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

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

For the fiscal year ended December 31, 1995

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

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, Marietta, Pennsylvania	17547
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: (717) 426-1931
Securities registered pursuant to Section 12(b) of the Act: None.

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

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

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

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

On March 15, 1996, the aggregate market value (based on the closing sales price on that date) of the voting stock held by non-affiliates of the Registrant was $32,732,254.

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date: 4,276,944 shares of Common Stock outstanding on March 15, 1996.

DOCUMENTS INCORPORATED BY REFERENCE:

1. Portions of the Registrant's annual report to stockholders for the fiscal year ended December 31, 1995 are incorporated by reference into Parts I, II and IV of this report.

2. Portions of the Registrant's proxy statement relating to the annual meeting of stockholders to be held April 18, 1996 are incorporated by reference into Part III of this report.

DONEGAL GROUP INC.

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PART I

Item 1. Business.

(a) General Development of Business.

Donegal Group Inc. is a regional insurance holding company formed in August 1986 which is headquartered in Pennsylvania and engages, through its subsidiaries, in the property and casualty insurance business. As used herein, "DGI" or the "Company" refers to Donegal Group Inc. and its subsidiaries, Atlantic States Insurance Company ("Atlantic States"), Southern Insurance Company of Virginia ("Southern"), Delaware American Insurance Company ("Delaware American") and Atlantic Insurance Services, Inc. ("AIS"). DGI is currently 58.6% owned by Donegal Mutual Insurance Company (the "Mutual Company"). The Mutual Company's principal subsidiary is Pioneer Insurance Company ("Pioneer"). DGI and the Mutual Company and their subsidiaries underwrite a broad line of personal and commercial coverages, consisting of private passenger and commercial automobile, homeowners, commercial multi-peril, workers' compensation and other lines of insurance.

Atlantic States, which DGI organized in September 1986, participates in an underwriting pool whereby it cedes to the Mutual Company the premiums, losses and loss expenses from all of its insurance business and assumes from the Mutual Company a specified portion of the pooled business, which also includes substantially all of the Mutual Company's property and casualty insurance business. Effective as of October 1, 1986, DGI entered into a pooling agreement with the Mutual Company whereby Atlantic States assumed 35% of the pooled business written or in force on or after October 1, 1986. Effective October 1, 1988, the pooling agreement was amended to provide for the assumption by Atlantic States of 50% of the pooled business written or in force on or after October 1, 1988. Effective January 1, 1993, the pooling agreement was further amended to provide for the assumption by Atlantic States of 60% of the pooled business written or in force on or after January 1, 1993. As of December 21, 1995, the pooling agreement was further amended to provide for the assumption by Atlantic States, effective January 1, 1996, of 65% of the pooled business written or in force on or after January 1, 1996. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 hereof and Note 2 to the Consolidated Financial Statements incorporated by reference herein.

On December 29, 1988, DGI acquired all of the outstanding capital stock of Southern in exchange for a $3,000,000 equity contribution to Southern. As of March 31, 1993, the Mutual Company converted Pioneer Mutual Insurance Company into Pioneer, which writes property and casualty insurance in Ohio, and acquired all of Pioneer's capital stock. Pioneer does not currently participate in the pooling agreement. In connection with the Pioneer transaction, the Mutual Company was admitted in Ohio and began active marketing of its insurance products in Ohio in the fourth quarter of 1993. On October 1, 1986, the Mutual Company and Southern's predecessor, Southern Mutual Insurance Company, entered into a reinsurance agreement whereby such predecessor ceded to the Mutual Company 80% of its

direct premiums written and retained 20%. Effective January 1, 1991, this percentage was changed to 50% ceded to the Mutual Company and 50% retained by Southern. Because the Mutual Company places substantially all of the business assumed from Southern in 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. See Note 2 to the Consolidated Financial Statements incorporated by reference herein.

In January 1994, the Company organized a new subsidiary, AIS, which began business in that same month. AIS is an insurance services organization currently providing inspection and policy auditing information on a fee for service basis to its affiliates and the insurance industry.

In December 1994, the Superintendent of Insurance of the State of Ohio issued an order permitting the sale by the Mutual Company to the Company of all of the outstanding capital stock of Pioneer at the independently determined fair market value thereof at the date of sale. It is anticipated that this sale will occur on or before December 31, 1996. Pioneer and the Mutual Company are parties to an excess of loss reinsurance agreement whereby the Mutual Company reinsures Pioneer for losses in excess of $100,000 up to a limit of $150,000, and a property catastrophe excess of loss reinsurance agreement whereby the Mutual Company reinsures Pioneer for catastrophe losses in excess of $200,000 up to a limit of $1,800,000.

As of the close of business on December 31, 1995, DGI acquired all of the outstanding capital stock of Delaware American pursuant to a Stock Purchase Agreement between DGI and the Mutual Company dated as of December 21, 1995. This transaction was accounted for a an "as if pooling-of-interests," and as such DGI's financial statements have been restated to include Delaware American as a Consolidated Subsidiary from January 1, 1994 to the present. Under current accounting principles, for amounts that are treated as "retroactive" reinsurance, Delaware American is required to defer income statement recognition of a recovery related to adverse development, if any, of any such business into future accounting periods while recognizing the entire adverse developments, if any, in the current period. However, Delaware American would take the recovery into income over the estimated settlement period. Although this accounting treatment could affect Delaware American's financial statements in any given period, Delaware American would not sustain economic loss and there would be no impact on Delaware American's cumulative results of operations or surplus after the recovery is fully recognized.
In connection with the transaction, Delaware American entered into an aggregate excess of loss reinsurance agreement whereby the Mutual Company reinsures Delaware American against any loss from: (a) any adverse development in Delaware American's loss reserve and loss adjustment expense reserve at December 31, 1996 compared to the amount of such reserves at December 31, 1995 in respect of all policy years ended on or before December 31, 1995 and (b) all losses and loss adjustment expenses incurred by Delaware American during the month of December 1995 by reason of the fact that Delaware American's loss and loss adjustment expense ratio as finally determined for the month of December 1995 exceeds the lesser of Delaware American's loss and loss adjustment expense ratio as finally determined for the period January 1, 1995 through November 30, 1995 or 60% and (c) all losses and loss adjustment expenses incurred by Delaware American during the year ending December 31, 1996 by reason of the fact that Delaware American's loss and loss adjustment expense ratio as finally determined for the year ending December 31, 1996 exceeds the lesser of Delaware American's loss and loss adjustment expense ratio as finally determined for the year ended December 31, 1995 or 60%, it being understood that any calculations made for the year ending December 31, 1996 will be adjusted to reflect any recoveries by Delaware American under the loss development section of the aggregate excess of loss reinsurance agreement.

(b) Financial Information about Industry Segments.

The Company is of the opinion that all of its operations are within one industry segment and that no information as to industry segments is required pursuant to Statement of Financial Accounting Standards No. 14 or Regulation S-K.

(c) Narrative Description of Business.

Relationship with the Mutual Company

DGI's operations are interrelated with the operations of the Mutual Company and, because of the percentage of the pooled business assumed by DGI, DGI's results of operations are largely dependent upon the success of the Mutual Company. In addition, various reinsurance agreements exist between the Company and the Mutual Company. The Mutual Company is responsible for underwriting and marketing the pooled business and provides facilities, employees and services required to conduct the business of DGI on a cost allocated basis. The Mutual Company owned 58.6% of DGI as of March 15, 1996.

Through the pool, DGI writes personal and commercial property and casualty insurance lines, including automobile, homeowners, commercial multi-peril, workers' compensation and other lines of business. The insurance agencies under contract with the Mutual Company serve as representatives for the pool participants.

Under the terms of the intercompany pooling agreement, which took effect on October 1, 1986, Atlantic States cedes to the Mutual Company the premiums, losses and loss expenses on all of its insurance business. Substantially all of the Mutual Company's property and casualty insurance business, including the business reinsured from Southern, written or in force on or after October 1, 1986 is also included in the pooled business. The Mutual Company retroceded 35% of the pooled business to Atlantic States and retained 65% until October 1, 1988 when Atlantic States assumed 50% of the pooled business written or in force on or after October 1, 1988. Effective January 1, 1993, Atlantic States assumed 60% of the pooled business written or in force on or after January 1, 1993, and effective January 1, 1996, Atlantic States assumed 65% of the pooled business written or in force on or after January 1, 1996. All premiums, losses, loss expenses, other underwriting expenses and policy dividends are prorated among the parties on the basis of their participation in the pool. The pooling agreement may be amended or terminated at the end of any calendar year by agreement of the parties. The Company does not intend to terminate its participation in the pooling agreement. The allocations of pool participation percentages between the Mutual Company and the Company are based on the pool participants' relative amounts of capital and surplus and expectations of future relative amounts of capital and surplus. The pooling agreement does not legally discharge Atlantic States from its primary liability for the full amount of the policies ceded. However, it makes the Mutual Company liable to Atlantic States to the extent of the business ceded.

All of DGI's officers are officers of the Mutual Company, and five of DGI's seven directors are directors of the Mutual Company. A Coordinating Committee, which consists of two outside directors from each of DGI and the Mutual Company, none of whom hold seats on both Boards, reviews and approves changes in the pooling agreement and is responsible for matters involving actual or potential conflicts of interest. The decisions of the Coordinating Committee are binding on the two companies. DGI's members must conclude that intercompany transactions are fair and reasonable in order for such transactions to be approved.

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

DGI's Business Strategy

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

- A regional company concept designed to provide the advantages of local marketing, underwriting and claims servicing with the economies of scale from centralized accounting, administrative, investment, data processing and other services.

- An underwriting program and product mix designed to produce a Company-wide underwriting profit, i.e., a combined ratio of less than 100%, from careful risk selection and adequate pricing.

- A goal of a closely balanced ratio between commercial business and personal business.

- An agent selection process that focuses on appointing agencies with proven market strategies for the development of profitable business and an agent compensation plan providing for additional commissions based upon premium volume and profitability.

- Gradual expansion into adjacent states, including Indiana, Ohio, New York and North Carolina.

- A continuing effort to attract and retain qualified employees who receive incentive compensation based upon historical results.

Property and Casualty Insurance Products and Services

The following table indicates the percentage of DGI's net premiums written represented by commercial lines and by personal lines for the years ended December 31, 1995, 1994 and 1993:

	Year Ended December 31,		
	1995	1994	1993
Net Premiums Written:			
Commercial......................	46.8%	43.6%	43.2%
Personal........................	53.2	56.4	56.8

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

Commercial

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

- Workers' compensation -- policies purchased by employers to provide benefits to employees for injuries sustained during employment. The extent of coverage is established by the workers' compensation laws of each state.

- Commercial multi-peril -- policies that provide protection to businesses against many perils, usually combining liability and physical damage coverages.

Personal

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

- Homeowners -- policies that provide coverage for damage to residences and their contents from a broad range of perils, including, fire, lightning, windstorm and theft. These policies also cover liability of the insured arising from injury to other persons or their property while on the insured's property and under other specified conditions.

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

	Year Ended December 31,		
	1995	1994	1993
GAAP Combined Ratio	97.3%	101.7%	99.1%
Statutory operating ratios:			
Loss ratio	65.6	68.9	67.4
Expense ratio	31.6	31.3	29.3
Dividend ratio	1.2	1.7	1.5
Statutory combined ratio	98.4	101.9	98.2
Industry statutory combined ratio(1)	105.0	109.6	106.9

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(1) Source: Best's Aggregates & Averages Property-Casualty, 1993; Insurance Information Institute, 1995 and 1994.

DGI is required to participate in involuntary insurance programs for automobile insurance, as well as other property and casualty insurance lines, in states in which DGI operates. These programs include joint underwriting associations, assigned risk plans, fair access to insurance requirements ("FAIR") plans, reinsurance facilities and windstorm plans. Legislation establishing these programs requires all companies that write lines covered by these programs to provide coverage (either directly or through reinsurance) for insureds who cannot obtain insurance in the voluntary market. The legislation creating these programs usually allocates a pro rata portion of risks attributable to such insureds to each company on the basis of direct premiums written or the number of automobiles insured. Generally, state law requires participation in such programs as a condition to doing business. The loss ratio on insurance written under involuntary programs has traditionally been greater than the loss ratio on insurance in the voluntary market. The impact of these involuntary programs on DGI has been immaterial.

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

	Year Ended December 31,		
	1995	1994	1993
	(in thousands)		
Net Premiums Written:			
Commercial:			
Automobile	$ 8,306	$ 6,133	$ 5,279
Workers' compensation	17,607	15,110	15,098
Commercial multi-peril	14,598	11,028	10,326
Other	2,422	2,251	1,958
Total commercial	42,933	34,522	32,661
Personal:			
Automobile	31,060	29,263	29,243
Homeowners	14,932	12,850	11,214
Other	2,746	2,598	2,476
Total personal	48,738	44,711	42,933
Total business	$91,671	$79,233	$75,594
Statutory Combined Ratios:			
Commercial:			
Automobile	92.9%	116.1%	104.0%
Workers' compensation	76.9	80.0	96.8
Commercial multi-peril	110.0	95.0	90.7
Other	88.2	92.4	98.7
Total commercial	91.6%	92.0%	95.8%
Personal:			
Automobile	98.7%	92.3%	92.4%
Homeowners	118.7	147.5	120.1
Other	90.8	111.4	102.0
Total personal	104.1%	109.3%	99.9%
Total business	98.4%	101.9%	98.2%

Property and Casualty Underwriting

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

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

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

The underwriting department and the research and development section are responsible for the development of new insurance products and enhancements. Underwriting profitability is enhanced by the creation of niche products focused on classes of business which traditionally have provided underwriting profits.

Marketing

DGI's insurance products, together with the products of the Mutual Company and their respective subsidiaries, are marketed through approximately 2,300 independent insurance agents associated with approximately 700 insurance agencies. Business is written by either DGI or the Mutual Company depending upon geographic location, agency license and product. Management has developed an agency appointment procedure that focuses on appointing agencies with proven marketing strategies for the development of profitable business. DGI regularly evaluates its agency force and continues to strive to obtain and retain a significant position within each agency relative to the amount of business similar to that of DGI placed by the agency with other insurers. DGI and the Mutual Company have developed a successful contingent commission plan for agents under which additional commissions are payable based upon the volume of premiums produced and the profitability of the business of the agency written by DGI and the Mutual Company. Management believes the contingent commission program has enhanced the ability of DGI and the Mutual Company to write profitable business.

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

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

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

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

Claims

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

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

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

Liabilities for Losses and Loss Expenses

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

DGI maintains liabilities for the eventual payment of losses and loss expenses with respect to both reported and unreported claims. Liabilities for loss expenses are intended to cover the ultimate costs of settling all losses, including investigation and litigation costs from such losses. The amount of liability for reported losses is primarily based upon a case-by-case evaluation of the type of risk involved and knowledge of the circumstances surrounding each claim and the insurance policy provisions relating to the type of loss. The amount of liability for unreported claims and loss expenses is determined on the basis of historical information by line of insurance. Inflation is implicitly provided for in the reserving function through analysis of costs, trends and reviews of historical reserving results. Liabilities are closely monitored and

are recomputed periodically by the Company and the Mutual Company using new information on reported claims and a variety of statistical techniques. Liabilities for losses are not discounted.

The establishment of appropriate liabilities is an inherently uncertain process, and there can be no assurance that the ultimate liability will not exceed DGI's loss and loss expenses and have an adverse effect on DGI's results of operations and financial condition. As is the case for virtually all property and casualty insurance companies, DGI has found it necessary in the past to revise in non-material amounts estimated future liabilities for losses and loss expenses, and further adjustments could be required in the future. However, on the basis of DGI's internal procedures, which analyze, among other things, DGI's experience with similar cases and historical trends such as reserving patterns, loss payments, pending levels of unpaid claims and product mix, as well as court decisions, economic conditions and public attitudes, management of DGI believes that adequate provision has been made for DGI's liability for loss and loss expenses.

Differences between liabilities reported in DGI's financial statements prepared on the basis of generally accepted accounting principles and financial statements prepared on a statutory accounting basis result from reducing statutory liabilities for anticipated salvage and subrogation recoveries. These differences amounted to $3,880,621, $2,730,112 and $2,159,614 at December 31, 1995, 1994 and 1993, respectively.

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

	Year Ended December 31,		
	1995	1994	1993
		(in thousands)	
Net liability for unpaid losses and loss expenses at beginning of year	$62,577	$52,298	$43,449
Acquisition of Delaware American		5,670	
New balance beginning of year	62,577	57,968	43,449
Provision for net losses and loss expenses for claims incurred in the current year	58,354	55,941	45,451
Increase (decrease) in provision for estimated net losses and loss expenses for claims incurred in prior years	(2,947)	(3,084)	1,264
Total incurred	55,407	52,857	46,715
Net losses and loss payments for claims incurred during:			
The current year	28,834	30,544	21,779
Prior years	19,009	17,704	16,087
Total paid	47,943	48,248	37,866
Net liability for unpaid losses and loss expenses at end of year	$70,040	$62,577	$52,298

The following table sets forth the development of the liability for net unpaid losses and loss expenses for DGI on a GAAP basis from 1987 (the first full year of DGI's operations) to 1995, with supplemental loss data for 1995 and 1994.

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

The "Liability reestimated as of" portion of the table shows the reestimated amount of the previously recorded liability based on experience for each succeeding year. The estimate is increased or decreased as payments are made and more information becomes known about the severity of the remaining unpaid claims. For example, the 1990 liability has developed a deficiency after five years, in that reestimated net losses and loss expenses are expected

to be less than the estimated liability initially established in 1990 of $31,898,000 by $1,857,000.

The "Cumulative deficiency (excess)" shows the cumulative deficiency or excess at December 31, 1995 of the liability estimate shown on the top line of the corresponding column. An excess in liability means that the liability established in prior years exceeded actual net losses and loss expenses or were reevaluated at less than the original amount. A deficiency in liability means that the liability established in prior years was less than actual net losses and loss expenses or were reevaluated at more than the original amount.

The "Cumulative amount of liability paid through" portion of the table shows the cumulative net losses and loss expense payments made in succeeding years for net losses incurred prior to the balance sheet date. For example, the 1990 column indicates that as of December 31, 1995, payments equal to $27,439,000 of the currently reestimated ultimate liability for net losses and loss expenses of $30,041,000 had been made.

	Year Ended December 31								
	1987	1988	1989	1990	1991	1992	1993	1994*	1995
	(in thousands)								
Net liability at end of year for unpaid losses and loss expenses	$11,878	$20,734	$27,767	$31,898	$36,194	$43,449	$52,298	$62,577	$70,041
Net liability reestimated as of:									
One year later	12,678	21,598	29,175	32,923	37,514	44,713	50,223	59,630	
Two years later	12,949	20,475	28,861	33,550	37,765	42,053	47,820		
Three years later	12,692	19,823	28,545	32,803	35,446	40,077			
Four years later	12,160	19,296	27,717	31,004	33,931				
Five years later	11,799	18,796	26,759	30,041					
Six years later	11,857	18,457	26,180						
Seven years later	11,782	18,189							
Eight years later	11,722								
Cumulative deficiency (excess)	$ (156)	$(2,545)	$(1,587)	$(1,857)	$(2,263)	$(3,372)	$(4,478)	$(2,947)	
Cumulative amount of liability paid through:									
One year later	$ 5,891	$ 8,855	$11,401	$13,003	$13,519	$16,087	$15,947	$19,009	
Two years later	8,472	12,280	17,421	19,795	20,942	24,010	25,128		
Three years later	9,988	14,912	20,986	24,178	25,308	28,802			
Four years later	10,774	16,292	23,268	26,413	27,826				
Five years later	11,209	17,201	24,331	27,439					
Six years later	11,388	17,706	24,909						
Seven years later	11,484	17,782							
Eight years later	11,544								

* Restated for acquisition of Delaware American

	Year Ended December 31,	
	1994	1995
	(in thousands)	
Gross liability at end of year	$87,744	$97,734
Reinsurance recoverable	25,167	27,693
Net liability at end of year	62,577	70,041
Gross reestimated liability -- latest	85,313	
Reestimated recoverable -- latest	25,683	
Net reestimated liability -- latest	59,630	
Gross cumulative excess	2,431	

Reinsurance

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

The external reinsurance purchased by DGI and the Mutual Company includes "excess treaty reinsurance" under which losses are automatically reinsured over a set retention ($250,000 for 1995) and "catastrophic reinsurance" under which the reinsured recovers 90% of an accumulation of many losses resulting from a single event, including natural disasters (for 1995, $3,000,000 retention) DGI's principal reinsurance agreement, other than that with the Mutual Company, is an excess of loss treaty in which the reinsurers are Continental Casualty Company, Employers Reinsurance Corporation and Dorinco Reinsurance Company. Reinsurance is also purchased on an individual policy basis to reinsure losses that may occur from large risks, specific risk types or specific locations. The amount of coverage provided under each of these types of reinsurance depends upon the amount, nature, size and location of the risk being reinsured. For property insurance, excess of loss treaties provide for coverage up to $1,000,000. For liability insurance, excess of loss treaties provide for coverage up to $30,000,000. Property catastrophe contracts provide coverage up to $50,000,000 resulting from one event. On both property and casualty insurance, DGI and the Mutual Company purchase facultative reinsurance to cover exposures from losses that exceed the limits provided by their respective treaty reinsurance. In addition, the Company and the Mutual Company maintain various reinsurance agreements between themselves in addition to the pooling agreement. Atlantic States and the Mutual Company have a catastrophe reinsurance agreement which limits the maximum liability for losses from any one catastrophe occurrence to $400,000 for Atlantic States. Southern and the Mutual Company have an excess of loss reinsurance agreement in which the Mutual Company assumes up to $150,000 for losses in excess of $100,000. Southern and the Mutual Company also have a catastrophe reinsurance agreement which limits Southern's liability to $300,000 from any one catastrophe occurrence. Delaware American and the Mutual Company have an aggregate of loss reinsurance agreement whereby the Mutual Company reinsures Delaware American against adverse developments in Delaware American's loss reserve and loss adjustment reserves in 1996 compared to December 31, 1995 and all loss and loss adjustment expenses in December 1995 and all of 1996 to the extent that the loss and loss adjustment expense ratios for those periods exceed the lesser of the loss and loss adjustment expense ratios for January-November 1995 and January-December 1995, respectively, or 60%. Delaware American and the Mutual Company also have an excess of loss reinsurance agreement in which the Mutual Company assumes up to $200,000 for losses in excess of $50,000. Delaware American and the Mutual Company also have a Catastrophe Reinsurance Agreement which limits Delaware American's liability to $300,000 from any one catastrophe occurrence. Delaware American and the Mutual Company also have a reinsurance contract

whereby Delaware American cedes 70% of its workers' compensation business to the Mutual Company.

