Accounting Standards Executive Committee issued Statement of Position (SOP) 97-3, Accounting by Insurance and Other Enterprises for Insurance-Related Assessments. The accounting guidance of this SOP focuses on the timing of recognition and measurement of liabilities for insurance-related assessments. The SOP is effective for fiscal years beginning after December 15, 1998. The Company believes that they are in compliance with the provisions of this SOP and no impact on the Company's financial reporting is expected.

Computer Software Development Costs

On March 4, 1998, the AICPA Accounting Standards Executive Committee issued Statement of Position (SOP) 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. This SOP requires that certain costs related to the development or purchase of internal-use software be capitalized and amortized over the estimated useful life of the software. This SOP also requires that costs related to the preliminary project stage and the post-implementation/operations stage in an internal-use computer software development project be expensed as incurred. SOP 98-1 is effective for financial statements issued for fiscal years beginning after December 15, 1998. The Company believes that they are in compliance with the provisions of this SOP and no material impact of the Company's financial reporting is expected.

Part II. Other Information

Item 1. Legal Proceedings.

None.

Item 2. Changes in Securities.

On October 15, 1998, the Company's Board of Directors further amended the Company's Amended and Restated By-laws (the "By-laws"). A copy of the By-Laws, as so amended, is filed as Exhibit 3(ii) to this Form 10-Q Quarterly Report. Reference is made to the summary of the amendments to the Company's Bylaws set forth in Item 5 of this Form 10-Q Quarterly Report.

Item 3. Defaults upon Senior Securities.

None.

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

None.

Item 5. Other Information.

A. Deadline for Submitting Stockholder Proposals to the Company for Inclusion in the Company's Proxy Statement Relating to the Company's 1999 Annual Meeting of Stockholders Pursuant to and in Compliance with SEC Rule 14a-8.

Any stockholder who, in accordance with and subject to the provisions of Rule 14a-8 of the proxy rules of the Securities and Exchange Commission, wishes to submit a proposal for inclusion in the Company's proxy statement for its 1999 Annual Meeting of Stockholders must deliver such proposal in writing to the Company's Secretary at the Company's principal executive offices at 1195 River Road, Marietta, Pennsylvania 17547, not later than November 23, 1998.

B. Requirements Under the Company's By-laws for Advance Notice to the Company of Stockholder Proposals to be Presented at the Company's 1999 Annual Meeting of Stockholders Otherwise than Pursuant to and in Compliance with SEC Rule 14a-8.

The Company amended Section 2.3 of its By-laws relating to stockholder proposals. The following description of Section 2.3 as so amended is a materially complete summary of Section 2.3 as so amended. Reference is made, however, to the complete text of Section 2.3 as included in Exhibit 3(ii) to this Form 10-Q Quarterly Report and such summary is qualified in its entirety by such reference.

Pursuant to amended Section 2.3 of the Company's By-Laws, if a stockholder desires to present at the 1999 Annual Meeting of Stockholders (i) a proposal relating to nominations for and election of directors or (ii) a proposal relating to other than nominations for and election of directors, otherwise than pursuant to Rule 14a-8 of the proxy rules of the Securities and Exchange Commission, such stockholder must comply with the provisions for stockholder proposals set forth in the By-Laws which are summarized below. Written notice of any such proposal containing the information required under such By-Law provisions must be delivered during the period commencing on November 23, 1998 and ending on December 23, 1998 to the following address:

(i) Written notice of a proposal relating to nominations for and election of directors must be delivered in person, by first class United States mail postage prepaid or by reputable overnight delivery service to the Nominating Committee of the Board of Directors of the Company to the attention of the Company's Secretary at the Company's principal executive offices at 1195 River Road, Marietta, Pennsylvania 17547; and

(ii) Written notice of a proposal relating to other than nominations for and election of directors must be delivered in person, by first class United States mail postage prepaid or by reputable overnight delivery service to the Board of Directors of the Company to the attention of the Company's Secretary at the Company's principal executive offices at 1195 River Road, Marietta, Pennsylvania 17547.

(a) Stockholder Proposals Relating to Nominations for and Election of Directors.

The Company's By-Laws provide that nominations of candidates for election by stockholders to the Board of Directors shall be made exclusively by the Nominating Committee of the Company's Board of Directors. A proposal by a stockholder for the nomination by the Nominating Committee of the Company's Board of Directors of a candidate for election by stockholders as a director at any meeting of stockholders at which directors are to be elected may only be made by notice in writing, delivered in person or by first class United States mail postage prepaid or by reputable overnight delivery service, to the Nominating Committee of the Board of Directors of the Company to the attention of the Secretary of the Company at the principal office of the Company, within the time limits specified herein.

In the case of an annual meeting of stockholders, any such written proposal of nomination must be received by the Nominating Committee not less than 90 calendar days nor more than 120 calendar days before the first anniversary of the date on which the Company first mailed its proxy statement to stockholders for the annual meeting of stockholders in the immediately preceding year; provided, however, that in the case of an annual meeting of stockholders that is called for a date which is not within 30 calendar days before or after the first anniversary date of the annual meeting of stockholders in the immediately preceding year, any such written proposal of nomination must be received by the Company's Board of Directors not less than five business days after the date the Company shall have mailed notice to its stockholders that an annual meeting of stockholders will be held or issued a press release, filed a periodic report with the Securities and Exchange Commission or otherwise publicly disseminated notice that an annual meeting of stockholders will be held.

