PROSPECTUS 424(b)(3)
Registration No. 333-06787

DONEGAL GROUP INC.

AGENCY STOCK PURCHASE PLAN

300,000 shares of Common Stock,
par value $1.00

The Agency Stock Purchase Plan (the "Plan") of Donegal Group Inc. (the "Company") described herein offers eligible independent insurance agencies of the Company, Donegal Mutual Insurance Company (the "Mutual Company") and the Company's subsidiary and affiliated insurance companies (as defined below) an opportunity to acquire a proprietary interest in the Company and foster the common interests of the Company and its agencies in achieving long-term profitable growth for the Company.

The total number of shares of the Company's Common Stock, $1.00 par value, (the "Common Stock") that will be made available by the Company under the Plan is 300,000 shares. The purchase price for shares of Common Stock purchased from the Company will be 90% of the average closing prices of the Common Stock on the Nasdaq Stock Market on the last ten trading days of the applicable Subscription Period (as defined below). Prices for the Common Stock are listed on the Nasdaq National Market under the symbol "DGIC".

There will be no brokerage commissions or service charges upon the purchase of shares under the Plan. The Company will bear all other costs of administering the Plan.

It is recommended that this Prospectus be retained for future reference. This Prospectus is accompanied by a copy of the Company's 1995 Annual Report to Stockholders.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public	Underwriting, Discounts and Commissions	Proceeds to Company(2)
Per Share.............	See Footnote(1)	None	100%
Total.................	See Footnote(1)	None	100%

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(1) The Common Stock is traded on the Nasdaq National Market. The Common Stock is offered to participants in the Plan at a discount of 10% from the average of the closing prices of the Common Stock quoted on the Nasdaq National Market on the last ten trading days of the applicable Subscription Period (as described below). The closing price of Common Stock quoted on the Nasdaq Stock Market on August 20, 1996 was $17.75.

(2) Before deducting expenses payable by the Company estimated at $6,000.

The date of this Prospectus is August 22, 1996.

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AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934 (the "Exchange Act") and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information can be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549 and at its regional offices located at 7 World Trade Center, Suite 1300, New York, New York 10048 and Chicago Regional Office, Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. Copies of such materials can be obtained from the Public Reference Section of the Commission, Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549-1004 at prescribed rates. The Company's Common Stock is listed on the Nasdaq National Market. Reports, proxy statements and other information concerning the Company can be inspected at the offices of the Nasdaq Stock Market, 1735 K Street, N.W., Washington, D.C. 20006-1506.

The Company has filed with the Commission in Washington, D.C. a registration statement on Form S-2 (the "Registration Statement") under the Securities Act of 1933 (the "Securities Act") with respect to the securities covered by this Prospectus. As permitted by the rules and regulations of the Commission, this Prospectus does not contain all of the information set forth in the Registration Statement. For further information with respect to the Company and the securities offered hereby, reference is made to the Registration Statement, including the exhibits filed or incorporated as a part thereof. Statements contained herein concerning the provisions of documents filed with, or incorporated by reference in, the Registration Statement as exhibits are necessarily summaries of such documents and each such statement is qualified in its entirety by reference to the copy of the applicable documents filed with the Commission. Copies of the Registration Statement and the exhibits thereto are on file at the offices of the Commission and may be obtained upon payment of the prescribed fee or may be examined without charge at the public reference facilities of the Commission described above.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents heretofore filed by the Company with the Commission are incorporated herein by reference:

a. Annual Report on Form 10-K for the year ended December 31, 1995 filed by the Company pursuant to Section 13(a) of the Exchange Act.

b. Quarterly Report on Form 10-Q for the quarter ended March 31, 1996 filed by the Company pursuant to Section 13(a) of the Exchange Act.

c. Quarterly Report on Form 10-Q for the quarter ended June 30, 1996 filed by the Company pursuant to Section 13(a) of the Exchange Act.

d. 1995 Annual Report to Stockholders (only those portions consisting of the following are incorporated by reference in this Registration Statement: (i) the description of the business of the Company included as part of the Management's Discussion and Analysis of Results of Operation and Financial Condition on page 7 of thereof; (ii) the consolidated financial statements, notes thereto and independent auditors' report thereon on pages 10 through 23 thereof; (iii) the information set forth under "Market Information" on the inside back cover thereof; (iv) the selected financial data set forth under "Financial Highlights" on the inside front cover thereof; and (iv) the "Management's Discussion and Analysis of Results of Operations and Financial Condition" on pages 7 through 9 thereof). The remaining portions of the 1995 Annual Report to Stockholders are not incorporated by reference herein, consisting of pages 1, 2, 3, 4, 5, 6 and 24, inclusive, the information on the inside back cover other than the information under "Market Information" and the front and back outside cover pages of the 1995 Annual Report to Stockholders, and are not part of this Registration Statement.