Competition

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

Investments

DGI's return on invested assets is an important element of its financial results. Currently, the investment objective is to maintain a widely diversified fixed maturities portfolio structured to maximize after-tax investment income while minimizing credit risk through investments in high quality instruments. At December 31, 1995, all debt securities were rated investment grade with the exception of one unrated obligation of $250,000, and the investment portfolio did not contain any real estate, any mortgage loans or any non-performing assets.

The following table shows the composition of the debt securities investment portfolio (at carrying value), excluding short-term investments, by rating as of December 31, 1995:

	December 31, 1995	
Rating(1)	Amount	Percent
	(dollars in thousands)	
U.S. Treasury and U.S. agency securities(2)	$ 76,663	53.4%
Aaa or AAA	35,008	24.3
Aa or AA	24,250	16.9
A	7,455	5.2
Not rated(3)	250	0.2
Total	$143,626	100.0%

- ----------

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

(2) Includes mortgage-backed securities of approximately $18,164,066.

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

DGI invests in both taxable and tax-exempt securities as part of its strategy to maximize after-tax income. Such strategy considers, among other factors, the alternative minimum tax. Tax-exempt securities made up approximately 38.5%, 26.4% and 35.6% of the total investment portfolio at December 31, 1995, 1994 and 1993, respectively.

The following table shows the classification of the investments (at carrying value) of DGI and its subsidiaries at December 31, 1995, 1994 and 1993.

	December 31					
	1995(1)		1994(1)		1993(2)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(dollars in thousands)					
Fixed maturities:						
Held to maturity:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 19,676	12.2%	$ 14,271	9.8%	$ 13,052	10.8%
Obligations of states and political subdivisions	52,081	32.3	32,110	22.1	28,297	23.4
Corporate securities	3,816	2.4	2,994	2.1	4,592	3.8
Mortgage-backed securities	16,406	10.1	20,783	14.2	17,476	14.4
Total held to maturity	91,979	57.0	70,158	48.2	63,417	52.4
Available for sale:						
U.S. treasury securities and obligations of U.S. government corporations and agencies	35,421	21.9	33,429	22.9	16,032	13.2
Obligations of states and political subdivisions	10,120	6.3	6,357	4.4	14,828	12.3
Corporate securities	4,348	2.7	3,734	2.6	6,225	5.1
Mortgage-backed securities	1,758	1.1	202	0.1	---	--
Total available for sale	51,647	32.0	43,722	30.0	37,085	30.6
Total fixed maturities	143,626	89.0	113,880	78.2	100,502	83.0
Equity securities(3)	3,264	2.0	4,202	2.9	3,823	3.2
Short-term investments(4)	14,498	9.0	27,485	18.9	16,704	13.8
Total investments	$161,388	100.0%	$145,567	100.0%	$121,029	100.0%

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(1) The Company accounts for investments in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting For Certain Investments in Debt and Equity Securities". See Notes 1 and 3 to the Consolidated Financial Statements incorpo-

rated by reference herein. Fixed maturities held to maturity are valued at amortized cost; those fixed maturities available for sale are valued at fair value. Total fair value of fixed maturities held to maturity was $95,357,840 at December 31, 1995. The amortized cost of fixed maturities available for sale was $50,714,887 at December 31, 1995.

(2) Effective December 31, 1993, in anticipation of adopting SFAS No. 115, the Company specifically identified those fixed maturi- ties as to which it has both the ability and intent to hold to maturity and classified them as "Held to maturity." See Notes 1 and 3 to the Consolidated Financial Statements incorporated by reference herein. Fixed maturities held to maturity were valued at amortized cost; those fixed maturities available for sale were valued at the lower of aggregate amortized cost or fair value. Total fair value of fixed maturities was $111,006,515 at December 31, 1994 and $106,486,367 at December 31, 1993.

(3) Equity securities are valued at market. Total cost of equity securities was $2,954,487 at December 31, 1995, $4,897,115 at December 31, 1994 and $3,439,488 at December 31, 1993.

(4) Short-term investments are valued at cost, which approximates market.

The following table sets forth the maturities (at carrying value) in the fixed maturity and short-term investment portfolio at December 31, 1995, December 31, 1994 and December 31, 1993.

	December 31					
	1995		1994		1993	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(dollars in thousands)					
Due in:(1)						
One year or less........	$ 34,493	21.8%	$ 35,803	25.3	$ 19,208	16.4%
Over one year through three years....	19,546	12.4	34,204	24.2	9,062	7.7
Over three years through five years.....	9,559	6.0	5,346	3.8	10,121	8.6
Over five years through ten years......	35,005	22.1	9,846	7.0	18,712	16.0
Over ten years through fifteen years..................	39,172	24.8	29,665	21.0	31,606	27.0
Over fifteen years......	2,185	1.4	5,968	4.2	11,021	9.4
Mortgage-backed securities............	18,164	11.5	20,534	14.5	17,476	14.9
	$158,124	100.0%	$141,366	100.0%	$117,206	100.0%

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(1) Based on stated maturity dates with no prepayment assumptions. Actual maturities will differ because borrowers may have the

right to call or prepay obligations with or without call or prepayment penalties.

As shown above, the Company held investments in mortgage-backed securities having a carrying value of $18,164,066 at December 31, 1995. Included in these investments are collateralized mortgage obligations ("CMOs") with a carrying value of $17,682,497 at December 31, 1995. The Company has attempted to reduce the prepayment risks associated with mortgage-backed securities by investing approximately 99.5%, as of December 31, 1995, of the Company's holdings of CMOs in planned amortization and very accurately defined tranches. Such investments are designed to alleviate the risk of prepayment by providing predictable principal prepayment schedules within a designated range of prepayments. If principal is repaid earlier than originally anticipated, investment yields may decrease due to reinvestment of these funds at lower current interest rates and capital gains or losses may be realized since the book value of securities purchased at premiums or discounts may be different from the prepayment amount.

Investment results of DGI and its subsidiaries for the years ended December 31, 1995, 1994 and 1993 are shown in the following table:

	Year Ended December 31,		
	1995	1994	1993
	(dollars in thousands)		
Invested assets(1)	$155,093	$134,636	$108,472
Investment income(2)	$ 9,270	$ 7,778	$ 6,478
Average yield	6.0%	5.8%	6.0%

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

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

A.M. Best Rating

In 1995, the Best rating of the Mutual Company, Atlantic States, Southern and Delaware American was "A", based upon their respective current financial conditions and historical statutory results of operations. Management believes that this Best rating is an important factor in marketing DGI's products to its agents and customers. Best's ratings are industry ratings based on a comparative analysis of the financial condition and operating performance of insurance companies as determined by their publicly available reports. Best's classifications are A++ and A+ (Superior), A and A-(Excellent), B++ and B+ (Very Good), B and B- (Good), C++ and C+ (Fair), C and C- (Marginal), D (below minimum standards) and E and F (Liquidation). Best's ratings are based upon factors relevant to policyholders and are not directed toward the protection of inves-

tors. According to Best, an "excellent" rating is assigned to those companies which, in Best's opinion, have achieved excellent overall performance when compared to the norms of the property and casualty insurance industry and have generally demonstrated a strong ability to meet policyholder and other contractual obligations.

Regulation

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

In addition to state-imposed insurance laws and regulations, in December 1993 the National Association of Insurance Commissioners (the "NAIC") adopted a new risk-based capital system for assessing the adequacy of statutory capital and surplus effective in 1994 which augments the states' current fixed dollar minimum capital requirements for insurance companies. At December 31, 1995, DGI exceeded the required levels of capital. There can be no assurance that the capital requirements applicable to DGI's business will not increase in the future.

The states in which Atlantic States (Pennsylvania, Maryland and Delaware), the Mutual Company (Pennsylvania, Ohio, Maryland, New York, Virginia and Delaware), Southern (Virginia) and Delaware American (Delaware, Maryland and Pennsylvania) do business have guaranty fund laws under which insurers doing business in such states can be assessed on the basis of premiums written by the insurer in that state in order to fund policyholder liabilities of insolvent insurance companies. Under these laws in general, an insurer is subject to assessment, depending upon its market share of a given line of business, to assist in the payment of policyholder claims against insolvent insurers. The Mutual Company, Atlantic States, Southern and Delaware American have made accruals for their portion of assessments related to such insolvencies based upon the most current information furnished by the guaranty associations. During the five years ended December 31, 1995, the amount of such insolvency assess-

ments paid by Atlantic States, Southern, the Mutual Company and Delaware American was not material.

The property and casualty insurance industry has recently received a considerable amount of publicity because of rising insurance costs and the unavailability of insurance. New regulations and legislation are being proposed to limit damage awards, to control plaintiffs' counsel fees, to bring the industry under regulation by the federal government and to control premiums, policy terminations and other policy terms. It is not possible to predict whether, in what form or in what jurisdictions any of these proposals might be adopted or the effect, if any, on the Company.

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

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

The Company's insurance subsidiaries are restricted by the insurance laws of their respective states of domicile as to the amount of dividends or other distributions they may pay to the Company without the prior approval of the respective state regulatory authorities. Generally, the maximum amount that may be paid by an insurance subsidiary during any year after notice to, but without prior approval of the insurance commissioners of these states is limited to a stated percentage of that subsidiary's statutory capital and surplus as of a certain date, or the net income or net investment income not including realized capital gains of the subsidiary for the preceding year. As of December 31, 1995, amounts available for payment of dividends in 1996 without the prior approval of the various insurance commissioners were $5,224,905 from Atlantic States, $638,042 from Southern and $569,563 from Delaware American. See Note

11 to the Consolidated Financial Statements incorporated by reference herein.

The Mutual Company

The Mutual Company, which was organized in 1889, has a Best rating of A (Excellent). At December 31, 1995, the Mutual Company had admitted assets of $159 million and policyholders' surplus of $72.5 million. At December 31, 1995, the Mutual Company had no debt and, of its total liabilities of $86.9 million, reserves for net losses and loss expenses accounted for $49.5 million and unearned premiums accounted for $23.4 million. Of the Mutual Company's investment portfolio of $136 million at December 31, 1995, investment-grade bonds accounted for $55 million, cash and short-term investments accounted for $8 million and mortgages accounted for $7 million. At December 31, 1995, the Mutual Company owned 2,507,633 shares of the Company's Common Stock, which were carried on the Mutual Company's books at $47 million. The foregoing financial information is presented on the statutory basis of accounting.

Employees

As of December 31, 1995, the Mutual Company had 339 employees. The Mutual Company's employees provide a variety of services to DGI, Atlantic States, Delaware American and Southern as well as to the Mutual Company and its subsidiaries.

Item 2. Properties.

DGI shares headquarters with the Mutual Company in a building owned by the Mutual Company. The Mutual Company charges DGI for an appropriate portion of the building expenses under an inter-company allocation agreement which is consistent with the terms of the pooling agreement. The headquarters of the Mutual Company have approximately 82,000 square feet of office space, with an additional 40,000 square feet of office space currently under construction. The Mutual Company has a branch office of approximately 1,600 square feet in Pittsburgh, Pennsylvania, which it leases. Southern has a facility of approximately 10,000 square feet in Glen Allen, Virginia which it leases. Delaware American has a facility of approximately 4,000 square feet in New Castle, Delaware which it leases.

Item 3. Legal Proceedings.

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

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

No matter was submitted to a vote of holders of the Company's Common Stock during the fourth quarter of 1995.

Executive Officers of the Company

Name	Age	Position
Donald H. Nikolaus	53	President and Chief Executive Officer since 1981
William H. Shupert	69	Senior Vice President - Underwriting since 1991; Vice President - Underwriting for 18 years prior thereto
Ralph G. Spontak	43	Senior Vice President since 1991; Chief Financial Officer since 1983; Vice President since 1983; Secretary since 1988; KMG Main Hurdman for nine years to 1983
Frank J. Wood	62	Vice President - Marketing since 1988; Manager - Marketing for one year prior thereto
Daniel J. Wagner	35	Treasurer since 1993; Controller for five years prior thereto

PART II

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

The answer to this Item is incorporated in part by reference to page 25 of the Company's Annual Report to Stockholders for the year ended December 31, 1995, which is included as Exhibit (13) to this Form 10-K Report. As of March 15, 1996, the Company had approximately 372 holders of record of its Common Stock. The Company declared dividends of $.36 per share in 1994 and $.40 per share in 1995.

Item 6. Selected Financial Data.

The answer to this Item is incorporated by reference to page 1 of the Company's Annual Report to Stockholders for the year ended December 31, 1995, which is included as Exhibit (13) to this Form 10-K Report.

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

The answer to this Item is incorporated by reference to pages 7 through 9 of the Company's Annual Report to Stockholders for the year ended December 31, 1995, which is included as Exhibit (13) to this Form 10-K Report.

Item 8. Financial Statements and Supplementary Data.

The answer to this Item is incorporated by reference to pages 10 through 23 of the Company's Annual Report to Stockholders for the year ended December 31, 1995, which is included as Exhibit (13) to this Form 10-K Report.

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

None.

PART III

Item 10. Directors and Executive Officers of the Company.

The answer to this Item with respect to the Company's directors is incorporated by reference to pages 5 through 7 of the Company's proxy statement relating to the Company's annual meeting of stockholders to be held April 18, 1996. The response to this Item with respect to the Company's executive officers is incorporated by reference to Part I of this Form 10-K Report.

Item 11. Executive Compensation.

The answer to this Item is incorporated by reference to pages 7 through 12 of the Company's proxy statement relating to the Company's annual meeting of stockholders to be held April 18, 1996, except for the Compensation Committee Report and the Performance Graph, which are not incorporated herein by reference.

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

The answer to this Item is incorporated by reference to pages 2 through 3 of the Company's proxy statement relating to the Company's annual meeting of stockholders to be held April 18, 1996.

Item 13. Certain Relationships and Related Transactions.

The answer to this Item is incorporated by reference to pages 3 through 5 and page 13 of the Company's proxy statement relating to the Company's annual meeting of stockholders to be held April 18, 1996.

PART IV

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

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

(1) Consolidated Financial Statements

	Page*
Report of Independent Auditors	23
Donegal Group Inc. and Subsidiaries:	
Consolidated Balance Sheets as of December 31, 1995 and 1994	10
Consolidated Statements of Income for the three years ended December 31, 1995, 1994 and 1993	11
Consolidated Statements of Stockholders' Equity for the three years ended December 31, 1995, 1994 and 1993	12
Consolidated Statements of Cash Flows for the three years ended December 31, 1995, 1994 and 1993	13
Notes to Consolidated Financial Statements	14-23

(2) Financial Statement Schedules

Donegal Group Inc. and Subsidiaries:

		Page
Report of Independent Auditors on Schedules		33
Schedule I.	Summary of Investments - Other than Investments in Related Parties	34
Schedule II.	Condensed Financial Information of Parent Company	35-37
Schedule III.	Supplementary Insurance Information	38-39
Schedule IV.	Reinsurance	40
Schedule VI.	Supplemental Insurance Information Concerning Property and Casualty Subsidiary	41-42

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

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* Refers to the respective page of Donegal Group Inc.'s 1995 Annual Report to Stockholders. The Consolidated Financial Statements and Notes to Consolidated Financial Statements and Auditor's Report thereon on pages 10 through 23 are incorporated herein by reference.

With the exception of the portions of such Annual Report specifically incorporated by reference in this Item and Items 5, 6, 7 and 8, such Annual Report shall not be deemed filed as part of this Form 10-K Report or otherwise subject to the liabilities of Section 18 of the Securities Exchange Act of 1934.

(3) Exhibits

Exhibit No.	Description of Exhibits	Reference
(3)(i)	Certificate of Incorporation of Registrant	(a)
(3)(ii)	Amended and Restated By-laws of Registrant	(e)
(4)	Form of Registrant's Common Stock Certificate	(a)
Management Contracts and Compensatory Plans or Arrangements		
(10)(A)	Donegal Mutual Insurance Company Money Purchase Pension Plan and Trust dated March 12, 1985	(a)
(10)(B)	Donegal Mutual Insurance Company Profit Sharing Plan and Trust dated March 12, 1985	(a)
(10)(C)	Donegal Group Inc. Key Executive Incentive Bonus Plan dated September 29, 1986	(b)
(10)(D)	Donegal Group Inc. Employee Stock Purchase Plan, as amended	(b)
(10)(E)	Donegal Group Inc. Equity Incentive Plan, as amended	(b)
(10)(F)	Donegal Group Inc. 1996 Equity Incentive Plan.	filed herewith
Other Material Contracts		
(10)(G)	Tax Sharing Agreement dated September 29, 1986 between Donegal Group Inc. and Atlantic States Insurance Company	(a)
(10)(H)	Services Allocation Agreement dated September 29, 1986 between Donegal Mutual Insurance Company, Donegal Group Inc. and Atlantic States Insurance Company	(a)

(10)(I)	Proportional Reinsurance Agreement dated September 29, 1986 between Donegal Mutual Insurance Company and Atlantic States Insurance Company	(a)
(10)(J)	Amendment dated October 1, 1988 to Proportional Reinsurance Agreement between Donegal Mutual Insurance Company and Atlantic States Insurance Company	(c)
(10)(K)	Multi-Line Excess of Loss Reinsurance Agreement effective January 1, 1993 between Donegal Mutual Insurance Company, Southern Insurance Company of Virginia, Atlantic States Insurance Company and Pioneer Mutual Insurance Company, and Christiana General Insurance Corporation of New York, Cologne Reinsurance Company of America, Continental Casualty Company, Employers Reinsurance Corporation and Munich American Reinsurance Company	(e)
(10)(L)	Amendment dated July 16, 1992 to Proportional Reinsurance Agreement between Donegal Mutual Insurance Company and Atlantic States Insurance Company	(d)
(10)(M)	Amendment dated as of December 21, 1995 to Proportional Reinsurance Agreement between Donegal Mutual Insurance Company and Atlantic States Insurance Company	(f)
(10)(N)	Credit Agreement dated as of December 29, 1995 between Donegal Group Inc. and Fleet National Bank of Connecticut	(f)
(10)(O)	Stock Purchase Agreement dated as of December 21, 1995 between Donegal Mutual Insurance Company and Donegal Group Inc.	(f)
(10)(P)	Donegal Group Inc. 1996 Employee Stock Purchase Plan.	(g)
(13)	1995 Annual Report to Stockholders (electronic filing contains only those portions incorporated by reference into this Form 10-K report).	filed herewith
(20)	Proxy Statement relating to the Annual Meeting of Stockholders to be held on April 18, 1996	filed herewith
(21)	Subsidiaries of Registrant	filed herewith

(23)	Consent of Independent Auditors Certified	filed herewith
(27)	Financial Data Schedule	filed herewith
(28)(A)	Analysis of Losses and Loss Expenses -- Schedule P of the 1995 Annual Statement of Donegal Mutual Insurance Company	P
(28)(B)	Analysis of Losses and Loss Expenses -- Schedule P of the 1995 Annual Statement of Atlantic States Insurance Company	P
(28)(C)	Analysis of Losses and Loss Expenses -- Schedule P of the 1995 Annual Statement of Southern Insurance Company of Virginia	P
(28)(D)	Analysis Losses and Loss Expenses -- Schedule P of the 1995 Annual Statement of Delaware American Insurance Company	P

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

(b) Such exhibit is hereby incorporated by reference to the like-described exhibits in Registrant's Form 10-K Report for the year ended December 31, 1986.

(c) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form 10-K Report for the year ended December 31, 1988.

(d) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form 10-K Report for the year ended December 31, 1992.

(e) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form S-2 Registration Statement No. 33-67346 declared effective September 29, 1993.

(f) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form 8-K Report dated December 21, 1995.

(g) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form S-8 Registration Statement No. 333-1287 filed February 29, 1996.

(b) Reports on Form 8-K:

During the quarter ended December 31, 1995, Registrant filed a report on Form 8-K dated December 21, 1995 in which information was reported under Item 5 (Other Events).

SIGNATURES

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

DONEGAL GROUP INC.

Date: March 29, 1996

By: /s/Donald H. Nikolaus
Donald H. Nikolaus, President

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

Signature	Title	Date
/s/Donald H. Nikolaus Donald H. Nikolaus	President and a Director (principal executive officer)	March 29, 1996
/s/Ralph G. Spontak Ralph G. Spontak	Senior Vice President and Secretary (principal financial and accounting officer)	March 29, 1996
/s/Robert S. Bolinger Robert S. Bolinger	Director	March 29, 1996
Thomas J. Finley, Jr.	Director	March , 1996
/s/Patricia A. Gilmartin Patricia A. Gilmartin	Director	March 29, 1996
/s/Philip H. Glatfelter, II Philip H. Glatfelter, II	Director	March 29, 1996
/s/C. Edwin Ireland C. Edwin Ireland	Director	March 29, 1996
/s/R. Richard Sherbahn R. Richard Sherbahn	Director	March 29, 1996

Independent Auditors' Report

The Stockholders and Board of Directors
Donegal Group Inc.