In the case of a special meeting of stockholders, any such written proposal of nomination must be received by the Nominating Committee not less than five business days after the earlier of the date that the Company shall have mailed notice to its stockholders that a special meeting of stockholders will be held or issued a press release, filed a periodic report with the Securities and Exchange Commission or otherwise publicly disseminated notice that a special meeting of stockholders will be held.

Such written proposal of nomination must set forth (A) the name and address of the stockholder who intends to make the nomination (the "Nominating Stockholder"), (B) the name, age, business address and, if known, residence address of each person so proposed, (C) the principal occupation or employment of each person so proposed for the past five years, (D) the number of shares of capital stock of the Company beneficially owned within the meaning of Securities and Exchange Commission Rule 13d-1 by each person so proposed and the earliest date of acquisition of any such capital stock, (E) a description of any arrangement or understanding between each person so proposed and the Nominating Stockholder with respect to such person's proposal for nomination and election as a director and actions to be proposed or taken by such person as a director, (F) the written consent of each person so proposed to serve as a director if nominated and elected as a director and (G) such other information regarding each such person as would be required under the proxy solicitation rules of the Securities and Exchange Commission if proxies were to be solicited for the election as a director of each person so proposed.

If a written proposal of nomination submitted to the Nominating Committee fails, in the reasonable judgment of the Nominating Committee, to contain the information specified in the immediately preceding paragraph or is otherwise deficient, the Chairperson of the Nominating Committee shall, as promptly as is practicable under the circumstances, provide written notice to the Nominating Stockholder of such failure or deficiency in the written proposal of nomination and such Nominating Stockholder shall have five business days from receipt of such notice to submit a revised written proposal of nomination that corrects such failure or deficiency in all material respects.

Only candidates nominated for election by stockholders as a member of the Company's Board of Directors in accordance with the By-Law provisions summarized herein shall be eligible for election as a member of the Company's Board of Directors at such meeting of stockholders, and any candidate not nominated in accordance with such provisions shall not be considered or acted upon for election as a director at such meeting of stockholders.

(b) Stockholder Proposals Relating to Other Than Nominations for and Elections of Directors.

A stockholder of the Company may bring a matter before a meeting of stockholders only if (A) (x) such matter is a proper matter for stockholder action and (y) such stockholder shall have provided notice in writing, delivered in person or by first class United States mail postage prepaid or by reputable overnight delivery service, to the Board of Directors of the Company to the attention of the Secretary of the Company at the principal office of the Company, within the time limits specified herein or (B) the stockholder complies with the provisions of Rule 14a-8 under the Securities Exchange Act of 1934 relating to inclusion of stockholder proposals in the Company's proxy statement.

In the case of an annual meeting of stockholders, any such written notice of presentation of a matter must be received by the Company's Board of Directors not less than 90 calendar days nor more than 120 calendar days before the first anniversary of the date on which the Company first mailed its proxy statement to stockholders for the annual meeting of stockholders in the immediately preceding year; provided, however, that in the case of an annual meeting of stockholders that is called for a date which is not within 30 calendar days before or after the first anniversary date of the annual meeting of stockholders in the immediately preceding year, any such written notice of presentation of a matter must be received by the Company's Board of Directors not less than five business days after the date the Company shall have mailed notice to its stockholders that an annual meeting of stockholders will be held or issued a press release, filed a periodic report with the Securities and Exchange Commission or otherwise publicly disseminated notice that an annual meeting of stockholders will be held.

In the case of a special meeting of stockholders, any such written notice of presentation of a matter must be received by the Company's Board of Directors not less than five business days after the earlier of the date the Company shall have mailed notice to its stockholders that a special meeting of stockholders will be held or issued a press release, filed a periodic report with the Securities and Exchange Commission or otherwise publicly disseminated notice that a special meeting of stockholders will be held.

Such written notice of presentation of a matter shall set forth information regarding such matter equivalent to the information regarding such matter that would be required under the proxy solicitation rules of the Securities and Exchange Commission if proxies were solicited for stockholder consideration of such matter at a meeting of stockholders.

If a written notice of presentation of a matter submitted to the Company's Board of Directors fails, in the reasonable judgment of the Company's Board of Directors, to contain the information specified in the immediately preceding paragraph or is otherwise deficient, the Chairperson of the Company's Board of Directors shall, as promptly as is practicable under the circumstances, provide written notice to the stockholder who submitted the written notice of presentation of a matter of such failure or deficiency in the written notice of presentation of a matter and such stockholder shall have five business days from receipt of such notice to submit a revised written notice of presentation of a matter that corrects such failure or deficiency in all material respects.

Only matters submitted in accordance with the By-Law provisions summarized herein shall be eligible for presentation of such meeting of stockholders, and any matter not submitted to the Company's Board of Directors in accordance with such provisions shall not be considered or acted upon at such meeting of stockholders.

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

(a) Exhibits:

Exhibit No.	Description of Exhibit	Reference
3(i)	Certificate of Incorporation	(*)
3(ii)	Amended and Restated By-Laws	Filed herewith
27	Financial Data Schedule	Filed herewith

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

(b) Reports on 8-K:

No reports on Form 8-K were filed by the Company during the quarter ended September 30, 1998.

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, 1998 By: ------------------------------------

Donald H. Nikolaus, President
and Chief Executive Officer

November 10, 1998 By: ------------------------------------

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

Exhibit Index

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3-MOS
DEC-31-1998
SEP-30-1998
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