Any statement contained in a document incorporated by reference or deemed to be incorporated by reference shall be deemed to be modified or superseded for the purposes of this Registration Statement to the extent that a statement contained herein or in any other subsequently filed document, which also is or is deemed to be incorporated by reference, modifies or supersedes such document. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Registration Statement.

The Company will provide without charge to each person to whom this Prospectus is delivered, on the written or oral request of such person, a copy of any or all documents incorporated herein by reference, other than exhibits to such documents unless such exhibits are specifically incorporated by reference therein. Written requests should be directed to:

Donegal Group Inc.
Attention: Ralph G. Spontak, Senior Vice President, Chief Financial Officer and Secretary
1195 River Road
Marietta, PA 17547

Telephone requests may be directed to the Company at (717) 426-1931.

DESCRIPTION OF THE AGENCY STOCK PURCHASE PLAN

The following is a description in question and answer form of the provisions of the Plan offered to selected independent insurance agencies of the Company, the Mutual Company and the Company's subsidiary and affiliated insurance companies (collectively, the "Companies"). "Subsidiary and affiliated insurance companies" are those insurance companies 50% or more of whose stock are owned by the Company or the Mutual Company or with which the Mutual Company has a management agreement. The Plan was approved by the Company's Board of Directors on July 20, 1995.

Purpose and Advantages of the Plan

1. What is the purpose of the Plan?

The Plan provides an Eligible Agency, as described in Question and Answer 6, an opportunity to acquire a long-term proprietary interest in the Company through the purchase of the Company's Common Stock at a discount from current market prices. In offering the Plan, the Company seeks to foster the common interests of the Company and its independent agencies in achieving long-term profitable growth for the Company. Accordingly, the Company has created the Plan for the purpose of facilitating the purchase of and long-term investment in shares of its Common Stock by an Eligible Agency. It is expected that an Eligible Agency that purchases shares under the Plan will hold such shares on a long-term basis, as the Plan is not intended to benefit an agency that demonstrates a pattern of immediate resale of shares acquired and, as discussed in Question and Answer 6 below regarding eligibility, such a pattern of conduct will be a factor in the Company's determination whether an otherwise Eligible Agency should remain eligible for continued participation in the Plan.

2. What are the advantages of the Plan?

Under the Plan, an Eligible Agency can utilize three convenient payment methods for the purchase of the Company's Common Stock at a 10% discount from the current market price of such shares. Purchases will also be made without paying any brokerage commissions or service charges.

Administration

3. Who administers the Plan for participants?

The Plan is administered by a committee (the "Committee") consisting of three persons appointed from time to time by the Company's Board of Directors. The Committee may from time to time adopt rules and regulations for carrying out the Plan. Any interpretation or construction of any provision of the Plan by the Committee is final and conclusive on all persons absent contrary action by the Board of Directors. On July 20, 1995, the Company's Board of Directors appointed Donald H. Nikolaus, Ralph G. Spontak and Frank J. Wood to serve on the Committee. The address for each member of the Committee is c/o Donegal Group Inc., 1195 River Road, Marietta, PA 17547.

4. Where can I obtain additional information about the Plan and its administrators?

Additional information about the Plan and its administrators may be obtained by contacting Ralph G. Spontak, Senior Vice President, Chief Financial Officer and Secretary of the Company, at (717) 426-1931.

5. What is the term of the Plan?

The Plan will be in effect from September 15, 1996 through September 30, 2001 unless earlier terminated by the Board of Directors. The Board of Directors has the right to terminate the Plan at any time without notice provided that no participant's existing rights are adversely affected thereby. There will be ten semi-annual "Subscription Periods." Each Subscription Period will extend from October 1 through March 31 or from April 1 through September 30, respectively, beginning with October 1, 1996 and ending on September 30, 2001.

Participation

6. What agencies are eligible to participate?

Independent insurance agencies that bring value to the Companies, directly or indirectly, as determined by the Company in its discretion, and with which the Companies seek a long-term relationship are eligible (an "Eligible Agency") to participate in the Plan. The eligibility criteria the Company will consider will include the agency's premium volume, the potential growth of such premium volume, the profitability of the agency's business and whether the agency has been placed on rehabilitation by the Company or had its binding authority revoked. The Company, in its discretion, may base eligibility on agency segmentation class or any other factors that indicate value to the Companies, directly or indirectly. Continued eligibility will be subject to the Company's periodic review. A pattern of immediate resale of shares acquired under the Plan by an Eligible Agency will be a factor in the Company's determination whether an agency should remain eligible for continued participation in the Plan because immediate resales would tend to indicate that an agency is not seeking to share in the long-term profitable growth of the Companies. A decision by the Company, in its discretion, to discontinue the eligibility of an agency under the Plan will be treated as an automatic withdrawal from the Plan. See Questions and Answers 24 and 25 below.