Under the date of February 23, 1996, we reported on the consolidated balance sheets of Donegal Group Inc. and subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1995, as contained in the 1995 annual report to stockholders. These consolidated financial statements and our report thereon are incorporated by reference in the annual report on Form 10-K for the year 1995. In connection with our audits of the aformentioned consolidated financial statements, we also audited the related financial statement schedules as listed in the accompanying index. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement schedules based on our audits.

In our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the financial statements, the Company adopted the provisions of Statement of Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" as of January 1, 1994.

KPMG Peat Marwick LLP

Harrisburg, Pennsylvania
February 23, 1996

DONEGAL GROUP INC. AND SUBSIDIARIES

SCHEDULE I - SUMMARY OF INVESTMENTS
OTHER THAN INVESTMENTS IN RELATED PARTIES

December 31, 1995

	Cost	Fair Value	Amount at Which Shown in the Balance Sheet
Fixed Maturities:			
Held to maturity:			
United States government and governmental agencies and authorities including obligations of states and political subdivisions.......	$ 71,756,284	$ 74,525,605	$ 71,756,284
All other corporate bonds.....	3,816,309	4,195,000	3,816,309
Mortgage-backed securities....	16,406,529	16,637,235	16,406,529
Total fixed maturities held to maturity...........	91,979,122	95,357,840	91,979,122
Available for sale:			
United States government and governmental agencies and authorities including obligations of states and political subdivisions.......	44,690,339	45,541,193	45,541,193
All other corporate bonds.....	4,299,597	4,348,000	4,348,000
Mortgage-backed securities....	1,724,951	1,757,537	1,757,537
Total fixed maturities available for sale..........	50,714,887	51,646,730	51,646,730
Total fixed maturities................	142,694,009	147,004,570	143,625,852
Equity Securities:			
Preferred stocks			
Public utilities..............	562,500	598,750	598,750
Banks.........................	625,000	646,875	646,875
Industrial and miscellaneous	1,126,500	1,093,125	1,093,125
Total preferred stocks......	2,314,000	2,338,750	2,338,750
Common stocks			
Public utilities..............	131,516	121,250	121,250
Banks.........................	53,525	358,628	358,628
Industrial and miscellaneous................	455,446	445,250	445,250
Total common stocks..........	640,487	925,128	925,128
Total equity securities.....	2,954,487	3,263,878	3,263,878
Short-term investments...........	14,498,579	14,498,579	14,498,579
Total investments.............	$160,147,075	$164,767,027	$161,388,309

DONEGAL GROUP INC. AND SUBSIDIARIES

SCHEDULE II - CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY

Condensed Balance Sheets
($ in thousands)
December 31, 1995 and 1994

ASSETS

	1995	1994*
Investment in subsidiaries (equity method)	$75,236	$59,346
Short-term investments, at cost, which approximates market	1,117	373
Cash	147	194
Property and equipment	1,355	1,339
Current income taxes	341	9
Loan costs	280	
Other receivables	4	
Total assets	$78,480	$61,261

LIABILITIES AND STOCKHOLDERS' EQUITY

	1995	1994
Cash dividends declared to stockholders	$ 428	$ 369
Accounts payable and accrued expenses	317	92
Deferred income taxes	250	235
Payable to affiliates	202	
Line of credit	5,000	
Total liabilities	6,197	696
Stockholders' equity		
Preferred stock, $1.00 par value, authorized 1,000,000 shares, none issued		
Common stock, $1.00 par value, authorized 10,000,000 shares, issued 4,326,362 and 4,162,770 shares and outstanding 4,261,314 and 4,097,722 shares	4,327	4,163
Additional paid-in capital	35,018	33,459
Net unrealized gains (losses) on investments	819	(998)
Retained earnings, including equity in undistributed net income of subsidiaries ($37,202 and $28,631)	32,939	24,761
Treasury stock at cost	(820)	(820)
Total stockholders' equity	72,283	60,565
Total liabilities and stockholders' equity	$78,480	$61,261

* Restated

DONEGAL GROUP INC. AND SUBSIDIARIES

SCHEDULE II - CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY

Condensed Statements of Income
($ in thousands)

Years ended December 31, 1995, 1994 and 1993

	1995	1994*	1993
Revenues			
Dividends-subsidiary	$ 900	$ 900	$ 500
Lease income	491	463	403
Investment income	13	12	23
Total revenues	1,404	1,375	926
Expenses			
Operating expenses	411	418	369
Interest	4	10	307
Total expenses	415	428	676
Income before income tax benefit and equity in undistributed net income of subsidiaries	989	947	250
Income tax (benefit)	(298)	16	(79)
Income before equity in undistributed net income of subsidiaries	1,287	931	329
Equity in undistributed net income of subsidiaries	8,571	4,109	6,053
Net income	$ 9,858	$5,040	$6,382

* Restated

DONEGAL GROUP INC. AND SUBSIDIARIES

SCHEDULE II - CONDENSED INFORMATION OF PARENT COMPANY

Condensed Statements of Cash Flows
($ in thousands)
Years ended December 31, 1995, 1994 and 1993

	1995	1994*	1993
Cash flows from operating activities:			
Net income	$ 9,858	$ 5,040	$ 6,382
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of subsidiaries	(8,571)	(4,109)	(6,053)
Increase (decrease) in accounts payable and accrued expenses	225	22	3
Depreciation and amortization	264	257	222
Increase in deferred income tax	15	21	46
Increase in current income tax receivable	(332)	(2)	---
Increase in other receivables	(284)	---	---
Net adjustments	(8,683)	(3,811)	(5,782)
Net cash provided by operating activities	1,175	1,229	600
Cash flows from investing activities:			
Net sales (purchases) of short-term investments	(744)	447	(820)
Net purchase of property and equipment	(279)	(110)	(449)
Capital contribution to subsidiaries	---	---	(9,500)
Net purchases of long-term investments	---	(200)	---
Acquisition of Delaware American	(5,300)	---	---
Net cash provided by (used in) investing activities	(6,323)	137	(10,769)
Cash flows from financing activities:			
Short-term bank borrowings	---	---	---
Repayment of short-term bank borrowings	---	---	(4,500)
Cash dividends paid	(1,622)	(1,433)	(1,011)
Issuance of common stock		125	16,369
Purchase of treasury stock	1,723	---	(820)
Line of credit	5,000	---	---
Net cash provided by (used in) financing activities	5,101	(1,308)	10,038
Net change in cash	(47)	58	(131)
Cash beginning	194	136	267
Cash ending	$ 147	$ 194	$ 136

* Restated

DONEGAL GROUP INC. AND SUBSIDIARIES

SCHEDULE III - SUPPLEMENTARY INSURANCE INFORMATION

Segment	Net Earned Premiums	Net Investment Income	Net Losses and Loss Expenses	Amortization of Deferred Policy Acquisition Costs	Other Underwriting Expenses	Net Premiums Written
Year Ended December 31, 1995						
Property and casualty	$86,277,852	$ 9,256,960	$55,407,254	$14,412,000	$13,049,188	$91,671,128
Parent	---	12,924	---	---	---	---
	$86,277,852	$ 9,269,884	$55,407,254	$14,412,000	$13,049,188	$91,671,128
Year Ended December 31, 1994*						
Property and casualty	$77,232,889	$ 7,765,950	$52,857,302	$12,055,000	$12,278,473	$79,233,963
Parent	---	12,214	---	---	---	---
	$77,232,889	$ 7,778,164	$52,857,302	$12,055,000	$12,278,473	$79,233,963
Year Ended December 31, 1993						
Property and casualty	$69,415,874	$ 6,455,071	$46,714,826	$11,475,000	$ 9,545,102	$75,594,469
Parent	---	23,283	---	---	---	---
	$69,415,874	$ 6,478,354	$46,714,826	$11,475,000	$ 9,545,102	$75,594,469

* Restated

DONEGAL GROUP INC. AND SUBSIDIARIES

SCHEDULE III - SUPPLEMENTARY INSURANCE INFORMATION

	At December 31,			
Segment	Deferred Policy Acquisition Costs	Liability for Losses and Loss Expenses	Unearned Premiums	Other Policy Claims and Benefits Payable
1995				
Property and casualty	$ 6,902,218	$97,733,851	$54,377,239	$ ---
1994*				
Property and casualty	$ 5,551,869	$87,743,937	$46,755,095	$ ---

* Restated

DONEGAL GROUP INC. AND SUBSIDIARIES

SCHEDULE IV - REINSURANCE

	Gross Amount	Ceded To Other Companies	Assumed From Other Companies	Net Amount	Percentage Assumed to Net
Year Ended December 31, 1995					
Property and casualty premiums	$40,552,497	$29,099,448	$74,824,803	$86,277,852	87%
Year Ended December 31, 1994*					
Property and casualty premiums	$35,275,866	$24,365,441	$66,322,464	$77,232,889	86%
Year Ended December 31, 1993					
Property and casualty premiums	$27,954,300	$21,447,088	$62,908,662	$69,415,874	91%

* Restated

DONEGAL GROUP INC. AND SUBSIDIARIES

SCHEDULE VI - SUPPLEMENTARY INSURANCE INFORMATION
CONCERNING PROPERTY AND CASUALTY SUBSIDIARIES

	Deferred Policy Acquisition Costs	Liability for Losses and Loss Expenses	Discount, if any, Deducted From Reserves	Unearned Premiums
At December 31,				
1995	$ 6,902,218	$97,733,851	$ ---	$54,377,239
1994*	$ 5,551,869	$87,743,937	$ ---	$46,755,095

* Restated

DONEGAL GROUP INC. AND SUBSIDIARIES

SCHEDULE VI - SUPPLEMENTARY INSURANCE INFORMATION
CONCERNING PROPERTY AND CASUALTY SUBSIDIARIES

	Net Earned Premiums	Investment Income	Losses and Loss Expenses Related to (1) Current Year	Losses and Loss Expenses Related to (2) Prior Years	Amortization of Deferred Policy Acquisition Costs	Net Paid Losses and Loss Expenses	Net Premiums Written
Year Ended December 31, 1995	$86,277,852	$ 9,256,960	$58,354,254	$(2,947,000)	$14,412,000	$47,943,360	$91,671,128
Year Ended December 31, 1994*	$77,232,889	$ 7,765,950	$55,941,502	$(3,084,000)	$12,055,000	$48,248,316	$79,233,963
Year Ended December 31, 1993	$69,415,874	$ 6,455,071	$45,451,826	$ 1,263,000	$11,475,000	$37,865,913	$75,594,469

* Restated

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

Exhibit No.	Description of Exhibits	Reference
(3)(i)	Certificate of Incorporation of Registrant	(a)
(3)(ii)	Amended and Restated By-laws of Registrant	(e)
(4)	Form of Registrant's Common Stock Certificate	(a)
Management Contracts and Compensatory Plans or Arrangements		
(10)(A)	Donegal Mutual Insurance Company Money Purchase Pension Plan and Trust dated March 12, 1985	(a)
(10)(B)	Donegal Mutual Insurance Company Profit Sharing Plan and Trust dated March 12, 1985	(a)
(10)(C)	Donegal Group Inc. Key Executive Incentive Bonus Plan dated September 29, 1986	(b)
(10)(D)	Donegal Group Inc. Employee Stock Purchase Plan, as amended	(b)
(10)(E)	Donegal Group Inc. Equity Incentive Plan, as amended	(b)
(10)(F)	Donegal Group Inc. 1996 Equity Incentive Plan	filed herewith
Other Material Contracts		
(10)(G)	Tax Sharing Agreement dated September 29, 1986 between Donegal Group Inc. and Atlantic States Insurance Company	(a)
(10)(H)	Services Allocation Agreement dated September 29, 1986 between Donegal Mutual Insurance Company, Donegal Group Inc. and Atlantic States Insurance Company	(a)

(10)(I)	Proportional Reinsurance Agreement dated September 29, 1986 between Donegal Mutual Insurance Company and Atlantic States Insurance Company	(a)
(10)(J)	Amendment dated October 1, 1988 to Proportional Reinsurance Agreement between Donegal Mutual Insurance Company and Atlantic States Insurance Company	(c)
(10)(K)	Multi-Line Excess of Loss Reinsurance Agreement effective January 1, 1993 between Donegal Mutual Insurance Company, Southern Insurance Company of Virginia, Atlantic States Insurance Company and Pioneer Mutual Insurance Company, and Christiana General Insurance Corporation of New York, Cologne Reinsurance Company of America, Continental Casualty Company, Employers Reinsurance Corporation and Munich American Reinsurance Company	(e)
(10)(L)	Amendment dated July 16, 1992 to Proportional Reinsurance Agreement between Donegal Mutual Insurance Company and Atlantic States Insurance Company	(d)
(10)(M)	Amendment dated as of December 21, 1995 to Proportional Reinsurance Agreement between Donegal Mutual Insurance Company and Atlantic States Insurance Company	(f)
(10)(N)	Credit Agreement dated as of December 29, 1995 between Donegal Group Inc. and Fleet National Bank of Connecticut	(f)
(10)(O)	Stock Purchase Agreement dated as of December 21, 1995 between Donegal Mutual Insurance Company and Donegal Group Inc.	(f)
(10)(P)	Donegal Group Inc. 1996 Employee Stock Purchase Plan.	(g)
(13)	1995 Annual Report to Stockholders (electronic filing contains only those portions incorporated by reference into this Form 10-K report.)	filed herewith
(20)	Proxy Statement relating to the Annual Meeting of Stockholders to be held on April 18, 1996	filed herewith
(21)	Subsidiaries of Registrant	filed herewith

(23)	Consent of Independent Auditors	filed herewith
(27)	Financial Data Schedule	filed herewith
(28)(A)	Analysis of Losses and Loss Expenses -- Schedule P of the 1995 Annual Statement of Donegal Mutual Insurance Company	P
(28)(B)	Analysis of Losses and Loss Expenses -- Schedule P of the 1995 Annual Statement of Atlantic States Insurance Company	P
(28)(C)	Analysis of Losses and Loss Expenses -- Schedule P of the 1995 Annual Statement of Southern Insurance Company of Virginia	P
(28)(D)	Analysis Losses and Loss Expenses -- Schedule P of the 1995 Annual Statement of Delaware American Insurance Company	P

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

(b) Such exhibit is hereby incorporated by reference to the like-described exhibits in Registrant's Form 10-K Report for the year ended December 31, 1986.

(c) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form 10-K Report for the year ended December 31, 1988.

(d) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form 10-K Report for the year ended December 31, 1992.

(e) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form S-2 Registration Statement No. 33-67346 declared effective September 29, 1993.

(f) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form 8-K Report dated December 21, 1995.

(g) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form S-8 Registration Statement No. 333-1287 filed on February 29, 1996.

DONEGAL GROUP INC.

1996 EQUITY INCENTIVE PLAN

1. Purpose. The purpose of the Donegal Group Inc. 1996 Equity Incentive Plan (the "Plan") is to further the growth, development and financial success of Donegal Group Inc. (the "Company"), its parent and the subsidiaries of the Company and its parent by providing additional incentives to those officers and key employees who are responsible for the management of the business affairs of the Company, its parent and/or subsidiaries of the Company or its parent, which will enable them to participate directly in the growth of the capital stock of the Company. The Company intends that the Plan will facilitate securing, retaining and motivating management employees of high caliber and potential. To accomplish these purposes, the Plan provides a means whereby management employees may receive stock options ("Options") to purchase the Company's Common Stock, $1.00 par value (the "Common Stock").

2. Administration.

(a) Composition of the Committee. The Plan shall be administered by a committee of at least three persons (the "Committee") appointed by the Company's Board of Directors. No member of the Committee shall have been, or shall be, granted Options under the Plan, or options or other awards under any other plan of the Company or any of its affiliates, in the year preceding his appointment or while serving on the Committee, except for participation in any plan in which participation would be permitted in accordance with the applicable rules of the Securities and Exchange Commission relating to disinterested administration under the Securities Exchange Act of 1934 (the "Exchange Act"). Subject to the foregoing, from time to time the Board of Directors may increase the size of the Committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies, however caused, or remove all members of the Committee and thereafter directly administer the Plan.

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

3. Stock Subject to the Plan. Subject to Section 16 hereof, the shares that may be issued under the Plan shall not exceed in the aggregate 345,850 shares of Common Stock. Such shares may be authorized and unissued shares or shares issued and subsequently reacquired by the Company. Except as otherwise provided herein, any shares subject to an Option that for any reason expires or is terminated unexercised as to such shares shall again be available under the Plan.

4. Eligibility To Receive Options. Persons eligible to receive Options under the Plan shall be limited to those officers and other key employees of the Company, its parent and any subsidiary of the Company or its parent (as defined in Section 425 of the Internal Revenue Code of 1986 (the "Code") or any amendment or substitute thereto) who are in positions in which their decisions, actions and counsel significantly impact upon the profitability and success of the Company, its parent or any subsidiary of the Company or its parent. Directors of the Company who are not also officers or employees of the Company, its parent or any subsidiary of the Company or its parent shall not be eligible to participate in the Plan.

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

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

(a) Type of Option. Each option agreement shall identify the Options represented thereby either as Incentive Stock Options or Nonqualified Stock Options, as the case may be.

(b) Option Price. Each option agreement shall set forth the purchase price of the Common Stock purchasable upon the exercise of the Option evidenced thereby. Subject to the limitation set forth in Section 6(d)(ii) of the Plan, the purchase price of the Common Stock subject to an Incentive Stock Option shall be not less than 100% of the fair market value of such stock on the date the Option is granted, as determined by the Committee, but in no event less than the par value of such stock. The purchase price of the Common Stock subject to a Nonqualified Stock Option shall be not less than 100% of the fair market value of such stock on the date the Option is granted, as determined by the

Committee. For this purpose, fair market value on any date shall mean the closing price of the Common Stock, as reported in The Wall Street Journal (or if not so reported, as otherwise reported by the National Association of Securities Dealers Automated Quotation ("Nasdaq") System), or if the Common Stock is not reported by Nasdaq, the fair market value shall be as determined by the Committee pursuant to Section 422 of the Code.

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

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

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

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

(iii) No Incentive Stock Options shall be exercisable more than three months (or one year, in the case of an employee who dies or becomes disabled within the meaning of Section 22(e)(3) of the Code or any substitute therefor) after termination of employment.

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

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

8. Exercise and Payment for Shares. Options may be exercised in whole or in part, from time to time, by giving written notice of exercise to the Secretary of the Company, specifying the number of shares to be purchased, except that no Option may be exercised in whole or in part during the first six months after such Option is granted unless expressly permitted by the Committee. The purchase price of the shares with respect to which an Option is exercised shall be payable in full with the notice of exercise in cash, Common Stock at fair market value, or a combination thereof, as the Committee may determine from time to time and subject to such terms and conditions as may be prescribed by the Committee for such purpose. The Committee may also, in its discretion and subject to prior notification to the Company by an optionee, permit an optionee to enter into an agreement with the Company's transfer agent or a brokerage firm of national standing whereby the optionee will simultaneously exercise the option and sell the shares acquired thereby through the Company's transfer agent or such a brokerage firm and either the Company's transfer agent or the brokerage firm executing the sale will remit to the Company from the proceeds of sale the exercise price of the shares as to which the option has been exercised.

9. Rights upon Termination of Employment. In the event that an optionee ceases to be an employee of the Company, its parent or any subsidiary of the Company or its parent for any reason other than death, retirement, as hereinafter defined, or disability (within the meaning of Section 22(e)(3) of the Code or any substitute therefor), the optionee shall have the right to exercise the Option during its term within a period of three months after such termination to the extent that the Option was exercisable at the time of termination, or within such other period, and subject to such terms and conditions as may be specified by the Committee. In the event that an optionee dies, retires or becomes disabled prior to the expiration of his Option and without having fully exercised his Option, the optionee or his successor shall have the right to exercise the Option during its term within a period of one year after termination of employment due to death, retirement or disability to the extent that the Option was exercisable at the time of termination, or within such other period, and subject to such terms and conditions as may be specified by the Committee. As used in this Section 9, "retirement" means a termination of employment by reason of an optionee's retirement at or after his earliest permissible retirement date pursuant to and in accordance with his employer's regular retirement plan or personnel practices. Notwithstanding the provisions of Section 6(d)(iii) hereof, if the term of an Incentive Stock Option continues for more than three months after termination of employment due to retirement or more than one year after termination of employment due to death or disability, such Option shall thereupon lose its status as an Incentive Stock Option and shall be treated as a Nonqualified Stock Option.

10. General Restrictions. Each Option granted under the Plan shall be subject to the requirement that if at any time the Committee shall determine that (i) the listing, registration or qualification of the shares of Common Stock subject or related thereto upon any securities exchange or under any state or federal law, or (ii) the consent or approval of any government regulatory body, or (iii) an agreement by the recipient of an Option with respect to the disposition of shares of Common Stock is necessary or desirable as a condition of or in connection with the granting of such Option or the issuance or purchase of shares of Common Stock thereunder, such Option shall not be consummated in whole or in part unless such listing, registration, qualification,

consent, approval or agreement shall have been effected or obtained free of any conditions not acceptable to the Committee.

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

12. Right to Terminate Employment. Nothing contained in the Plan or in any option agreement entered into pursuant to the Plan shall confer upon any optionee the right to continue in the employment of the Company, its parent or any subsidiary of the Company or its parent or affect any right that the Company, its parent or any subsidiary of the Company or its parent may have to terminate the employment of such optionee.