7. How may an Eligible Agency participate in the Plan?

An Eligible Agency may enroll in the Plan by completing and filing a Subscription Agreement, as described in Question and Answer 8, with the Company. Subscription Agreements will be sent to each Eligible Agency prior to the beginning of the first Enrollment Period following such agency's designation as an Eligible Agency.

8. What does a Subscription Agreement provide?

A Subscription Agreement allows each Eligible Agency to decide and identify the date on which the agency desires to become enrolled in the Plan, the amounts of contribution and the payment method(s) selected for purchases under the Plan.

9. When may an Eligible Agency enroll in the Plan?

If an Eligible Agency chooses the direct bill commission payment method, as explained in Question and Answer 15, enrollment in the Plan may occur only during the "Enrollment Period" preceding each Subscription Period, which is from the 15th through the 31st day of March or from the 15th through the 30th day of September of each year commencing on September 15, 1996. An Eligible Agency that desires to subscribe for the purchase of Common Stock through withholding from direct bill commissions must return a duly executed and completed Subscription Agreement during the first applicable Enrollment Period. Once enrolled in the direct bill commission payment method, an Eligible Agency's participation in the Plan continues for each succeeding Subscription Period until the agency ceases to be an Eligible Agency or withdraws from enrollment in the Plan. If an Eligible Agency chooses the lump-sum payment method, as explained in Question and Answer 17, an Eligible Agency may enroll by submitting a supplemental Subscription Agreement to the Company and making a lump-sum payment by the last day of the applicable Subscription Period, September 30 or March 31. If an Eligible Agency chooses the contingent commission payment method, as explained in Question and Answer 18, an Eligible Agency may enroll by submitting a Subscription Agreement during the Enrollment Period immediately preceding the October 1 through March 31 Subscription Period.

10. May an Eligible Agency transfer its subscription rights to another person or agency?

No. An Eligible Agency may not assign its subscription payments or rights to subscribe to any other person, and any such attempted assignment shall be void, except for permitted designations as described in Question and Answer 23.

Costs and Expenses

11. Are there any expenses to participants in connection with purchases under the Plan?

No. Eligible Agencies will not be obligated to pay any brokerage commissions or other charges with respect to the purchase of Common Stock under the Plan.

Purchases

12. What is the number of shares available to be purchased under the Plan?

The Board of Directors of the Company has reserved 300,000 shares of the Company's Common Stock for issuance under the Plan.

13. What is the price of shares of Common Stock purchased under the Plan?

The Subscription Price for each share of Common Stock purchased under the Plan will be 90% of the average of the closing prices of the Common Stock on the Nasdaq National Market on the last ten trading days of the applicable Subscription Period; provided, however, the Subscription Price shall never be less than the $1.00 par value per share of Common Stock.

14. How may an Eligible Agency pay for shares purchased under the Plan?

The Subscription Price for shares purchased under the Plan is payable by participants by means of three payment methods: Direct bill commission deduction, lump-sum payment or contingent commission deduction.

15. What is the direct bill commission payment method?

Under the direct bill commission payment method, an Eligible Agency may elect to purchase Common Stock under the Plan through deductions from its monthly direct bill commission payment by designating that a minimum of 1% and up to a maximum of 10% of the Eligible Agency's monthly direct bill commission payments be withheld from the Eligible Agency's direct bill commission payments, subject to the total subscription limit under all payment methods of $12,000 per Subscription Period. "Direct bill commission payments" means those commissions that are earned and actually available for payment in a monthly period to an Eligible Agency for personal and commercial direct bill policies after all offsetting debits and credits are applied, as determined solely from the Company's records.

16. May an Eligible Agency that chooses the direct bill commission payment method change the method or amount of contribution made or withheld under the Plan?

Yes. An Eligible Agency choosing the direct bill commission payment method may change the rate of contribution by filing a new Subscription Agreement with the Company during the Enrollment Period for the next Subscription Period. Such change will become effective during the next Subscription Period.

17. What is the lump-sum payment method?

Under the lump-sum payment method, an Eligible Agency may, by September 30 or March 31 of the applicable Subscription Period, elect to make lump-sum cash payments for the purchase of Common Stock under the Plan. Lump-sum cash payments may not be less than $1,000 per Subscription Period and are subject to the total subscription limit under all methods of $12,000 per Subscription Period.