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

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

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

16. Adjustments.

(a) Changes in Capitalization. Subject to any required action by the stockholders of the Company, the number of shares of Common Stock covered by each outstanding Option and the number of shares of Common Stock that have been authorized for issuance under the Plan but as to which no Options have yet been granted or which have been returned to the Plan upon

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

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

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

17. Amendment. The Committee may terminate or amend the Plan at any time, except that without stockholder approval the Committee may not (i) materially increase the maximum number of shares that may be issued under the Plan (other than increases pursuant to Section 16 hereof), (ii) materially increase the benefits accruing to participants under the Plan or (iii) materially modify the requirements as to eligibility for participation in the Plan. The termination or any modification or amendment of the Plan shall not, without the consent of a participant, affect his rights under an Option previously granted.

18. Reservation of Shares. The Company, during the term of the Plan, will at all times reserve and keep available such number of shares as shall be sufficient to satisfy the require- ments of the Plan. Inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful

issuance and sale of any shares hereunder, shall relieve the Company of any liability for the failure to issue or sell such shares as to which such requisite authority shall not have been obtained.

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

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

21. Forfeiture for Dishonesty. Notwithstanding anything to the contrary in the Plan, if the Committee finds, by a majority vote, after full consideration of the facts presented on behalf of both the Company and any optionee, that the optionee has been engaged in fraud, embezzlement, theft, commission of a felony or dishonest conduct in the course of his employment or retention by the Company, its parent or any subsidiary of the Company or its parent that damaged the Company, its parent or any subsidiary of the Company or its parent or that the optionee has disclosed confidential information of the Company, its parent or any subsidiary of the Company or its parent, the optionee shall forfeit all unexercised Options and all exercised Options under which the Company has not yet delivered the certificates. The decision of the Committee in interpreting and applying the provisions of this Section 21 shall be final. No decision of the Committee, however, shall affect the finality of the discharge or termination of such optionee by the Company, its parent or any subsidiary of the Company or its parent in any manner.

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

23. Indemnification. With respect to the administration of the Plan, the Company shall indemnify each present and future member of the Committee and the Board of Directors against, and each member of the Committee and the Board of Directors shall be entitled without further action on his part to indemnity from the Company for, all expenses (including the amount of judgments and the amount of approved settlements made with a view to the curtailment of costs of litigation, other than amounts paid to the Company itself) reasonably incurred by him in connection with or arising out of, any action, suit or proceeding in which he may be involved by reason of his being or having been a member of the Committee or the Board of Directors, whether or not he continues to be such member at the time of incurring such expenses; provided, however, that such indemnity shall not include any expenses incurred by any such member of the Committee or the Board of Directors (i) in respect of matters as to which he shall be finally

adjudged in any such action, suit or proceeding to have been guilty of gross negligence or willful misconduct in the performance of his duty as such member of the Committee or the Board of Directors; or (ii) in respect of any matter in which any settlement is effected for an amount in excess of the amount approved by the Company on the advice of its legal counsel; and provided further that no right of indemnification under the provisions set forth herein shall be available to or enforceable by any such member of the Committee or the Board of Directors unless, within 60 days after institution of any such action, suit or proceeding, he shall have offered the Company in writing the opportunity to handle and defend same at its own expense. The foregoing right of indemnification shall inure to the benefit of the heirs, executors or administrators of each such member of the Committee or the Board of Directors and shall be in addition to all other rights to which such member may be entitled as a matter of law, contract or otherwise.

24. Miscellaneous Provisions.

(a) Compliance with Plan Provisions. No optionee or other person shall have any right with respect to the Plan, the Common Stock reserved for issuance under the Plan or in any Option until a written option agreement shall have been executed by the Company and the optionee and all the terms, conditions and provisions of the Plan and the Option applicable to such optionee (and each person claiming under or through him) have been met.

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

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

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

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

25. Stockholder Approval. The exercise of any Option granted under the Plan shall be subject to the approval of the Plan by the affirmative vote of the holders of a majority of the

outstanding shares of the Common Stock present, or represented, and entitled to vote at a meeting duly held.

EXHIBIT (13)

THE ELECTRONIC VERSION OF THIS EXHIBIT CONTAINS ONLY THOSE PAGES SPECIFICALLY INCORPORATED BY REFERENCE INTO THE FORM 10-K REPORT.

Financial Highlights

[Graphic]

The printed document has two bar graphs, side by side and contain plot points as indicated below:

	TOTAL ASSETS in millions		BOOK VALUE PER SHARE in dollars
1991	$111,013,993	1991	10.74
1992	$131,135,002	1992	12.18
1993	$169,460,466	1993	14.03
1994	$207,721,362	1994	14.78
1995	$235,704,366	1995	16.96

Year Ended December 31,	1995	1994*	1993	1992	1991
Income Statement Data					
Net premiums earned	$ 86,277,852	$ 77,232,889	$ 69,415,874	$ 54,630,786	$ 51,718,039
Investment income	9,269,884	7,778,164	6,478,354	6,042,163	5,759,462
Total revenues	97,885,060	86,354,530	77,698,608	62,107,673	58,469,044
Net income	9,857,950	5,039,948	6,382,449	4,948,744	4,529,684
Net income per common share	2.31	1.20	1.92	1.65	1.52
Balance Sheet Data*					
Total assets	$235,704,366	$207,721,362	$169,460,466	$131,135,002	$111,013,993
Stockholders' equity	72,282,892	60,565,067	57,345,586	36,417,485	31,960,604
Book value per share	16.96	14.78	14.03	12.18	10.74

* Restated for acquisition of Delaware American

Donegal Group Inc. is a regional insurance holding company offering property and casualty insurance in Pennsylvania, Delaware, Maryland, Ohio and Virginia through its wholly-owned subsidiaries Atlantic States Insurance Company, Delaware American Insurance Company, and Southern Insurance Company of Virginia; and through a pooling agreement

Management's Discussion and Analysis of Results of Operation and Financial Condition

Donegal Group Inc. ("DGI" or the "Company") is a regional insurance holding company doing business in Pennsylvania, Maryland, Delaware, Virginia and Ohio through its three wholly owned property-casualty insurance subsidiaries, Atlantic States Insurance Company ("Atlantic"), Southern Insurance Company of Virginia ("Southern") and Delaware American Insurance Company ("Delaware"). The Company's major lines of business in 1995 and their percentage of total net earned premiums were Automobile Liability (28.2%), Workers' Compensation (19.1%), Automobile Physical Damage (15.5%), Homeowners (16.4%), and Commercial Multiple Peril (14.8%). 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 59% of the outstanding common shares of the Company as of December 31, 1995.

Atlantic States participates in an intercompany pooling arrange ment with the Mutual Company and assumes 60% of the pooled business, 50% prior to January 1, 1993. Southern cedes 50% of its business to the Mutual Company and Delaware American 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 American into the pool, from which the Company has a 60% allocation, the Company's results of operations include approximately 80% of the business written by Southern and approximately 70% of the Workers' Compensation business written by Delaware American.

On December 29, 1995, the Company acquired all of the outstanding stock of Delaware American Insurance Company. 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.

In January 1994, the Company organized a new subsidiary, Atlantic Insurance Services, Inc. ("AIS"), which began business in that same month. AIS is 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 Operation 1995 Compared to 1994

Total revenues for 1995 were $97,885,060 which were $11,530,530, or 13.4% greater than 1994. Net premiums earned increased to $86,277,852, an increase of $9,044,963, or 11.7% over 1994. A 12.0% increase in the direct premiums written by the combined pool of Atlantic States and Donegal Mutual, a 15.1% increase in the direct premiums written of Southern and a 67.4% increase in the direct premiums written of Delaware accounted for most of the increase. Premiums earned in 1994 were offset by additional reinsurance premiums of approximately $1 million which resulted from the reinstatement of catastrophic reinsurance contracts which were impacted by severe weather which hit the northeast part of the United States during the first quarter of that year. The increase in the direct premiums written by the combined pool was distributed among a number of the major lines,with Commercial Multiple Peril representing the largest increase for any individual line, with a 28% increase over 1994. The Company posted a realized gain of $398,587, compared to a realized gain of $34,333 in 1994. Both gains resulted from normal turnover of the Company's investment portfolio. As of December 31, 1995, all of the Company's bond portfolio was classified as Class I (highest quality) by the National Association of Insurance Commis sioners' Security Valuation Office. Invest ment income increased $1,491,720. An increase in the average invested assets from $137,514,214 to $153,477,866, and an increase in the average yield to 6.0% from 5.7% in 1994, accounted for the increase.

The GAAP combined ratio of insurance operations was 97.3% in 1995, compared to 101.7% in 1994. The GAAP combined ratio is the sum of the ratios of incurred losses and loss adjustment expense to premiums earned (loss ratio), underwriting expenses to premiums earned (expense ratio) and policyholder dividends to premiums earned (dividend ratio). The loss ratio in 1995 was 64.2% compared to 68.4% in 1994. The total effect of the first quarter storms in 1994 was an increase in the loss for that year of 2.6%, which would have resulted in a loss ratio of 65.8% for 1994 net of this effect. The expense ratio for 1995 was 31.8%, compared to 31.5% in 1994 with the dividend ratio going from 1.7% in 1994 to 1.3% in 1995, due to more stringent qualification requirements to earn a dividend in 1995.

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Results of Operation 1994 Compared to 1993

Total revenues for 1994 were $86,354,530 which were $8,655,922 or 11.4% greater than 1993. Net premiums earned increased to $77,232,889, an increase of $7,817,015, or 11.3% over 1993. The acquisition of Delaware in December 1995, which was accounted for as a pooling of interest, resulted in Delaware being included in the Company's financial statements on a consolidated basis after January 1, 1994. The inclusion of Delaware resulted in additional premiums earned in 1994 of $4,035,021 and additional revenues of $4,612,951 over 1993. An 8.1% increase in the direct premiums written by the combined pool of Atlantic States and Donegal Mutual and a 7.6% increase in the direct premiums written of Southern accounted for the rest of the increase offset by additional reinsurance premiums of approximately $1 million which resulted from the reinstatement of catastrophic reinsurance contracts which were impacted by severe weather which hit the northeast part of the United States during the first quarter of 1994. The additional reinstatement premiums would have resulted in an additional 1.4% increase to net premiums earned if they had not been incurred. The increase in the direct premiums written by the combined pool was distributed among a number of the major lines, with Commercial Multiple Peril representing the largest increase for any individual line, with a 17% increase over 1993. Workers' Compensation, which had shown the largest increases in the past few years, slowed to a 4.3% growth rate in 1994. The Company posted a realized gain of $34,333 with Delaware providing $108,447 of the total. The remaining realized loss of $74,114 in 1994, compared to a realized gain of $845,156 in 1993, resulted from normal turnover of the Company's investment portfolio. As of December 31, 1994, all of the Company's bond portfolio was classified as Class I (highest quality) by the National Association of Insurance Commissioners' Security Valuation Office. Investment income increased $1,299,810, of which $428,711 resulted from inclusion of Delaware. An increase in the average invested assets, excluding Delaware, from $107,715,128 to $128,340,631, partially offset by a decrease in the average yield to 5.7% from 6.0% in 1993, accounted for the remaining increase.

The GAAP combined ratio of insurance operations was 101.7% in 1994, compared to 99.1% in 1993. The inclusion of Delaware increased this ratio by 2.1%. The GAAP combined ratio is the sum of the ratios of incurred losses and loss adjustment expense to premiums earned (loss ratio), underwriting expenses to premiums earned (expense ratio) and policyholder dividends to premiums earned (dividend ratio). The loss ratio in 1994, excluding Delaware, was 67.8%, compared to 67.3% in 1993. Excluding the effect of acquiring Delaware, the total effect of the first quarter storms was an increase in the loss ratio of 2.6%, which would have resulted in a loss ratio of 65.8% for 1994 net of this effect. The expense ratio for 1994 before including Delaware was 30.0% compared to 30.3% in 1993, with the dividend ratio going from 1.5% in 1993 to 1.8% in 1994.

Liquidity and Capital Resources

The Company generates sufficient funds from its operations and maintains a high degree of liquidity in its investment portfolio. The primary source of funds to meet the demands of claim settlements and operating expenses are premium collections, investment earnings and maturing investments. As of December 31, 1995, the Company had no material commitment for capital expenditures.

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

As of December 31, 1995, pursuant to a credit agreement dated December 29, 1995, with Fleet National Bank of Con necticut, the Company had unsecured borrowings of $5 million. Such borrowings were made in connection with the acquisition of Delaware American Insurance Company. Per the terms of the credit agreement, the Company may borrow up to $20 million at interest rates equal to the bank's then current prime rate or the then current London interbank Eurodollar bank rate plus 1.70%. At December 31, 1995, the interest rate on the outstanding balance was 7.2%. 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 December 29, commencing December 29, 1998, the credit line will be reduced by $4 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 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 and Delaware are subject to Risk Based Capital (RBC) require ments effective for 1994. At December 31, 1995, all three Com panies' capital was substantially above the RBC requirements. At December 31, 1995, amounts avail able for distribution as dividends to Donegal Group without prior approval of the insurance regulatory authorities are $5,224,905 from Atlantic States, $638,042 from Southern and $569,563 from Delaware.

Net unrealized gains (losses) resulting from fluctuations in the fair value of investments reported in the balance sheet at fair value were $819,213 (net of applicable federal income tax) at December 31, 1995, and ($997,638) (net of applicable federal income tax) at December 31, 1994.

Credit Risk

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

The Company's subsidiaries have reinsurance agreements in place with the Mutual Company, as described in Note 2 of the financial state ments, and with a number of other major authorized reinsurers, as described in Note 8 of the financial statements.

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.

Impact of New Accounting Standards
Stock-Based Compensation

The Company has not elected early adoption of Statement of Financial Accounting Standards No. 123 (SFASNo. 123), "Accounting for Stock-Based Compensation." SFASNo. 123 becomes effective January 1, 1996, and will not have a material effect on the Company's financial position or results of operations. Upon adoption of SFASNo. 123, the Company will continue to measure compensation expense for its stock-based employee compensation plans using the intrinsic value method prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees" and will provide pro forma disclosures of net income and earn ings per share as if the fair value-based method prescribed by SFAS No. 123 had been applied in measuring compensation expense.

Impairment of Long-Lived Assets

The Company will adopt Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of" (SFAS No. 121) effective January 1, 1996. SFAS No. 121 provides guidance for recognition and measurement of impairment of long-lived assets, certain identifiable intangibles and goodwill related both to assets to be held and used and assets to be disposed of.

SFAS No. 121 requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, an entity should estimate the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized. Other wise, an impairment loss is not recognized. Measurement of an impairment loss for long-lived assets and identifiable intangibles that an entity expects to hold and use should be based on the fair value of the asset.

SFAS No. 121 requires that long-lived assets and certain identifiable intangibles to be disposed of be reported at the lower of carrying amount or fair value less cost to sell.

Management does not expect the adoption of SFAS No. 121 to have a material effect on its financial condition or results of operation.

Donegal Group Inc.
Consolidated Balance Sheets

December 31,	1995	1994*
Assets		
Investments		
Fixed maturities		
Held to maturity, at amortized cost (fair value $95,357,840 and $67,284,194)	$ 91,979,122	$ 70,157,631
Available for sale, at fair value (amortized cost $50,714,887 and $44,447,923)	51,646,730	43,722,321
Equity securities, available for sale, at fair value (cost $2,954,487 and $4,897,115)	3,263,878	4,201,865
Short-term investments, at cost, which approximates fair value	14,498,579	27,485,607
Total investments	161,388,309	145,567,424
Cash	1,747,572	1,482,951
Accrued investment income	2,414,095	2,031,879
Premiums receivable	11,790,396	9,155,306
Reinsurance receivable	27,693,106	25,167,086
Deferred policy acquisition costs	6,902,218	5,551,869
Federal income taxes receivable	551,990	--
Deferred tax asset, net	3,411,544	3,734,826
Prepaid reinsurance premiums	13,055,893	10,827,025
Property and equipment, net	2,282,570	2,293,084
Accounts receivable--securities	2,702,895	240,155
Due from affiliate	546,746	591,707
Other	1,217,032	1,078,050
Total assets	$ 235,704,366	$ 207,721,362
Liabilities and Stockholders' Equity		
Liabilities		
Losses and loss expenses	$ 97,733,851	$ 87,743,937
Unearned premiums	54,377,239	46,755,095
Accrued expenses	2,373,142	1,544,017
Current income taxes	--	123,687
Reinsurance balances payable	634,731	716,191
Cash dividend declared to stockholders	427,694	369,335
Line of credit	5,000,000	--
Accounts payable--securities	2,491,148	4,213,830
Other	181,426	187,960
Due to affiliate--Delaware American acquisition	202,243	5,502,243
Total liabilities	163,421,474	147,156,295
Stockholders' Equity		
Preferred stock, $1.00 par value, authorized 1,000,000 shares; none issued		
Common stock, $1.00 par value, authorized 10,000,000 shares, issued 4,326,362 and 4,162,770 shares and outstanding 4,261,314 and 4,097,722 shares	4,326,362	4,162,770
Additional paid-in capital	35,017,965	33,458,543
Net unrealized gains (losses) on investments available for sale, net of taxes	819,213	(997,638)
Retained earnings	32,939,132	24,761,172
Treasury stock, at cost	(819,780)	(819,780)
Total stockholders' equity	72,282,892	60,565,067
Total liabilities and stockholders' equity	$ 235,704,366	$ 207,721,362

*Restated

See accompanying notes to consolidated financial statements.

Donegal Group Inc.
Consolidated Statements of Income

Year Ended December 31,	1995	1994*	1993
Revenues			
Premiums earned	$115,377,300	$101,598,330	$ 90,862,962
Premiums ceded	29,099,448	24,365,441	21,447,088
Net premiums earned	86,277,852	77,232,889	69,415,874
Investment income, net of investment expenses	9,269,884	7,778,164	6,478,354
Installment payment fees	670,971	611,296	556,280
Lease income	491,115	462,587	402,944
Service fees	776,651	235,261	--
Net realized investment gains	398,587	34,333	845,156
Total revenues	97,885,060	86,354,530	77,698,608
Expenses			
Losses and loss expenses	72,545,223	70,026,135	65,078,008
Reinsurance recoveries	17,137,969	17,168,633	18,363,182
Net losses and loss expenses	55,407,254	52,857,502	46,714,826
Amortization of deferred policy acquisition costs	14,412,000	12,055,000	11,475,000
Other underwriting expenses	13,049,188	12,278,473	9,545,102
Policy dividends	1,106,357	1,349,079	1,037,878
Other	1,256,839	702,038	368,684
Interest	7,604	9,459	36,967
Total expenses	85,239,242	79,251,551	69,178,457
Income before income taxes	12,645,818	7,102,979	8,520,151
Income taxes	2,787,868	2,063,031	2,137,702
Net income	$ 9,857,950	$ 5,039,948	$ 6,382,449
Net income per common share	$ 2.31	$ 1.20	$ 1.92

*Restated

See accompanying notes to consolidated financial statements.

Donegal Group Inc.
Consolidated Statements of Stockholders' Equity

	Preferred Stock		Common Stock		Additional	Net Unrealized Gains (Losses) on Investments			Total
	Shares	Amount	Shares	Amount	Paid-in Capital	Available for Sale	Retained Earnings	Treasury Stock	Stockholders' Equity
Balance, January 1, 1993	0	$ 0	2,988,921	$2,988,921	$17,091,252	$ 134,856	$16,202,456	$ 0	$36,417,485
Issuance of common stock			1,164,160	1,164,160	15,204,793				16,368,953
Net income							6,382,449		6,382,449
Change in unrealized gains (losses) on investments (Net of applicable federal income taxes)						125,450			125,450
Purchase of 65,048 shares of treasury stock								(819,780)	(819,780)
Cash dividends $.32 per share							(1,128,971)		(1,128,971)
Balance, December 31, 1993	0	$ 0	4,153,081	$4,153,081	$32,296,045	$ 260,306	$21,455,934	$(819,780)	$57,345,586
Restatement for Delaware American					1,046,866		(259,484)		787,382
Balance, January 1, 1994 as restated	0	$ 0	4,153,081	$4,153,081	$33,342,911	$ 260,306	$21,196,450	$(819,780)	$58,132,968
Cumulative effect of adopting SFAS No. 115*						1,349,670			1,349,670
Issuance of common stock			9,689	9,689	115,632				125,321
Net income*							5,039,948		5,039,948
Change in unrealized gains (losses) on investments* (Net of applicable federal income taxes)						(2,607,614)			(2,607,614)
Cash dividends $.36 per share							(1,475,226)		(1,475,226)
Balance, December 31, 1994*	0	$ 0	4,162,770	$4,162,770	$33,458,543	$ (997,638)	$24,761,172	$(819,780)	$60,565,067
Issuance of common stock			163,592	163,592	1,559,422				1,723,014
Net income							9,857,950		9,857,950
Change in unrealized gains (losses) on investments (Net of applicable federal income taxes)						1,816,851			1,816,851
Cash dividends $.40 per share							(1,679,990)		(1,679,990)
Balance, December 31, 1995	0	$ 0	4,326,362	$4,326,362	$35,017,965	$ 819,213	$32,939,132	$(819,780)	$72,282,892

*Restated

See accompanying notes to consolidated financial statements.

Donegal Group Inc.
Consolidated Statements of Cash Flows

Year Ended December 31,	1995	1994*	1993
Cash Flows from Operating Activities:			
Net income	$ 9,857,950	$ 5,039,948	$ 6,382,449
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	380,491	385,944	222,599
Realized investment gains	(398,587)	(34,333)	(845,156)
Changes in Assets and Liabilities:			
Losses and loss expenses	9,989,914	7,788,953	13,571,521
Unearned premiums	7,622,144	2,480,511	7,651,881
Accrued expenses	829,125	(341,338)	227,304
Premiums receivable	(2,635,090)	(245,408)	(1,650,347)
Deferred policy acquisition costs	(1,350,349)	(462,202)	(1,117,426)
Deferred income taxes	(521,952)	(344,725)	(654,237)
Reinsurance receivable	(2,526,020)	(3,179,767)	(4,722,608)
Accrued investment income	(382,216)	(202,057)	(175,185)
Amounts due from affiliate	44,961	(243,002)	642,354
Accounts payable reinsurance	(81,460)	(62,793)	207,371
Prepaid reinsurance premiums	(2,228,868)	(479,438)	(1,473,286)
Current income taxes	(675,677)	358,824	(436,600)
Other, net	(145,516)	(391,859)	56,080
Net adjustments	7,920,900	5,027,310	11,504,265
Net cash provided by operating activities	17,778,850	10,067,258	17,886,714
Cash Flows from Investing Activities:			
Purchase of fixed maturities	--	--	(35,278,186)
Held to maturity	(26,057,540)	(5,139,055)	--
Available for sale	(27,895,537)	(27,983,885)	--
Purchase of equity securities	(6,072,439)	(7,486,343)	(13,154,616)
Sale of fixed maturities	--	--	6,565,065
Available for sale	5,276,380	22,975,319	--
Maturity of fixed maturities	--	--	11,148,600
Held to maturity	10,996,250	2,637,135	--
Available for sale	6,631,844	2,627,416	--
Sale of equity securities	8,121,345	8,671,596	10,427,709
Acquisition and assumption of Delaware American	(5,300,000)	5,513,259	--
Purchase of property and equipment	(334,894)	(338,804)	(447,785)
Purchase of other assets	--	(131,625)	--
Net sales (purchases) of short-term investments	12,018,979	(9,813,495)	(6,315,305)
Net cash used in investing activities	(22,615,612)	(8,468,482)	(27,054,518)
Cash Flows from Financing Activities:			
Issuance of common stock	1,723,014	125,321	16,368,953
Line of credit	5,000,000	--	--
Repayment of short-term bank borrowings	--	--	(4,500,000)
Cash dividends paid	(1,621,631)	(1,433,270)	(1,011,294)
Purchase of treasury stock	--	--	(819,780)
Net cash provided by (used in) financing activities	5,101,383	(1,307,949)	10,037,879
Net increase in cash	264,621	290,827	870,075
Cash at beginning of year	1,482,951	1,192,124	322,049
Cash at end of year	$ 1,747,572	$ 1,482,951	$ 1,192,124

*Restated

See accompanying notes to consolidated financial statements.

Donegal Group Inc.
Notes to Consolidated Financial Statements

1 -- Summary of Significant Accounting Policies

Organization and Business

The Company was organized as a regional insurance holding company by Donegal Mutual Insurance Company (the "Mutual Company") and operates in Pennsylvania, Maryland, Delaware, Virginia and Ohio through its wholly owned stock insurance companies, Atlantic States Insurance Company ("Atlantic States"), Southern Insurance Com pany of Virginia ("Southern"), and Delaware American Insurance Company ("Delaware"). The Company's major lines of business in 1995 and their percentages of total net earned premiums were Automobile Liability (28.2%), Workers' Compensation(19.1%), Automobile Physical Damage (15.5%), Homeowners (16.4%) and Commercial Multiple Peril (14.8%). 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. Atlantic States participates in an intercompany pooling arrangement with the Mutual Company and assumes 60% of the pooled business. Southern cedes 50% of its business to the Mutual Company and Delaware American cedes 70% of its Workers' Compensation business to the Mutual Company. At December 31, 1995, the Mutual Company held 59% of the outstanding common stock of the Company.

On December 29, 1995, the Company acquired all of the outstanding stock of Delaware American Insurance Company. 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.

In January 1994, the Company organized a new subsidiary, Atlantic Insurance Services, Inc. ("AIS"), which began business in that same month. AIS is an insurance services organization currently providing inspec tion and policy auditing information on a fee for service basis to its affiliates and the insurance industry.

Basis of Consolidation

The consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles, include the accounts of Donegal Group Inc. and its wholly owned sub sidiaries, Atlantic States, Southern, Delaware and AIS. All significant inter -company accounts and transactions have been eliminated in consolidation. The term "Company" as used herein refers to the consolidated entity. The principal business activity of the Company is that of its subsidiaries.

Use of Estimates

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

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

Investments

The Company accounts for investments in accordance with the provisions of Statement of Financial Accounting Standards (SFAS)No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which was adopted January 1, 1994.

SFAS No. 115 requires that investments in all debt securities and those equity securities with readily determinable market values be classified into three categories as follows:

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

Trading Securities -- Debt and equity securities that are bought and held principally for the purpose of selling them in the near term; reported at fair value, with unrealized gains and losses included in earnings.

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

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

If there is a decline in fair value which is other than temporary, the carrying value for investments in the held to maturity and available for sale categories is reduced to fair value. Such decline in carrying value is recognized as a realized loss and charged to income. Premiums and discounts on debt securities are amortized over the life of the security as an adjustment to yield using the effective interest method. Realized investment gains and losses are computed using the specific identification method and are reported as a component of other income.

Cash -- Cash balances represent funds held by depository institutions. It

is the Company's policy to treat cash equivalents as short-term investments.

Fair Values of Financial Instruments

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

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

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

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

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

Revenue Recognition

Insurance premiums are recognized as income over the terms of the policies and include estimates of audit premiums on retrospectively rated workers' compensation policies. Unearned premiums are calculated on a daily prorata basis.

Policy Acquisition Costs

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

Property and Equipment

Property and equipment are reported at depreciated cost that is computed using the straight-line method based upon estimated useful lives of the assets, ranging from 3 to 15 years.

Losses and Loss Expenses

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

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

In addition, various Insurance Departments, as an integral part of their examination process, periodically review the Company's liabilities for losses and loss expenses. Such departments may require the Company to recognize additions to the liabilities based on their judgements about information available to them at the time of their examination.

The Company has no material exposures to environmental liabilities.

Income Taxes

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

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

Credit Risk

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

As described in Note 2, the Company's subsidiaries have rein surance agreements in place with the Mutual Company and with a number of other authorized reinsurers with at least an A.M. Best rating of A- or an equivalent financial condition, as described in Note 8.

Reinsurance Accounting and Reporting

The Company relies upon reinsurance agreements to limit its maximum net loss from large single risks or risks in concentrated areas, and to increase its capacity to write insurance. Each reinsurance agreement satisfies all applicable regulatory requirements. Reinsurance does not relieve the primary insurer from liability to its policyholders. To the extent that a reinsurer may be unable to

pay losses for which it is liable under the terms of a reinsurance agreement, the Company is exposed to the risk of continued liability for such losses. However, in an effort to reduce the risk of non-payment, the Company requires all of its reinsurers to have an A.M. Best rating of A- or better or, with respect to foreign

reinsurers, to have a financial condition which, in the opinion of management, is equivalent to a company with at least an A- rating. If the Company's reinsurers incur losses from their reinsurance arrangements with the Company, it is probable that the reinsurance premiums payable by the Company in the future could increase.

The Company accounts for reinsurance contracts in accordance with the provisions of SFAS No. 113, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts." SFAS No. 113 establishes the conditions required for a contract with a reinsurer to be accounted for as reinsurance and prescribes accounting and reporting standards for those contracts. It requires reinsurance receivables (including amounts related to claims incurred but not reported) and prepaid reinsurance premiums to be reported as assets.

Statutory Accounting Practices

As described in Note 12, the Company's insurance subsidiaries file financial statements with regulatory agencies prepared on a statutory basis of accounting which differs from generally accepted accounting principles.

Stock-Based Compensation

The Company has not elected early adoption of Statement of Financial Accounting Standards No. 123 (SFAS No. 123), "Accounting for Stock-Based Compensation." SFASNo. 123 becomes effective January 1, 1996, and will not have a material effect on the Company's financial position or results of operations. Upon adoption of SFAS No. 123, the Company will continue to measure compensation expense for its stock-based employee compensation plans using the intrinsic value method prescribed by APBOpinion No. 25, "Accounting for Stock Issued to Employees" and will provide pro forma disclosures of net income and earnings per share as if the fair value-based method prescribed by SFAS No. 123 had been applied in measuring compensation expense.

Impairment of Long-Lived Assets

The Company will adopt Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of" (SFAS No. 121) effective January 1, 1996. SFAS No. 121 provides guidance for recognition and measurement of impairment of long-lived assets, certain identifiable intangibles and goodwill related both to assets to be held and used and assets to be disposed of.

SFAS No. 121 requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, an entity should estimate the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized. Otherwise, an impairment loss is not recognized. Measurement of an impairment loss for long-lived assets and identifiable intangibles that an entity expects to hold and use should be based on the fair value of the asset.

SFAS No. 121 requires that long-lived assets and certain identifiable intangibles to be disposed of be reported at the lower of carrying amount or fair value less cost to sell.

Management does not expect the adoption of SFAS No. 121 to have a material effect on its financial condition or results of operation.

Net Income per Common Share

Net income per share is based upon the weighted average number of common shares outstanding plus dilutive common equivalent shares from stock options using the treasury stock method.

The average common and common equivalent shares outstanding for the years ended December 31, 1995, 1994 and 1993, were 4,272,447, 4,181,159 and 3,330,302, respectively.

2 -- Transactions with Affiliates

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

a. Reinsurance Pooling and Other Reinsurance Arrangements

Delaware cedes 70% of its Workers' Compensation business to the Mutual Company. Southern cedes 50% of its direct premiums written less certain reinsurance to the Mutual Company. Atlantic States cedes to the Mutual Company all of its insurance business and assumes from the Mutual Company 60% of the Mutual Company's total pooled insurance business, including that assumed from Atlantic States, and substantially all that is assumed from Southern and Delaware. In addition to the reinsurance pooling, Atlantic States and the Mutual Company have a catastrophe reinsurance agreement which limits the maximum liability for losses on any one catastrophe occurrence to $400,000 for Atlantic States. Southern and the Mutual Company have an excess of loss reinsurance agreement in which the Mutual Company generally assumes up to $25,000 for losses in excess of $100,000. The Mutual Company and Delaware have an excess of loss reinsurance agreement in which the Mutual Company assumes up to $200,000 for losses in excess of $50,000. The Mutual Company receives a premium from Atlantic States, Southern and Delaware as part of these agreements. Insurance ceded by Delaware, Southern and Atlantic States does not relieve their primary liability as the

originating insurer. Balances arising from the agreements are settled monthly.

The following amounts represent statutory reinsurance transactions with the Mutual Company during 1995, 1994 and 1993. These amounts exclude the ceded and assumed components of salvage and subrogation recoverable because such amounts are determined on a net basis only consistent with the Mutual Company's statutory records:

Ceded reinsurance:	1995	1994	1993
Premiums written	$27,731,104	$22,792,131	$20,127,555
Premiums earned	$25,555,026	$21,274,804	$18,802,849
Losses and loss expenses	$14,336,897	$14,643,183	$13,369,604
Unearned premiums	$12,406,072	$10,229,994	$ 8,712,667
Liability for losses and loss expenses	$20,855,048	$18,476,791	$15,039,660
Assumed reinsurance:			
Premiums written	$79,550,369	$69,196,807	$68,933,663
Premiums earned	$74,824,803	$66,322,464	$62,908,662
Losses and loss expenses	$49,332,144	$45,544,081	$42,699,794
Unearned premiums	$35,110,068	$30,384,502	$27,510,159
Liability for losses and loss expenses	$66,020,750	$57,267,708	$50,284,110

Losses and loss expenses assumed from the Mutual Company for 1994 are reported net of intercompany catastrophe recoveries. Catastrophe losses and loss expenses recovered from the Mutual Company in 1994 amounted to approximately $2.8 million.

b. Expense Sharing

The Mutual Company provides facilities, management and other services to the Company, and the Company reimburses the Mutual Company for such services on a periodic basis under usage agreements and pooling arrangements. The charges are based upon the relative participation of the Company and the Mutual Company in the pooling arrangement, and management of both the Company and the Mutual Company consider this allocation to be reasonable. Charges for these services totalled $16,351,186, $13,024,856 and $12,780,682 for 1995, 1994 and 1993, respectively.

The net amounts due from the Mutual Company arising from all intercompany transactions, excluding amounts due to Delaware acquisition, at December 31, 1995 and 1994, were $546,746 and $591,707, respectively.

c. Lease Agreement

The Company leases office equipment and automobiles to the Mutual Company under a 10-year lease dated January 1, 1990.

d. Inspection and Policy Auditing Services

AIS provides inspection and policy auditing services to The Mutual Company on a fee for service basis.

3 -- Investments

The amortized cost and estimated fair values of investment securities at December 31, 1995 and 1994, are as follows (excluding short-term investments which are comprised primarily of corporate debt securities reported at cost, which approximates fair value):

1995				
HELD TO MATURITY	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$19,675,694	$ 467,842	$ 48,036	$20,095,500
Obligations of states and political subdivisions	52,080,590	2,378,670	29,155	54,430,105
Corporate securities	3,816,309	380,980	2,289	4,195,000
Mortgage-backed securities	16,406,529	288,082	57,376	16,637,235
Totals	$91,979,122	$3,515,574	$136,856	$95,357,840

1995				
AVAILABLE	Amortized	Gross Unrealized	Gross Unrealized	Estimated Market

FOR SALE	Cost	Gains	Losses	Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$35,057,293	$ 374,436	$ 10,286	$35,421,443
Obligations of states and political subdivisions	9,633,046	486,704	--	10,119,750
Corporate securities	4,299,597	55,273	6,870	4,348,000
Mortgage-backed securities	1,724,951	32,586	--	1,757,537
Equity securities	2,954,487	413,878	104,487	3,263,878
Totals	$53,669,374	$1,362,877	$121,643	$54,910,608

	1994			
HELD TO MATURITY	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$14,271,210	$ 83,172	$ 352,382	$14,002,000
Obligations of states and political subdivisions	32,109,340	120,471	1,180,708	31,049,103
Corporate securities	2,994,258	4,856	40,614	2,958,500
Mortgage-backed securities	20,782,823	33,184	1,541,416	19,274,591
Totals	$70,157,631	$241,683	$3,115,120	$67,284,194

1994

AVAILABLE FOR SALE	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$34,002,272	$ 33,489	$ 606,440	$33,429,321
Obligations of states and political subdivisions	6,445,915	70,511	159,426	6,357,000
Corporate securities	3,799,912	5,917	71,829	3,734,000
Mortgage-backed securities	199,824	2,176	--	202,000
Equity securities	4,897,115	49,075	744,325	4,201,865
Totals	$49,345,038	$161,168	$1,582,020	$47,924,186

The amortized cost and estimated fair value of fixed maturities at December 31, 1995, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Held to maturity		
Due in one year or less	$ 3,199,746	$ 3,195,000
Due after one year through five years	12,127,178	12,466,500
Due after five years through ten years	27,001,635	28,106,650
Due after ten years	33,244,034	34,952,455
Mortgage-backed securities	16,406,529	16,637,235
Total held to maturity	$91,979,122	$95,357,840
Available for sale		
Due in one year or less	$16,662,079	$16,795,042
Due after one year through five years	16,776,499	16,977,900
Due after five years through ten years	7,862,625	8,003,250
Due after ten years	7,688,733	8,113,001
Mortgage-backed securities	1,724,951	1,757,537
Total available for sale	$50,714,887	$51,646,730

Net change in unrealized investment gains (losses) less applicable federal income taxes is as follows:

	1995	1994	1993
Fixed maturities	$ 1,657,442	$(2,664,358)	$ --
Equity securities	1,004,643	(1,185,026)	186,394
Deferred federal income (taxes) benefit	(845,234)	1,241,770	(60,944)
Net change	$ 1,816,851	$(2,607,614)	$ 125,450

Unrealized investment gains (losses) less applicable federal income taxes are as follows:

	1995	1994	1993
Fixed maturities			
Gains	$ 948,999	$ 112,093	$ --
Losses	(17,156)	(837,695)	--
Equity securities			
Gains	413,877	49,075	396,714
Losses	(104,487)	(744,325)	(13,136)
	1,241,233	(1,420,852)	383,578
Deferred federal income (taxes) benefit	(422,020)	423,214	(123,272)
Net unrealized investment gains (losses)	$ 819,213	$ (997,638)	$ 260,306

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

	1995	1994	1993
Fixed maturities	$ 8,264,968	$ 6,681,435	$ 6,240,923
Equity securities	233,822	230,530	308,285
Short-term investments	1,194,082	1,286,290	307,027
Real Estate	29,250	29,310	--
Investment income	9,722,122	8,227,565	6,856,235
Investment expenses	452,238	449,401	377,881

Net investment income	$ 9,269,884	$ 7,778,164	$ 6,478,354

Proceeds and gross realized gains (losses) from sale of investment securities during 1995, 1994 and 1993 are as follows:

	1995	1994	1993
Proceeds	$13,409,224	$30,615,578	$18,264,424
Gross realized gains:			
Fixed maturities	347,020	410,687	554,720
Equity securities	658,595	675,008	502,573
	1,005,615	1,085,695	1,057,293
Gross realized losses:			
Fixed maturities	1,152	831,412	3,413
Equity securities	605,876	219,950	208,724
	607,028	1,051,362	212,137
Net realized gains	$ 398,587	$ 34,333	$ 845,156

During 1995, as permitted by the Financial Accounting Standards Board "one-time window," the Company transferred $4,101,469 of investments from the held to maturity to the available for sale portfolio. The fair value of such investments was $4,381,217. This transfer was made to provide the Company with increased flexibility in managing its liquidity position.

4 -- Deferred Policy Acquisition Costs

Changes in deferred policy acquisition costs are as follows:

	1995	1994	1993
Balance, January 1	$ 5,551,869	$ 5,089,667	$ 3,972,241
Acquisition costs deferred	15,762,349	12,517,202	12,592,426
Amortization charged to earnings	14,412,000	12,055,000	11,475,000
Balance, December 31	$ 6,902,218	$ 5,551,869	$ 5,089,667

5 -- Property and Equipment

Property and equipment at December 31, 1995 and 1994, consisted of the following:

	1995	1994
Cost-- office equipment	$ 2,204,608	$ 2,585,962
automobiles	721,565	573,403
leasehold improvements	81,719	81,719
land	610,010	610,010
software	2,067	224,437
	3,619,969	4,075,531
Accumulated depreciation	(1,337,399)	(1,782,447)
	$ 2,282,570	$ 2,293,084

Depreciation expense for the years ended December 31, 1995, 1994 and 1993 amounted to $345,408, $351,951 and $231,244, respectively.

6 -- Liability for Losses and Loss Expenses

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

	1995	1994	1993
Balance at January 1	$87,743,937	$69,441,728	$55,870,207
Less reinsurance recoverable	25,167,086	17,143,860	12,421,252
Net Balance at January 1	62,576,851	52,297,868	43,448,955
Acquisition of Delaware American	--	5,669,797	--
New Balance at January 1 as restated	62,576,851	57,967,665	43,448,955
Incurred related to:			
Current year	58,354,254	55,941,502	45,451,826
Prior years	(2,947,000)	(3,084,000)	1,263,000
Total incurred	55,407,254	52,857,502	46,714,826
Paid related to:			
Current year	28,934,360	30,544,316	21,779,913
Prior years	19,009,000	17,704,000	16,086,000
Total paid	47,943,360	48,248,316	37,865,913
Net Balance at December 31	70,040,745	62,576,851	52,297,868
Plus reinsurance recoverable	27,693,106	25,167,086	17,143,860
Balance at December 31	$97,733,851	$87,743,937	$69,441,728

The Company recognized a decrease in the liability for loss and loss adjustment expenses (favorable development) of $3.0 million (net of reinsurance recoveries of $0.5 million and $41 thousand respectively) in 1995 and 1994. These favorable developments are primarily attributable to the Company's strengthening of case reserves in prior years, the effects of which are being recognized currently.

The unfavorable development of $1.3 million in 1993 (net of reinsurance recoveries of $6.7 million) is primarily related to strengthening of case reserves.

7 -- Line of Credit

As of December 31, 1995, pursuant to a credit agreement dated December 29, 1995, with Fleet National Bank of Connecticut, the Company had unsecured borrowings of $5 million. Such borrowings were made in connection with the acquisition of Delaware American Insurance Company. Per the terms of the credit agreement, the Company may borrow up to $20 million at interest rates equal to the bank's then current prime rate or the then current London interbank Eurodollar bank rate plus 1.70%. At December 31, 1995, the interest rate on the outstanding balance was 7.2%. 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 December 29, commencing December 29, 1998, the credit line will be reduced by $4 million. Any outstanding loan in excess of the remaining credit line, after such reduction, will then be payable.

8 -- Unaffiliated Reinsurers

In addition to the primary reinsurance in place with the Mutual Company, Atlantic States, Southern and Delaware have other reinsurance in place principally with three unaffiliated reinsurers. The following amounts represent statutory reinsurance transactions with unaffiliated reinsurers during 1995, 1994 and 1993:

Ceded reinsurance:	1995	1994	1993
Premiums written	$3,597,212	$3,062,180	$2,792,819
Premiums earned	$3,544,424	$4,090,637	$2,644,239
Losses and loss expenses	$2,801,073	$2,531,806	$4,993,578
Unearned premiums	$ 649,821	$ 597,031	$ 393,705
Liability for losses and loss expenses	$6,838,058	$6,690,295	$2,104,200

9 -- Federal Income Taxes

The provision for federal income tax consists of the following:

	1995	1994	1993
Current	$ 3,309,820	$ 2,407,756	$ 2,791,939
Deferred	(521,952)	(344,725)	(654,237)
Federal tax provision	$ 2,787,868	$ 2,063,031	$ 2,137,702

The effective tax rate is different than the amount computed at the statutory federal rate of 34% for 1995, 1994 and 1993. The reason for such difference and the related tax effect are as follows:

	1995	1994	1993
Income before income taxes	$12,645,818	$ 7,102,979	$ 8,520,151
Computed "expected" taxes at 34%	$ 4,299,578	$ 2,415,013	$ 2,896,851
Delaware loss not providing current tax benefit	--	356,321	--
Change in valuation allowance	(383,669)	--	--
Tax-exempt interest	(751,003)	(671,969)	(641,298)
Dividends received deduction	(46,789)	(52,993)	(48,170)
Adjustment to prior year's provision	(19,604)	28,495	6,103
Deduction for exercise of options	(324,254)	--	--
Other, net	13,606	(11,836)	(75,784)
Federal income tax provision	$ 2,787,868	$ 2,063,031	$ 2,137,702

In accordance with SFAS No. 109, the tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1995 and 1994, are as follows:

	1995	1994
Deferred tax assets:		
Unearned premium	$ 2,809,850	$ 2,443,108
Loss reserves	3,810,076	3,492,459
Unrealized loss	--	435,109
	6,619,926	6,370,676
(Less valuation allowance)	--	(383,669)
Total	$ 6,619,926	$ 5,987,009
Deferred tax liabilities:		
Depreciation expense	$ 273,919	$ 251,843
Deferred policy acquisition costs	2,346,754	1,887,635
Salvage receivable	165,689	112,703
Unrealized gain	422,020	--
Total	$ 3,208,382	$ 2,252,181
Net deferred tax assets	$ 3,411,544	$ 3,734,826

A valuation allowance is provided when it is more likely than not that some portion of the tax asset will not be realized. Management has determined that it is not required to establish a valuation allowance for the deferred tax asset of $6,619,926 at December 31, 1995 since it is more likely than not that the deferred tax asset will be realized through reversals of existing temporary differences, future taxable income, carryback to taxable income in prior years, previously realized investment gains and the implementation of tax planning strategies. A valuation allowance of $383,669 was established at December 31, 1994 in connection with the acquisition of Delaware. The net change in the valuation allowance for the year ended December 31, 1995 was a decrease of $383,669.

10 -- Stock Option and Stock Purchase Plans

The Company has an Equity Incentive Plan for key employees. The plan provides for the granting of awards by the Board of Directors. Awards may be made in the form of stock options, stock appreciation rights, restricted stock or any combination of the above. During 1994 the aggregate number of shares availa ble as awards was increased from 450,000 to 700,000 shares of the Company's common stock. The plan provides that stock options may become exercisable up to 10 years from date of grant, with an option price not less than fair market value on date of grant. The stock appreciation rights permit surrender of the option and receipt of the excess of current market price over option price in cash.

During 1995, 1994, and 1993, the following options for shares of the Company's common stock were issued, expired, or exercised:

	1995	1994	1993
Issued	0	0	0
Expired	7,500	0	0
Exercised	150,650	0	1,000

As of December 31, 1995, the Company has unexercised options as follows:

Number of Options	Options Price	Date Exercisable
39,000	$ 9	Currently
163,500	12	Currently

Shares available for future grants at December 31, 1995, are 345,850.

Effective January 1, 1988, the Company adopted an Employee Stock Purchase Plan. The Plan extends over a 10-year period and provides for shares to be offered to all eligible employees at a purchase price equal to the lesser of 85 percent of the fair market value of the Company's common stock on the last day before the first day of the enrollment period (June 1 and December 1) of the plan or 85 percent of the fair market value of such share on the last day of the subscription period (June 30 and December 31). A summary of plan activity follows:

	Shares Issued	
	Price	Shares
January 1, 1993	$ 7.65	6,822
July 1, 1993	8.50	6,338
January 1, 1994	13.175	4,205
July 1, 1994	12.75	5,484
January 1, 1995	11.90	6,004
July 1, 1995	10.625	6,938

On January 1, 1996, the Company issued an additional 5,630 shares at a price of $14.2375 per share under this plan.

11 -- Statutory Net Income Capital and Surplus and Dividend Restrictions

The following is selected information for Atlantic States, Southern and Delaware as determined in accordance with accounting practices prescribed or permitted by insurance regulatory authorities for the years ended December 31, 1995, 1994 and 1993.

	1995	1994	1993
ATLANTIC STATES			
Statutory capital and surplus	$40,726,246	$38,481,691	$37,250,053
Statutory unassigned surplus	$14,765,382	$12,520,827	$11,289,189
Statutory net income	$ 5,224,905	$ 4,072,387	$ 3,468,400

	1995	1994	1993
SOUTHERN			
Statutory capital and surplus	$6,380,420	$5,833,556	$5,395,140
Statutory unassigned surplus	$2,378,150	$1,831,285	$1,392,869
Statutory net income	$ 679,335	$ 764,696	$ 783,995

	1995	1994	1993
DELAWARE			
Statutory capital and surplus	$5,695,634	$5,016,599	$ 735,262
Statutory unassigned surplus	$ 495,634	$ (183,401)	$ 735,262
Statutory net income	$ 494,576	$ (963,982)	$(3,219,938)

The Company's principal source of cash for payment of dividends is dividends from Atlantic States, Southern 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 and Delaware are subject to risk based capital (RBC) requirements effective for 1994. At December 31, 1995, all three Companies' capital was substantially above the RBC requirements. At December 31, 1995, amounts available for distribution as dividends to Donegal Group Inc. without prior approval of insurance regulatory authorities are $5,224,905 from Atlantic States, $638,042 from Southern and $569,563 from Delaware.

12 -- Reconciliation of Statutory Filings to Amounts Reported Herein

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

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

	Year ended December 31,		
	1995	1994	1993
Statutory net income of insurance subsidiaries	$ 6,398,816	$ 3,873,101	$ 4,252,395
Increases (decreases):			

Deferred policy acquisition costs	1,350,349	462,202	1,117,426
Deferred federal income taxes	521,952	344,725	654,237
Salvage and subrogation recoverable	1,150,509	337,188	68,934
Consolidating eliminations and adjustments	(900,000)	(900,000)	(85,585)
Parent only net income	1,301,558	952,697	375,042
Non-insurance subsidiary net income (loss)	34,766	(29,965)	--
Net income as reported herein	$ 9,857,950	$ 5,039,948	$ 6,382,449

	Year ended December 31,		
	1995	1994	1993
Statutory capital and surplus of insurance subsidiaries	$52,802,300	$49,331,846	$42,645,193
Increases (decreases):			
Deferred policy acquisition costs	6,902,218	5,551,869	5,089,667
Deferred federal income taxes	3,411,544	3,734,826	2,843,615
Salvage and subrogation recoverable	3,880,621	2,730,112	2,159,614
Statutory reserves	6,413,472	3,446,574	2,321,696
Non-admitted assets and other adjustments, net	440,116	374,009	234,954
Fixed maturities available for sale	931,843	(725,600)	--
Consolidating eliminations and adjustments	(5,929,937)	(5,871,578)	(327,379)
Parent only equity	3,225,914	1,822,974	2,378,226
Non-insurance subsidiary equity	204,801	170,035	--
Stockholders' equity as reported herein	$72,282,892	$60,565,067	$57,345,586

13 -- Supplementary Information on Statement of Cash Flows

The following schedule reflects income taxes and interest paid during 1995, 1994 and 1993:

	1995	1994	1993
Income taxes	$ 3,985,497	$ 2,072,512	$ 3,228,539
Interest	$ 7,229	$ 9,459	$ 37,707

14 -- Interim Financial Data (unaudited)

	1995			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net premiums earned	$20,333,148	$21,353,648	$22,026,028	$22,565,028
Total revenues	23,008,266	24,312,402	25,034,119	25,530,273
Loss and loss adjusting expenses	12,455,415	14,215,193	14,240,198	14,496,448
Net income	2,430,125	2,500,700	2,349,118	2,578,007
Net income per common share	$ .58	$ .59	$ .55	$ .59

	1994			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net premiums earned	$18,464,325	$18,883,443	$19,617,191	$20,267,930
Total revenues	21,065,271	20,777,778	21,952,586	22,558,895
Loss and loss adjusting expenses	15,926,220	11,601,375	12,863,618	12,466,289
Net income (loss)	(866,003)	1,841,238	1,888,944	2,175,719
Net income per common share	$ (.22)	$ .45	$ .45	$ .52

The interim financial data for 1995 and 1994 vary from amounts previously reported by the Company on form 10-Q's due to the acquisition of Delaware in December 1995 which was accounted for as a "as if Pooling of Interest."

Results for the first quarter of 1994 were adversely affected due to the unprecedented severe weather which hit the northeast part of the United States in those three months and the inclusion of Delaware which experienced a net loss of approximately $1.2 million in the first quarter. In addition to increased loss and loss expenses of approximately $3.8 million compared to the average of the last three quarters the Company incurred approximately $1 million in additional ceded premiums related to the reinstatement of its catastrophe reinsurance contracts. These factors resulted in a loss ratio of 81.4% in the first quarter compared to 62.9% for the rest of the year.

15 -- Pending Acquisition

On December 22, 1994, the Company announced its intent to purchase all of the outstanding shares of Pioneer Insurance Company from the Mutual Company. The purchase price is expected to approximate statutory book value, which at December 31, 1995, was $5,108,442. The acquisition will be accounted for as if it were a pooling of interests. Currently, it is not known whether the acquisition will be consummated during 1996.

Donegal Group Inc.
Independent Auditors' Report

The Stockholders and Board of Directors
Donegal Group Inc.

We have audited the accompanying consolidated balance sheets of Donegal Group Inc. and subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1995. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Donegal Group Inc. and subsidiaries as of December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1995 in conformity with generally accepted accounting principles.

As discussed in Note 1 to the financial statements, the Company adopted the provisions of Statement of Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities" as of January 1, 1994.

KPMG Peat Marwick LLP

Harrisburg, Pennsylvania
February 23, 1996

Donegal Group Inc.

Corporate Information

Annual Meeting
April 18, 1996 at the Company's headquarters at 10:00 a.m.

Form 10-K

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

Market Information

Donegal Group's common stock is traded on NASDAQ under the symbol "DGIC." During 1994 and 1995, the stock price ranged as follows:

Quarter	High	Low	Cash Dividend Declared Per Share
1994			
1st	$19 1/2	$13	$ --
2nd	15 1/2	13 1/2	.09
3rd	15 1/4	13 3/4	.09
4th	14 3/4	10 3/4	.18
1995			
1st	15	13 15/16	--
2nd	17 1/2	14	.10
3rd	17 3/4	16	.10
4th	19 1/4	17	.20

Corporate Offices
1195 River Road
Box 302
Marietta, Pennsylvania 17547
(717) 426-1931

Transfer Agent
First Chicago Trust Company of New York
Mail Suite 4693
P.O. Box 2535
Jersey City, NJ 07303-2535
(201) 324-0313

Stockholders
The number of common stockholders of record as of December 31, 1995 was 359.

DONEGAL GROUP INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD APRIL 18, 1996

To the Stockholders of
DONEGAL GROUP INC.:

The Annual Meeting of Stockholders of Donegal Group Inc. (the 'Company') will be held at 10:00 a.m., prevailing time, on April 18, 1996, at the Company's offices, 1195 River Road, Marietta, Pennsylvania 17547, for the following purposes:

1. To elect three Class A directors, to serve until the expiration of their three-year terms and until their successors are elected;

2. To act upon the election of KPMG Peat Marwick LLP as auditors for the Company for 1996;

3. To act upon the adoption of the Company's 1996 Employee Stock Purchase Plan;

4. To act upon the adoption of the Company's 1996 Equity Incentive Plan; and

5. To transact such other business as may properly come before the Annual Meeting and any adjournment, postponement or continuation thereof.

The Board of Directors has fixed the close of business on February 23, 1996 as the record date for the determination of the stockholders entitled to notice of and to vote at the Annual Meeting.

A copy of the Company's Annual Report for the year ended December 31, 1995 is being mailed to stockholders together with this Notice.

Holders of Common Stock are requested to complete, sign and return the enclosed form of proxy in the envelope provided whether or not they expect to attend the Annual Meeting in person.

By Order of the Board of Directors,

/s/ Donald H. Nikolaus

Donald H. Nikolaus,
President and Chief Executive Officer

March 26, 1996
Marietta, Pennsylvania

DONEGAL GROUP INC.

This Proxy Statement and the form of proxy enclosed herewith, which are first being mailed to stockholders on or about March 26, 1996, are furnished in connection with the solicitation by the Board of Directors of Donegal Group Inc. (the 'Company') of proxies to be voted at the Annual Meeting of Stockholders (the 'Annual Meeting') to be held at 10:00 a.m., prevailing time, on April 18, 1996, and at any adjournment, postponement or continuation thereof, at the Company's principal executive offices, which are located at 1195 River Road, Marietta, Pennsylvania 17547.

Shares represented by proxies in the accompanying form, if properly signed and returned, will be voted in accordance with the specifications made thereon by the stockholders. Any proxy not specifying to the contrary will be voted in favor of the adoption of the proposals referred to in the Notice of Annual Meeting and for the election of the nominees for director named below. A stockholder who signs and returns a proxy in the accompanying form may revoke it at any time before it is voted by giving written notice of revocation or a duly executed proxy bearing a later date to the Secretary of the Company or by attending the Annual Meeting and voting in person.

The cost of solicitation of proxies in the accompanying form will be borne by the Company, including expenses in connection with preparing and mailing this Proxy Statement. Such solicitation will be made by mail and may also be made on behalf of the Company in person or by telephone or telegram by the Company's regular officers and employees, none of whom will receive special compensation for such services. The Company, upon request therefor, will also reimburse brokers, nominees, fiduciaries and custodians and persons holding shares in their names or in the names of nominees for their reasonable expenses in sending proxies and proxy material to beneficial owners.

Only holders of Common Stock of record at the close of business on February 23, 1996 will be entitled to notice of and to vote at the Annual Meeting. Each share of Common Stock is entitled to one vote on all matters to come before the Annual Meeting. Cumulative voting rights do not exist with respect to the election of directors.

As of the close of business on February 23, 1996, the Company had outstanding 4,276,944 shares of Common Stock, $1.00 par value. A majority of the outstanding shares will constitute a quorum at the Annual Meeting. As of February 23, 1996, Donegal Mutual Insurance Company (the 'Mutual Company') owned

2,507,633 shares of the Company's outstanding Common Stock, or approximately 58.6% of the Company's outstanding Common Stock. The Mutual Company has advised the Company that the Mutual Company will vote its shares for the election of Robert S. Bolinger, Patricia A. Gilmartin and Philip H. Glatfelter, II as directors, for the election of KPMG Peat Marwick LLP as auditors for 1996, for the adoption of the Company's 1996 Employee Stock Purchase Plan and for the adoption of the Company's 1996 Equity Incentive Plan. Accordingly, Messrs. Bolinger and Glatfelter and Mrs. Gilmartin will be elected as directors, KPMG Peat Marwick LLP will be elected as auditors for the Company for 1996 and the Company's 1996 Employee Stock Purchase Plan and the Company's 1996 Equity Incentive Plan will be approved regardless of the votes of the Company's stockholders other than the Mutual Company.

BENEFICIAL OWNERSHIP OF COMMON STOCK

The following table sets forth as of February 23, 1996 the amount and percentage of the Company's outstanding Common Stock beneficially owned by (i) each person who is known by the Company to own beneficially more than 5% of its outstanding Common Stock, (ii) each director and nominee for director, (iii) each executive officer named in the Summary Compensation Table, other than Harry E. Newman, who died in January 1996, and (iv) all executive officers and directors of the Company as a group.

NAME OF INDIVIDUAL OR IDENTITY OF GROUP	SHARES BENEFICIALLY OWNED (1)	PERCENT OF OUTSTANDING COMMON STOCK (2)
5% HOLDERS:		
Donegal Mutual Insurance Company 1195 River Road Marietta, Pennsylvania 17547	2,507,633	58.6%
Putnam Investments, Inc. One Post Office Square Boston, Massachusetts 02109	252,000	5.9%(3)
DIRECTORS:		
C. Edwin Ireland	5,000	--
Donald H. Nikolaus	89,340(4)	2.1%
Patricia A. Gilmartin	1,200	--
Philip H. Glatfelter, II	1,400	--
R. Richard Sherbahn	100	--
Robert S. Bolinger	600	--
Thomas J. Finley, Jr	450	--
EXECUTIVE OFFICERS:		
Ralph G. Spontak	58,530(5)	1.4%
William H. Shupert	2,785	--
Frank J. Wood	13,025(6)	--
All directors and executive officers as a group (11 persons)	172,430(7)	3.9%

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(1) Information furnished by each individual named. This table includes shares that are owned jointly, in whole or in part, with the person's spouse, or individually by such person's spouse.

(2) Less than 1% unless otherwise indicated.

(3) Based upon information contained in a Schedule 13G of Putnam Investments, Inc. ('Putnam') received by the Company on or about February 9, 1996. According to this Schedule 13G, certain Putnam investment managers (together with their parent corporations, Putnam Investments, Inc. and Marsh & McLennan Companies, Inc.) are considered beneficial owners of these shares, which were acquired for investment purposes by such investment managers for certain of their advisory clients.

(4) Includes 65,000 shares of Common Stock which Mr. Nikolaus has the option to purchase under the Company's 1986 Equity Incentive Plan at prices ranging from $9.00 to $12.00 per share, all of which options are currently exercisable. See 'Certain Transactions.'

(5) Includes 53,000 shares of Common Stock which Mr. Spontak has the option to purchase under the Company's 1986 Equity Incentive Plan at prices ranging from $9.00 to $12.00 per share, all of which options are currently exercisable.

(6) Includes 10,000 shares of Common Stock which Mr. Wood has the option to purchase under the Company's 1986 Equity Incentive Plan at prices ranging from $9.00 to $12.00 per share, all of which options are currently exercisable.

(7) Includes 128,000 shares of Common Stock subject to options to purchase under the Company's 1986 Equity Incentive Plan, all of which options are currently exercisable.

Section 16 of the Securities Exchange Act of 1934 (the 'Exchange Act') requires that the officers and directors of a corporation, such as the Company, which has a class of equity securities registered under Section 12 of the Exchange Act, as well as persons who own more than 10% of a class of equity securities of such a corporation, file reports of their ownership of such securities, as well as monthly statements of changes in such ownership, with the corporation, the Securities and Exchange Commission (the 'SEC') and Nasdaq. Based upon written representations received by the Company from its officers and directors, and the Company's review of the monthly statements of ownership changes filed with the Company by its officers and directors during 1995, the Company believes that all such filings required during 1995 were made on a timely basis.

RELATIONSHIP WITH THE MUTUAL COMPANY

The Company was formed by the Mutual Company in August 1986 and was a wholly owned subsidiary of the Mutual Company until November 1986, when the Company sold 600,000 shares of Common Stock in a public offering, thereby reducing the Mutual Company's ownership of the Company's outstanding Common Stock from 100% to approximately 79.5%, which subsequently increased to approximately 84%. In September 1993, the Company sold 1,150,000 shares of Common Stock in a public offering. At the same time, the Mutual Company sold 200,000 shares of the Company's Common Stock, reducing the Mutual Company's ownership of the Company's outstanding Common Stock to approximately 57%. Between December 22, 1994 and December 31, 1995, the Mutual Company purchased an aggregate of 172,000 shares of the Company's Common Stock in the open market pursuant to SEC Rule 10b-18 and in private transactions. See 'Executive Compensation -- Certain Transactions' below. These purchases increased the Mutual Company's ownership of the Company's Common Stock to 2,507,633 shares or approximately 58.6% of the Company's outstanding Common Stock as of February 23, 1996.

The Company's operations are interrelated with the operations of the Mutual Company, and various reinsurance arrangements exist between the Company and the Mutual Company. The Company believes that its various transactions with the Mutual Company have been on terms no less favorable to the Company than the terms that could have been negotiated with an independent third party.

The Mutual Company provides all personnel for the Company and its subsidiaries, Atlantic States Insurance Company ('Atlantic States'), Delaware American Insurance Company ('Delaware American') and Southern Insurance Company of Virginia ('Southern'). Expenses are allocated to the Company, Delaware American and Southern according to a time allocation and estimated usage agreement, and to Atlantic States in relation to the relative participation of the Mutual Company and Atlantic States in the pooling agreement described herein. Such charges to the Company were $16,251,186 in 1995.

On December 29, 1988, the Company acquired all of the outstanding common stock of Southern, which converted from a mutual insurance company known as Southern Mutual Insurance Company to a stock insurance company on the same date. Since January 1, 1991, the Mutual Company has reinsured 50% of Southern's business. Because the Mutual Company places substantially all of the business assumed from Southern in the pool, from which the Company has an allocation which is 65% from and after January 1, 1996, the Company's operations include approximately 80% of the business written by Southern. Southern and the Mutual Company settle the balances resulting from this reinsurance arrangement on a monthly basis.

Atlantic States participates in an underwriting pool with the Mutual Company whereby Atlantic States cedes premiums, losses and loss adjustment expenses on all of its business to the Mutual Company and assumes from the Mutual Company a specified portion of the premiums, losses and loss adjustment expenses of the Mutual Company and Atlantic States. Under the pooling agreement, which became effective on October 1, 1986, Atlantic States cedes to the Mutual Company all of its insurance business written on or after October 1, 1986. Substantially all of the Mutual Company's property and casualty insurance business written or in force on or after October 1, 1986 is also included in the pooled business, including the business reinsured from Southern. Pursuant to an amendment to the pooling agreement effective October 1, 1988, the Mutual Company, which is solely responsible for any losses in the pooled business with dates of loss on or before the close of business on September 30, 1986, retroceded 50% of the pooled business to Atlantic States. From January 1, 1993 to December 31, 1995, 60% of the pooled business had been retroceded to Atlantic States. Since January 1, 1996, 65% of the pooled business has been retroceded to Atlantic States. All premiums, losses, loss adjustment expenses and other underwriting expenses are prorated among the parties on the basis of their participation in the pool. The pooling agreement may be amended or terminated at the end of any calendar year by agreement of the parties. The allocations of pool participation percentages between the Mutual Company and the Company are based on the pool participants' relative amounts of capital and surplus, expectations of future relative amounts of capital and surplus and the ability of the Company to raise capital for Atlantic States. The Company does not currently anticipate a further increase in its percentage of participation in the pool, nor does the Company intend to terminate its participation in the pooling agreement. Additional information describing the pooling agreement is contained in the Company's 1995 Annual Report to Stockholders, a copy of which is enclosed with this Proxy Statement and to which reference is hereby made.

As of December 31, 1995, the Company acquired all of the outstanding capital stock of Delaware American pursuant to a Stock Purchase Agreement dated as of December 21, 1995 between the Company and the Mutual Company. As part of this transaction, the Mutual Company entered into an aggregate excess of loss reinsurance agreement with Delaware American whereby the Mutual Company has insured the risk of any loss from an adverse development in Delaware American's loss reserve and loss adjustment expense reserve at the end of 1995 compared to the end of 1996 and losses and loss expense adjustments incurred by Delaware American during the month of December 1995 and for 1996 by reason of the fact that Delaware American's loss and loss adjustment expense ratio for those periods exceeds the lesser of the loss and loss expense ratios of immediately preceding periods or 60%.

All of the Company's officers are officers of the Mutual Company, and five of the Company's seven directors are directors of the Mutual Company. The Company and the Mutual Company maintain a Coordinating Committee, which consists of two outside directors from each of the Company and the Mutual Company, none of whom holds seats on both Boards, to review and evaluate

the pooling agreement between the Company and the Mutual Company and to be responsible for matters involving actual or potential conflicts of interest between the Company and the Mutual Company. The decisions of the Coordinating Committee are binding on the Company and the Mutual Company. The Company's Coordinating Committee members must conclude that intercompany transactions are fair and equitable to the Company. The purpose of this provision is to protect the interests of the stockholders of the Company other than the Mutual Company. The Coordinating Committee met two times in 1995. The Company's members on the Coordinating Committee are Messrs. Bolinger and Finley. See 'Election of Directors.' The Mutual Company's members on the Coordinating Committee are John E. Hiestand and Dr. Charles A. Heisterkamp, III.

Mr. Hiestand, age 58, has been a director of the Mutual Company since 1983 and has been President of Hiestand Memorials, Inc., a manufacturer of cemetery monuments, since 1977.

Dr. Heisterkamp, age 63, has been a director of the Mutual Company since 1979 and has practiced as a surgeon in Lancaster, Pennsylvania for more than the past five years.

ELECTION OF DIRECTORS

The Company's Board of Directors consists of seven members. Each director is elected for a three-year term and until his successor has been duly elected. The current three-year terms of the Company's directors expire in the years 1996, 1997 and 1998, respectively.

Three Class A directors are to be elected at the Annual Meeting. Unless otherwise instructed, the proxy holders will vote the proxies received by them for the election of the nominees named below, all of whom are currently directors of the Company. If a nominee becomes unavailable for any reason, it is intended that the proxies will be voted for a substitute nominee designated by the Board of Directors. The Board of Directors has no reason to believe the nominees named will be unable to serve if elected. Any vacancy occurring on the Board of Directors for any reason may be filled by a majority of the directors then in office until the expiration of the term of the class of directors in which the vacancy exists. The three nominees for Class A director receiving a plurality of the votes cast at the Annual Meeting will be elected as directors. Shares held by brokers or nominees as to which voting instructions have not been received from the beneficial owner or person otherwise entitled to vote and as to which the broker or nominee does not have discretionary voting power, i.e., broker nonvotes, will be treated as not present and not entitled to vote for nominees for election as Class A directors. Abstentions from voting and broker nonvotes will have no effect on the election of directors since they will not represent votes cast at the Annual Meeting for the purpose of electing directors.

The names of the nominees for Class A directors and the Class B and Class C directors who will continue in office after the Annual Meeting until the expiration of their respective terms, together with certain information regarding them, are as follows:

NOMINEES FOR CLASS A DIRECTORS

NAME	AGE	DIRECTOR SINCE	YEAR TERM WILL EXPIRE*
Robert S. Bolinger	59	1986	1999
Patricia A. Gilmartin	56	1986	1999
Philip H. Glatfelter, II	66	1986	1999

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* If elected at the Annual Meeting.

DIRECTORS CONTINUING IN OFFICE

CLASS B DIRECTORS

NAME	AGE	DIRECTOR SINCE	YEAR TERM WILL EXPIRE
C. Edwin Ireland	86	1986	1997
Donald H. Nikolaus	53	1986	1997

CLASS C DIRECTORS

NAME	AGE	DIRECTOR SINCE	YEAR TERM WILL EXPIRE
Thomas J. Finley, Jr.	75	1986	1998
R. Richard Sherbahn	67	1986	1998

Mr. Bolinger has been President and Chief Executive Officer of Susquehanna Bancshares, Inc. since 1982 and of Farmers First Bank since 1976. Mr. Bolinger is also a director of Susquehanna Bancshares, Inc.

Mr. Finley retired in 1985 as President and Chief Executive Officer of the Insurance Federation of Pennsylvania, a position he held for 18 years.

Mrs. Gilmartin has been an employee since 1969 of Donegal Insurance Agency, which has no affiliation with the Company except that Donegal Insurance Agency receives insurance commissions in the ordinary course of business from the Company's subsidiaries and affiliates in accordance with such subsidiaries' and affiliates' standard commission schedules and agency contracts. Mrs. Gilmartin has been a director of the Mutual Company since 1979.

Mr. Glatfelter retired in 1989 as a Vice President of Meridian Bank, a position he held for more than five years prior to his retirement. Mr. Glatfelter has been a director of the Mutual Company since 1981 and has been Vice Chairman of the Mutual Company since 1991.

Mr. Ireland is former Chairman of the Lancaster Industrial Development Authority. He retired from Hamilton Watch Company in 1970. Prior thereto, he was Vice President, Secretary and Treasurer of Hamilton Watch Company. Mr. Ireland has been a director of the Mutual Company since 1972 and Chairman of its Board of Directors since 1985. He has been Chairman of the Company's Board of Directors since 1986.

Mr. Nikolaus has been President of the Mutual Company since 1981 and a director of the Mutual Company since 1972. He has been President of the Company since 1986. Mr. Nikolaus has been a partner in the law firm of Nikolaus, Hohenadel & Umbenhauer since 1972.

Mr. Sherbahn has owned and operated Sherbahn Associates, Inc., a life insurance and financial planning firm, since 1974. Mr. Sherbahn has been a director of the Mutual Company since 1967.

THE BOARD OF DIRECTORS AND ITS COMMITTEES

The Board of Directors met four times in 1995. The Board of Directors has an Executive Committee, an Audit Committee, a Nominating Committee, a Compensation Committee and, together with the Mutual Company, a Coordinating Committee.

The Company's Executive Committee met 16 times in 1995. Messrs. Nikolaus, Ireland and Glatfelter are the members of the Executive Committee. The Executive Committee has the authority to

take all action that can be taken by the full Board of Directors, consistent with Delaware law, between Board of Directors' meetings.

The Audit Committee of the Company consists of Messrs. Bolinger, Glatfelter and Ireland. The Audit Committee, which met once in 1995, reviews audit reports and management recommendations made by the Company's outside auditing firm.

The Nominating Committee of the Company consists of Messrs. Ireland and Glatfelter. The Nominating Committee, which did not meet in 1995, is responsible for the nomination of candidates to stand for election to the Board of Directors at the Annual Meeting and the nomination of candidates to fill vacancies on the Board of Directors between meetings of stockholders. The Nominating Committee will consider written nominations for directors from stockholders to the extent such nominations are made in accordance with the Company's By-laws. The Company's By-laws require that any such nominations must be sent to the Company at its principal executive offices, attention: Secretary, not less than 30 days prior to the date of the stockholders meeting at which directors are to be elected. Such written nomination should set forth the name, age, address and principal occupation for the past five years of such nominee, the number of shares of the Company's Common Stock beneficially owned by such nominee and such other information about such nominee as would be required under the proxy solicitation rules of the SEC if proxies were solicited for the election of such nominee.

The Compensation Committee of the Company consists of Messrs. Ireland, Sherbahn and Glatfelter. The Compensation Committee met two times in 1995 to review and recommend compensation plans, approve certain compensation changes and grant options under and determine participants in the 1986 Equity Incentive Plan. No member of the Compensation Committee is a former or current officer or employee of the Company, the Mutual Company or any of their respective subsidiaries. Furthermore, no executive officer of the Company serves as a member of a compensation committee of another entity one of whose executive officers serves on the Compensation Committee of the Company or as a director of the Company, nor does any executive officer of the Company serve as a director of another entity, one of whose executive officers serves on the Compensation Committee of the Company.

None of the directors of the Company attended fewer than 75% of the aggregate of the total number of meetings of the Board of Directors plus the total number of meetings of all committees of the Board of Directors on which the director served that were held during 1995, except Mr. Ireland, who attended 62.5% of such meetings as a result of meetings missed due to illness.

COMPENSATION OF DIRECTORS

Directors of the Company were paid an annual retainer of $13,000 in 1995 and were paid $500 for each meeting attended in excess of five per year. Directors who are members of committees of the Board of Directors receive $250 for each committee meeting attended. If a director serves on the Board of Directors of both the Mutual Company and the Company, the director receives only one annual retainer. If the Boards of Directors of both companies meet on the same day, directors receive only one meeting fee. In such event, the retainer and meeting fees are allocated 35% to the Mutual Company and 65% to the Company.

EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table sets forth the compensation paid by the Company and the Mutual Company during each of the three fiscal years ended December 31, 1995 for services rendered in all capacities to the chief executive officer of the Company and the four other most highly compensated executive officers of the Company whose compensation exceeded $100,000 in the fiscal year ended December 31, 1995.

NAME AND PRINCIPAL POSITION	ANNUAL COMPENSATION (1)			LONG-TERM COMPENSATION AWARDS		ALL OTHER COMPENSATION ($)(3)
	YEAR	SALARY ($)	BONUS ($)	RESTRICTED STOCK AWARDS ($)	SECURITIES UNDERLYING OPTIONS (#)	
Donald H. Nikolaus,	1995	$ 311,000	$ 100,369	--	--	$ 85,430
President and Chief	1994	281,000	0	--	--	64,776
Executive Officer	1993	255,000	80,144	--	--	53,774
Ralph G. Spontak,	1995	$ 204,000	$ 57,133	--	--	$ 46,205
Senior Vice President,	1994	184,000	0	--	--	34,496
Chief Financial Officer and Secretary	1993	167,000	45,620	--	--	25,422
Harry E. Newman,	1995	$ 137,000	$ 47,868	--	--	$ 27,186
Senior Vice President,	1994	122,000	0	--	--	23,042
Claims(2)	1993	110,000	38,223	--	--	12,167
William H. Shupert,	1995	$ 137,000	$ 47,868	--	--	$ 22,791
Senior Vice President,	1994	122,000	0	--	--	19,244
Underwriting	1993	110,000	38,223	--	--	12,167
Frank J. Wood	1995	$ 95,000	$ 18,530	--	--	$ 13,576
Vice President,	1994	86,500	0	--	--	16,424
Marketing	1993	79,000	14,796	--	--	14,456

(1) All compensation of officers of the Company is paid by the Mutual Company. Pursuant to the terms of an intercompany allocation agreement between the Company and the Mutual Company, the Company is charged for its proportionate share of all such compensation.

(2) Mr. Newman died in January 1996.

(3) Represents contributions made by the Company under its defined contribution pension plan and its profit-sharing plan. In the case of Mr. Nikolaus, the total shown also includes premiums paid under a split-dollar life insurance policy of $21,267 and directors and committee meeting fees of $20,650. In the case of Mr. Spontak for 1995, the total shown includes premiums paid under a split-dollar life insurance policy of $4,043 and directors and committee meeting fees of $15,200. In the case of Messrs. Newman, Shupert and Wood for 1995, the totals shown also include term life insurance premiums of $10,670, $6,275 and $2,316, respectively.

No options were granted by the Company during the fiscal year ended December 31, 1995 to any of the persons named in the Summary Compensation Table.

The following table sets forth information with respect to options exercised during the year ended December 31, 1995 and held on December 31, 1995 by the persons named in the Summary Compensation Table.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR
AND FISCAL YEAR END OPTION VALUES

NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	NUMBER OF SECURITIES UNDERLYING OPTIONS AT FISCAL YEAR END		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR END	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Donald H. Nikolaus.........	35,000	$ 275,000	65,000	--	$ 453,750	$ --
Ralph G. Spontak...........	0	--	53,000	--	426,750	--
Harry E. Newman............	33,200	205,600	--	--	--	--
William H. Shupert.........	33,200	238,800	--	--	--	--
Frank J. Wood..............	0	--	10,000	--	67,500	--

REPORT OF THE COMPENSATION COMMITTEE OF DONEGAL GROUP INC.

THE FOLLOWING REPORT OF THE COMPANY'S COMPENSATION COMMITTEE AND THE PERFORMANCE GRAPH THAT IMMEDIATELY FOLLOWS SUCH REPORT SHALL NOT BE DEEMED PROXY SOLICITATION MATERIAL, SHALL NOT BE DEEMED FILED WITH THE SEC UNDER THE EXCHANGE ACT OR INCORPORATED BY REFERENCE IN ANY DOCUMENT SO FILED AND SHALL NOT OTHERWISE BE SUBJECT TO THE LIABILITIES OF SECTION 18 OF THE EXCHANGE ACT.

Under rules established by the SEC, the Company is required to provide certain information about the compensation and benefits provided to the Company's President and Chief Executive Officer and the other executive officers listed in the Summary Compensation Table. The disclosure requirements as to these officers include the use of specified tables and a report of the Company's Compensation Committee reviewing the factors that resulted in compensation decisions affecting these officers and the Company's other executive officers. The Compensation Committee of the Board of Directors has furnished the following report in fulfillment of the SEC's requirements.

The Compensation Committee reviews the general compensation policies of the Company, including the compensation plans and compensation levels for executive officers, and administers the Company's 1986 Equity Incentive Plan and the cash incentive compensation program in which the Company's executive officers participate. No members of the Compensation Committee are former or current officers of the Company, or have other interlocking relationships as defined by the SEC.

Compensation of the Company's executive officers has two principal elements: (i) an annual portion, consisting of a base salary that is reviewed annually and cash bonuses based on the Company's underwriting results, and (ii) a long-term portion, consisting of stock options. In general, the executive compensation program of the Company has been designed to:

(i) Attract and retain executive officers who contribute to the long-term success of the Company;

(ii) Motivate key senior executive officers to achieve strategic business objectives and reward them for their achievement; and

(iii) Support a compensation policy that differentiates in compensation amounts based on corporate and individual performance and responsibilities.

A major component of the Company's compensation policy, which has been approved by the Compensation Committee, is that a significant portion of the aggregate annual compensation of the Company's executive officers should be based upon the Company's underwriting results as well as the contribution of the individual officer. For a number of years, the Company has maintained a cash incentive compensation program for the Company's executive officers. This program provides a formula pursuant to which a fixed percentage of the Company's underwriting results for the year is computed, as specified in the program, and then allocated among the executive officers selected to participate in the program for the particular year. The identity of the executive officers selected to participate in the program for the particular year as well as their participation in the amount determined by application of the fixed formula is based upon recommendations submitted by the Company's senior executive officers to the Compensation Committee. The Compensation Committee reviews those recommendations and fixes the percentage participation of the Company's executive officers in the program. The portion of the total compensation of the executive officers named in the Summary Compensation Table arising from the cash incentive compensation program formula increased in 1995 compared to 1994 because the Company's net income in 1995 was substantially greater than its net income in 1994. The Compensation Committee therefore believes that the amount of the incentive payments are tied directly to the Company's performance.

The principal factors considered by the Company when it established the cash incentive compensation program were:

(i) achievement of the Company's long-term underwriting objectives; and

(ii) the Company's long-term underwriting results compared to the long-term underwriting results of other property and casualty insurance companies.

Such factors as cost control, continued development of the skills of the Company's workforce to achieve greater efficiency and an ability to maintain and expand the Company's current business on a profitable basis while seeking new business opportunities through acquisitions, one of which was completed in 1995, the Company's expansion into New York in late 1995 through the establishment of a relationship between the Company and Pioneer Insurance Company (New York) and the Company's successful completion of a $20,000,000 debt financing in December 1995, were considered in approving Mr. Nikolaus' participation percentage in 1995, as well as the above factors and a subjective analysis of the performance of Mr. Nikolaus.

The Company's executive officers participate in the Company's 1986 Equity Incentive Plan, under which stock options are granted from time to time at the fair market value of the Company's Common Stock on the date of grant. The options typically vest over three years. The primary purpose of the 1986 Equity Incentive Plan is to provide an incentive for the Company's long-term performance. Such stock options provide an incentive for the creation of stockholder value over the long-term because the full benefit of the options can be realized only if the price of the Company's Common Stock appreciates over time.

The Compensation Committee believes the compensation of Mr. Nikolaus and the other executive officers of the Company is reasonable in view of the Company's performance and the contribution of those officers to that performance in 1995, as well as the performance of the Company in 1995 compared to the performance of other property and casualty insurance companies in 1995.

DONEGAL GROUP INC. COMPENSATION COMMITTEE
C. Edwin Ireland
R. Richard Sherbahn
Philip H. Glatfelter, II

COMPARISON OF TOTAL RETURN ON THE COMPANY'S COMMON STOCK WITH CERTAIN AVERAGES

The following graph provides an indicator of cumulative total stockholder returns on the Company's Common Stock compared to the Russell 2000 Index and a peer group of property and casualty insurance companies selected by Value Line, Inc. The members of the peer group are as follows: W.R. Berkley Corporation, The Chubb Corporation, Cincinnati Financial Corporation, USF&G Corporation, Fremont General Corporation, Frontier Insurance Group, Inc., General Reinsurance Corporation, The Hartford Steam Boiler Inspection and Insurance Company, 20th Century Insurance Company, Orion Capital Corporation, Gainsco Inc., Ohio Casualty Corporation, The Progressive Corporation, SAFECO Corporation, Selective Insurance Group, Inc. and The St. Paul Companies, Inc.

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN*
Donegal Group, Russell 2000 Index And Value Line Insurance: Property/Casualty Index
(Performance Results Through 12/31/95)

[GRAPHIC]

In the printed version there appears a line graph depicting the following plot points:

	1990	1991	1992	1993	1994	1995
Donegal Group	$100.00	$116.09	$130.10	$209.15	$182.66	$242.14
Russell 2000 Index	$100.00	$146.05	$172.94	$205.64	$201.56	$258.89
Insurance: Prop/Cas	$100.00	$126.61	$158.44	$156.75	$157.75	$209.21

Assumes $100 invested at the close of trading 12/31/90 in Donegal Group common stock, Russell 2000 Index, and Insurance Property/Casualty.
*Cumulative total return assumes reinvestment of dividends.

CERTAIN TRANSACTIONS

Donald H. Nikolaus, President and a director of the Company and the Mutual Company, is also a partner in the law firm of Nikolaus, Hohenadel & Umbenhauer. Such firm has served as general counsel to the Mutual Company since 1970 and to the Company since 1986, principally in connection with the defense of claims litigation arising in Lancaster, Dauphin and York Counties of Pennsylvania. Such firm is paid its customary fees for such services.

Patricia A. Gilmartin, a director of the Company and the Mutual Company, is an employee of Donegal Insurance Agency, which has no affiliation with the Company except that Donegal Insurance Agency receives insurance commissions in the ordinary course of business from the Company's subsidiaries and affiliates in accordance with such subsidiaries' and affiliates' standard commission schedules and agency contracts.

During 1995, certain executive officers of the Company exercised options held by them pursuant to the Company's 1986 Equity Incentive Plan and thereafter sold the shares of the Company's Common Stock thereby acquired to the Mutual Company. In each case, the price paid was the closing bid price of the Company's Common Stock on the date of the sale. From the sale proceeds, the Mutual Company paid the exercise price of the options exercised to the Company, made the appropriate withholding deduction for income tax purposes and remitted the remaining balance to the selling executive officer. Certain information concerning these transactions is as follows:

NAME OF SELLER	NUMBER OF SHARES SOLD	NET PROCEEDS RECEIVED
Donald H. Nikolaus	35,000	$ 275,000
Harry E. Newman	32,000	196,000
William H. Shupert	32,000	228,000

ELECTION OF INDEPENDENT PUBLIC ACCOUNTANTS

Unless instructed to the contrary, it is intended that votes will be cast pursuant to the proxies for the election of KPMG Peat Marwick LLP as the Company's independent public accountants for 1996. The Company has been advised by KPMG Peat Marwick LLP that none of its members has any financial interest in the Company. Election of KPMG Peat Marwick LLP will require the affirmative vote of a majority of the shares of Common Stock represented in person or by proxy at the Annual Meeting.

A representative of KPMG Peat Marwick LLP will attend the Annual Meeting, will have the opportunity to make a statement, if such representative desires to do so, and will be available to respond to any appropriate questions presented by stockholders at the Annual Meeting.

APPROVAL OF THE 1996 EMPLOYEE STOCK PURCHASE PLAN

DESCRIPTION OF THE 1996 EMPLOYEE STOCK PURCHASE PLAN

The Board of Directors of the Company adopted the 1996 Employee Stock Purchase Plan (the 'Stock Purchase Plan') as of January 1, 1996, subject to stockholder approval. The purpose of the Stock Purchase Plan is to provide eligible employees with an opportunity to acquire or increase their proprietary interest in the Company through the purchase of the Company's Common Stock at a discount from current market prices. The Stock Purchase Plan is intended to meet the requirements of Section 423 of the Internal Revenue Code of 1986, as amended (the 'Code').

The total number of shares of the Company's Common Stock that are available for issuance under the Stock Purchase Plan is 100,000 shares. Appropriate adjustments in the number or kind of shares reserved for sale under the Stock Purchase Plan are provided for in the event of a stock split, stock dividend, share combination or spin-off and certain other types of corporate transactions involving the Company, including mergers, consolidations, reorganizations and reclassifications.

On March 1, 1996, the closing price of the Company's Common Stock as reported on the Nasdaq National Market was $19.00 per share.

The Stock Purchase Plan is administered by a committee of three employees of the Company (the 'Purchase Plan Committee') appointed by the Company's Board of Directors. The Purchase Plan Committee is authorized to adopt rules and regulations from time to time for carrying out the provisions of the Stock Purchase Plan. Any interpretation or construction of any provision of the Stock Purchase Plan by the Purchase Plan Committee is final and conclusive as to all persons absent contrary action by the Board of Directors. Any interpretation or construction of any provision of the Stock Purchase Plan by the Board of Directors is final and conclusive as to all persons.

Full-time employees of the Company, the Mutual Company or any subsidiary of the Company or the Mutual Company who have completed one month of employment prior to the beginning of an enrollment period are eligible to participate in the Stock Purchase Plan. An otherwise eligible employee may not purchase shares under the Stock Purchase Plan if exercising the right to purchase shares of the Company's Common Stock: (i) would cause the employee to own shares of the Company's Common Stock that possess 5% or more of the total combined voting power or value of all classes of the Company's stock or any subsidiary of the Company or the Mutual Company; or (ii) would cause the employee to have purchase rights under all stock purchase plans of the Company or any subsidiary of the Company or the Mutual Company that meet the requirements of Section 423 of the Code that accrue at a rate that exceeds $25,000 of fair market value of the Common Stock of the Company or any subsidiary of the Company or the Mutual Company for each calendar year in which such right is outstanding. Separation from employment for any reason constitutes an automatic withdrawal from the Stock Purchase Plan.

The Company has heretofore maintained The Donegal Group Inc. Employee Stock Purchase Plan (the 'Prior Plan'). The Company anticipates that all of the shares of the Company's Common Stock reserved for issuance under the Prior Plan will be subscribed for during the current subscription period under the Prior Plan. The first subscription period under the Stock Purchase Plan will run concurrently with the current subscription period under the Prior Plan so that, after the shares reserved for issuance under the Prior Plan are fully subscribed, shares of the Company's Common Stock reserved for issuance under the Stock Purchase Plan will be issued to the extent necessary to fill any oversubscription under the Prior Plan, and, in such event, shares issued under the Stock Purchase Plan and

under the Prior Plan will be allocated among participants on a pro rata basis or on such other reasonable basis as management of the Company shall determine.

The Stock Purchase Plan provides for semi-annual subscription periods, extending from January 1 through June 30 or from July 1 through December 31, respectively, beginning on January 1, 1996 and ending on December 31, 2005. Employees enrolled in the Prior Plan as of December 31, 1995 are deemed to be automatically enrolled for participation in the Stock Purchase Plan. Thereafter, enrollment for participation in the Stock Purchase Plan shall take place during the month preceding each subscription period, which is either the period from December 1 through December 31 or the period from June 1 through June 30 of each year.

Payroll deduction is the only payment method available for the purchase of Common Stock under the Stock Purchase Plan. Employees may invest a maximum of 10% of their base pay towards the purchase of Common Stock in any subscription period. At a minimum, an employee must authorize a payroll deduction sufficient to enable such employee to purchase at least ten shares of the Company's Common Stock in any subscription period.

Subscriptions received under the Stock Purchase Plan during each subscription period will be held by the Company in a plan account maintained for each employee. At the end of each subscription period, the amount contained in the employee's plan account will be divided by the subscription price for the applicable subscription period, and the employee's plan account will be credited with the resulting number of whole shares. The subscription price for any subscription period will be equal to the lesser of 85% of the closing price of the Common Stock as reported on the Nasdaq National Market on the last trading day before the first day of the enrollment period with respect to such subscription period or 85% of the closing price of the Common Stock as reported on the Nasdaq National Market on the last trading day of such subscription period; provided that the subscription price will never be less than $1.00 per share.

No employee may assign his rights under the Stock Purchase Plan. An employee may transfer rights under the Stock Purchase Plan only by will or by the laws of descent and distribution, and such subscription rights shall be exercisable, during an employee's lifetime, only by the employee.

Upon the discontinuance of an employee's employment with the Company, the Mutual Company or a subsidiary of the Company or the Mutual Company or an employee's withdrawal from the Stock Purchase Plan, the amount of any cash credited to the employee's Stock Purchase Plan account for the current subscription period will be refunded by the Company to the employee without interest. Withdrawal by an officer subject to Section 16 of the Exchange Act, except for withdrawal because of the discontinuance of an officer's employment with the Company, the Mutual Company or a subsidiary of the Company or the Mutual Company, will become effective only at the end of a subscription period. No further payroll deductions will be made with respect to employees that have withdrawn from the Stock Purchase Plan. An employee's withdrawal from the Stock Purchase Plan does not affect such employee's eligibility to participate in the Stock Purchase Plan during succeeding subscription periods. A retiring employee or a beneficiary of a participating employee upon the death of such employee may elect to purchase the appropriate number of whole shares of Common Stock using the date of retirement or death as though it were the last day of a subscription period.

AMENDMENT AND TERMINATION

The Stock Purchase Plan will remain in effect until December 31, 2005 or until all shares available for purchase are purchased under the Stock Purchase Plan. The Board of Directors of the Company has the right to terminate the Stock Purchase Plan at any time without notice, as long as no participant's existing rights are adversely affected thereby. Without stockholder approval, no amendments may be made to the Stock Purchase Plan to: (i) increase materially the benefits accruing to participants under the Stock Purchase Plan; (ii) increase the total number of shares of Common Stock subject to the Stock Purchase Plan; (iii) change the formula by which the price at which the shares of Common Stock shall be sold is determined; or (iv) change the class of employees eligible to participate in the Stock Purchase Plan.

FEDERAL INCOME TAX CONSEQUENCES

The Stock Purchase Plan is intended to qualify under the provisions of Section 423 of the Code. No income will be realized for federal income tax purposes by a participant upon the purchase of shares under the Stock Purchase Plan. For participants who do not dispose of their shares within two years after the date on which the right to purchase was granted nor within one year after their shares were purchased, the gain on sale of the shares following the end of the required holding period (or their increase in value in the event of death prior to sale) will, under the present provisions of the Code, be taxed as ordinary income to the extent of the lesser of (i) an amount equal to the difference between the fair market value of the shares on the date of grant and 85% of such value on such date or (ii) an amount equal to the difference between the fair market value of the shares at the time of disposition and the amount paid for such shares under the Stock Purchase Plan. Any additional gain will be treated as long-term capital gain assuming the shares are capital assets in the participant's hands. If a participant is entitled to long-term capital gain treatment upon a sale of the stock, the Company will not be entitled to any deduction for federal income tax purposes with respect thereto. For participants who dispose of their shares within two years after the date of grant or within one year after their shares were purchased, the gain on the sale of the shares will, under the present provisions of the Code, be taxed as ordinary income to the extent of the difference between the purchase price of the shares and the fair market value of the shares on the purchase date and such difference will be deductible by the Company for federal income tax purposes. Any additional gain will be treated as long-term or short-term capital gain, depending on whether the shares have been held for more or less than one year from the date they were purchased.

VOTE REQUIRED

Approval of the Stock Purchase Plan will require the affirmative vote of the holders of a majority of the outstanding shares of the Company's Common Stock present in person or represented by proxy at the Annual Meeting and entitled to vote. Abstentions are considered shares of stock present in person or represented by proxy at the meeting and entitled to vote and are counted in determining the number of votes necessary for a majority. An abstention from voting will therefore have the practical effect of voting against approval of the Stock Purchase Plan because it does not represent a vote for approval. Broker non-votes are not considered shares present in person or represented by proxy and entitled to vote on the amendment and will have no effect on the vote. The Board of Directors recommends a vote FOR the approval of the Stock Purchase Plan.

APPROVAL OF THE 1996 EQUITY INCENTIVE PLAN

DESCRIPTION OF THE 1996 EQUITY INCENTIVE PLAN

The Board of Directors of the Company adopted the 1996 Equity Incentive Plan (the '1996 Equity Incentive Plan') on February 15, 1996, subject to stockholder approval. The purpose of the 1996 Equity Incentive Plan is to further the growth, development and financial success of the Company, the Mutual Company and the subsidiaries of the Company and the Mutual Company by providing additional incentives to those officers and key employees who are responsible for the management and affairs of the Company, the Mutual Company and the subsidiaries of the Company and the Mutual Company which will enable them to participate in the growth of the capital stock of the Company.

The 1996 Equity Incentive Plan permits the granting of options to purchase Common Stock of the Company ('Options'), including Options intended to qualify as incentive stock options ('Incentive Stock Options') under Section 422 of the Code, and Options not intended to so qualify ('Non-Qualified Stock Options') to those officers and key employees of the Company, the Mutual Company and the subsidiaries of the Company and the Mutual Company (as defined in Section 425 of the Code) who are in positions in which their decisions, actions and counsel significantly impact upon the profitability and success of the Company, the Mutual Company and the subsidiaries of the Company and the Mutual Company. Directors of the Company who are not also officers or employees of the Company, the Mutual Company or the subsidiaries of the Company and the Mutual Company are not eligible to participate in the 1996 Equity Incentive Plan. Nothing contained in the 1996 Equity Incentive Plan affects the right of the Company, the Mutual Company or any subsidiary of the Company or the Mutual Company to terminate the employment of an employee.

Approximately 25 persons are eligible to participate in the 1996 Equity Incentive Plan, including executive officers of the Company, the Mutual Company and the subsidiaries of the Company and the Mutual Company. No Options have yet been granted to any person and no determination has been made as to the allocation of grants of Options to specific employees under the 1996 Equity Incentive Plan.

The total number of shares of the Company's Common Stock that may be the subject of Options granted under the 1996 Equity Incentive Plan may not exceed 345,850 shares in the aggregate. If an Option expires or is terminated for any reason without having been fully vested or exercised, the number of shares subject to such Option which have not been purchased or become vested may again be made subject to an Option under the 1996 Equity Incentive Plan. Appropriate adjustments to outstanding Options and to the number or kind of shares subject to the 1996 Equity Incentive Plan are provided for in the event of a stock split, reverse stock split, stock dividend, share combination or reclassification and certain other types of corporate transactions involving the Company, including a merger or a sale of substantially all of the assets of the Company. On March 1, 1996, the closing price of the Company's Common Stock as reported on the Nasdaq National Market was $19.00 per share.

The 1996 Equity Incentive Plan will be administered by a committee of at least three persons (the 'Equity Plan Committee') appointed by the Company's Board of Directors, none of whom is eligible to receive Options under the 1996 Equity Incentive Plan. The Equity Plan Committee is authorized to (i) interpret the provisions of the 1996 Equity Incentive Plan and decide all questions of fact arising in its application; (ii) select the employees to whom Options are granted, and determine the timing, type, amount, size and terms of each such grant; and (iii) make all other determinations necessary or advisable for the administration of the 1996 Equity Incentive Plan.

INCENTIVE AND NON-QUALIFIED OPTIONS

The exercise price of the shares subject to Options will be set by the Equity Plan Committee but may not be less than 100% of the fair market value of such shares on the date the Option is granted as determined by the Equity Plan Committee.

Options will be evidenced by written agreements in such form not inconsistent with the 1996 Equity Incentive Plan as the Equity Plan Committee shall approve from time to time. Each agreement will state the period or periods of time within which the Option may be exercised, provided, however, that no Option may be exercised in whole or in part during the first six months after such Option is granted unless expressly permitted by the Committee. The Equity Plan Committee may accelerate the exercisability of any installments upon such circumstances and subject to such terms and conditions as the Equity Plan Committee deems appropriate. Unless the Equity Plan Committee accelerates exercisability, no Option that is unexercisable at the time of the optionee's termination of employment may thereafter become exercisable. No Option may be exercised after ten years from the date of its grant.

An outstanding Non-Qualified Option that has become exercisable generally terminates one year after the termination of employment due to death, retirement or total disability and three months after employment termination for any reason other than retirement, total disability or death. Incentive Stock Options that have become exercisable generally will terminate one year after termination of employment due to total disability or death and three months after an employment termination for any other reason. No Option may be assigned or transferred, except by will or by the applicable laws of descent and distribution. During the lifetime of the optionee, the Option may be exercised only by the optionee.

The Equity Plan Committee will determine whether Options granted are to be Incentive Stock Options meeting the requirements of Section 422 of the Code. Incentive Stock Options may be granted only to eligible employees. Any such optionee must own less than 10% of the total combined voting power of the Company or of any of its subsidiaries unless at the time such Incentive Stock Option is granted the price of the Option is at least 110% of the fair market value of the Common Stock subject to the Option and, by its terms, the Incentive Stock Option is not exercisable after the expiration of five years from the date of grant. An optionee may not receive Incentive Stock Options for shares that first become exercisable in any calendar year with an aggregate fair market value determined at the date of grant in excess of $100,000.

The option price must be paid in full at the time of exercise unless otherwise determined by the Equity Plan Committee. Payment must be made in cash, in shares of the Company's Common Stock valued at their then fair market value, or a combination thereof, as determined in the discretion of the Equity Plan Committee. It is the policy of the Equity Plan Committee that any taxes required to be withheld must also be paid at the time of exercise. The Equity Plan Committee may, in its discretion, allow an optionee to enter into an agreement with the Company's transfer agent or a brokerage firm of national standing whereby the optionee will simultaneously exercise the Option and sell the shares acquired thereby and either the Company's transfer agent or the brokerage firm executing the sale will remit to the Company from the proceeds of sale the exercise price of the shares as to which the Option has been exercised.

AMENDMENT AND TERMINATION

The 1996 Equity Incentive Plan will remain in effect until all Options granted under the 1996 Equity Incentive Plan have been satisfied by the issuance of shares, except that no Option may be granted under the 1996 Equity Incentive Plan after February 15, 2006. Without stockholder approval, no amendments may be made to the 1996 Equity Incentive Plan to: (i) materially increase the maximum number of shares that may be issued under the 1996 Equity Incentive Plan, except to reflect adjustments in capitalization as described in the 1996 Equity Incentive Plan; (ii) materially increase the benefits accruing to participants under the 1996 Equity Incentive Plan; or (iii) materially modify requirements for eligibility for participation under the 1996 Equity Incentive Plan. In all other respects, the Equity Incentive Plan can be amended, modified, suspended or terminated by the Board of Directors of the Company or the Equity Plan Committee, except that no modification, amendment or termination may be made to the 1996 Equity Incentive Plan, without the consent of an optionee, if such modification, amendment or termination will affect the rights of the optionee under an Option previously granted.

FEDERAL INCOME TAX CONSEQUENCES

The 1996 Equity Incentive Plan is not qualified under Section 401(a) of the Code. The following description, which is based on existing laws, sets forth generally certain of the federal income tax consequences of the Options under the 1996 Equity Incentive Plan. This description may differ from the actual tax consequences of participation in the 1996 Equity Incentive Plan.

An employee receiving an Option will not recognize taxable income upon the grant of the Option, nor will the Company be entitled to any deduction on account of such grant. In the case of Non-Qualified Stock Options, the optionee will recognize ordinary income upon the exercise of the Non-Qualified Stock Option in an amount equal to the difference between the option price and the fair market value of the shares on the date of exercise. When the optionee disposes of the shares acquired upon exercise of the Option, the employee will generally recognize capital gain or loss equal to the difference between (i) the selling price of the shares and (ii) the sum of the option price and the amount included in his income when the Option was exercised. Such gain will be long-term or short-term depending upon whether the shares were held for more or less than one year after the date of exercise.

Incentive Stock Options granted under the 1996 Equity Incentive Plan are intended to qualify as incentive stock options under Section 422 of the Code. A purchase of shares upon exercise of an Incentive Stock Option will not result in recognition of income at that time. However, the excess of the fair market value of the shares purchased over the exercise price will constitute an item of tax preference. This tax preference will be included in the optionee's computation of his alternative minimum tax.

If the optionee does not dispose of the shares issued to the optionee upon the exercise of an Incentive Stock Option within one year of such issuance or within two years from the date of the grant of such Option, whichever is later, then any gain or loss realized by the optionee on a later sale or exchange of such shares generally will be a long-term capital gain or a long-term capital loss. If the optionee sells the shares during such period, the sale will be referred to as a 'disqualifying disposition.' In that event, the optionee will recognize ordinary income for the year in which the disqualifying disposition occurs equal to the amount, if any, by which the lesser of the fair market value of such shares on the date of exercise of such Option or the amount realized from the sale exceeded the amount the optionee paid for such shares. Any additional gain realized generally will be capital gain, which will be long-term or short-term depending on the holding period for the shares. If

the optionee disposes of the shares by gift during such period, the transfer will be treated as a disqualifying disposition subject to the rules described herein.

If the purchase price upon exercise of an Option is paid with shares already owned by the optionee, generally no gain or loss will be recognized with respect to the shares used for payment and the additional shares received will be taxed as described herein. However, if payment of the purchase price upon exercise of an Incentive Stock Option is made with shares acquired upon exercise of an Incentive Stock Option before the shares used for payment have been held for the two-year or one-year period described herein, use of such shares as payment will be treated as a 'disqualifying disposition' of the shares used for payment subject to the rules described herein.

The Company will be entitled to a tax deduction in connection with an Option under the 1996 Equity Incentive Plan only in an amount equal to the ordinary income realized by the optionee and at the time such optionee recognizes such income, provided that applicable tax withholding requirements are met. The federal, state and local income tax consequences to any particular taxpayer will depend upon the taxpayer's individual circumstances. In addition, various tax legislative proposals are introduced in the Congress from time to time, and it is not possible to predict which of the various proposals introduced will be enacted into law, the form in which they finally may be enacted, the effective dates thereof or the effect on the tax consequences of participation in the 1996 Equity Incentive Plan.

VOTE REQUIRED

Approval of the 1996 Equity Incentive Plan will require the affirmative vote of the holders of a majority of the outstanding shares of the Company's Common Stock present in person or represented by proxy at the Annual Meeting and entitled to vote. Abstentions are considered shares of stock present in person or represented by proxy at the meeting and entitled to vote and are counted in determining the number of votes necessary for majority. An abstention from voting will therefore have the practical effect of voting against approval of the 1996 Equity Incentive Plan because it does not represent a vote for approval. Broker non-votes are not considered shares present in person or represented by proxy and entitled to vote on the amendment and will have no effect on the vote. The Board of Directors recommends a vote FOR the approval of the 1996 Equity Incentive Plan.

ANNUAL REPORT

A copy of the Company's Annual Report for 1995 is being mailed to the Company's stockholders with this Proxy Statement.

STOCKHOLDER PROPOSALS

Any stockholder who, in accordance with and subject to the provisions of the proxy rules of the SEC, wishes to submit a proposal for inclusion in the Company's proxy statement for its 1997 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 26, 1996.

OTHER PROPOSALS

The Board of Directors does not know of any matters to be presented for consideration other than the matters described in the Notice of Annual Meeting, but if any matters are properly presented, it is the intention of the persons named in the accompanying proxy to vote on such matters in accordance with their judgment.

By Order of the Board of Directors,

/s/ Donald H. Nikolaus

Donald H. Nikolaus,
President and Chief Executive Officer

March 26, 1996

EXHIBIT (21)

SUBSIDIARIES OF REGISTRANT

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

Name	State of Formation
Atlantic States Insurance Company	Pennsylvania
Southern Insurance Company of Virginia	Virginia
Delaware American Insurance Company	Delaware

Registrant owns 100% of the outstanding stock of the following business corporation:

Name	State of Formation
Atlantic Inspection Services, Inc.	Maryland

EXHIBIT (23)

Independent Auditors' Consent

The Board of Directors
Donegal Group Inc.

We consent to incorporation by reference in the registration statements (Nos. 33-85128 and 33-31287) on Form S-8 of Donegal Group Inc. of our report dated February 23, 1996, relating to the consolidated balance sheets of Donegal Group Inc. and subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1995, which report is incorporated by reference in the December 31, 1995 annual report on Form 10-K of Donegal Group Inc.

Our report refers to a change in the Company's method of accounting for investment securities effective January 1, 1994.

KPMG Peat Marwick LLP

Harrisburg, Pennsylvania
March 28, 1996

YEAR
DEC-31-1995
DEC-31-1995
51,646,730
91,979,122
95,357,840
3,263,878
0
0
161,388,309
1,747,572
62,577,000
58,354,000
(2,947,000)
28,834,000
19,009,000
70,040,000
(2,947,000)
0
6,902,218
235,704,366
97,733,851
54,377,239
0
0
5,000,000
0
0
4,326,362
67,956,530
235,704,366
86,277,852
9,269,884
398,587
1,938,737
55,407,254
14,412,000
13,049,188
12,645,818
2,787,868
9,857,950
0
0
0
9,857,950
2.31
2.31