18. What is the contingent commission payment method?

During the Enrollment Period immediately preceding the October 1 through March 31 Subscription Period, an Eligible Agency may designate a percentage of the contingent commission payable to the participant under the terms of the applicable agency contingency plan (or its equivalent) to be withheld for the purchase of Common Stock under the Plan, subject to the total subscription limit under all payment methods of $12,000 per Subscription Period.

19. Are there limitations on the amount of contributions or purchases that can be made?

Yes. During any one Subscription Period, the total allowable contributions for purchases from all payment methods (described in Question and Answer 15, 17 and 18 above) for each Eligible Agency may not exceed $12,000. At the close of each Subscription Period, each agency's contributions from all payment methods will be totaled. If at any time throughout a Subscription Period, an Eligible Agency's total payments exceed the $12,000 maximum amount and the agency so requests, the Company will return the excess amount without interest to the agency within a reasonable period. Any amount not returned will be applied to the purchase of Common Stock during the next Subscription Period without reducing the $12,000 limitation applicable to such Subscription Period.

20. How are purchases made under the Plan?

The Company will maintain on its books an account (a "Plan Account") for each enrolled Eligible Agency. All contributions made by an Eligible Agency through deductions from an Eligible Agency's direct bill commission payments and contingent commission withholding and lump-sum payments during a Subscription Period, up to $12,000, will be credited to the Eligible Agency's Plan Account. At the end of each Subscription Period, the amount credited to each Eligible Agency's Plan Account will be divided by the Subscription Price for such Subscription Period, and the Eligible Agency's Plan Account will be credited with the number of whole shares that results. Any amount remaining in the Plan Account will be carried forward to the next Subscription Period without reducing the $12,000 limitation applicable to such Subscription Period or, at the option of the Eligible Agency, returned to the Eligible Agency. If the number of shares subscribed for during any Subscription Period exceeds the number of shares available for sale under the Plan, the remaining available shares will be allocated among the participating Eligible Agencies in proportion to their aggregate Plan Accounts balances, exclusive of any amount carried forward from a previous Subscription Period.

Shares; Certificates for Shares

21. May an Eligible Agency transfer, pledge, hypothecate or assign shares credited to the agency's Plan Account?

Neither an Eligible Agency's subscription rights under the Plan nor shares credited to the Eligible Agency's Plan Account may be transferred, pledged, hypothecated or assigned, subject except for permitted designations as described in Question and Answer 23.

22. Are stock certificates issued for shares of Common Stock purchased?

Stock certificates will be issued and delivered to each Eligible Agency with respect to the shares it has purchased under the Plan within a reasonable time thereafter.

23. In whose name are accounts maintained and certificates registered when issued?

Accounts in the Plan will be maintained in the name of the Eligible Agency. Consequently, certificates when issued for full shares will be registered in the same name. An Eligible Agency may, upon written request to the Company, (a) designate that shares be issued to a shareholder, partner, other principal or other licensed employee of such Eligible Agency or (b) designate that any retirement plan maintained by or for the benefit of such Eligible Agency or a shareholder, partner, other principal or other licensed employee of such Eligible Agency may purchase shares in lieu of such Eligible Agency through lump-sum payments made by the designee, subject to the maximum amount limitation of $12,000, compliance with applicable laws, including the Employee Retirement Income Security Act of 1974, as amended, payment by the Eligible Agency or its designee of any applicable transfer taxes and satisfaction of the Company's usual requirements for recognition of a transfer of the Company's Common Stock.

Withdrawal from the Plan

24. How and when may an Eligible Agency withdraw from the Plan?

An enrolled Eligible Agency may withdraw from the Plan at any time by giving written notice to the Company of the agency's desire to do so, signed on behalf of the Eligible Agency by an authorized representative. Termination of agency status for any reason will be treated as an automatic withdrawal. If an agency withdraws from the Plan, such agency may not resubscribe until after the next full Subscription Period has elapsed, and then only if it has been redesignated by the Company as an Eligible Agency.

25. What happens to any shares held in and amounts credited to an Eligible Agency's Plan Account at the time of withdrawal?

Promptly after the time of withdrawal or discontinuance of an Eligible Agency's eligibility, certificates representing the whole shares held under the Plan will be issued in the name of the agency, and any amount credited to an Eligible Agency's Plan Account at the time of withdrawal will be refunded to the participant in cash without interest.

Other Information

26. What happens if the Company declares a stock split or stock dividend or changes or exchanges its Common Stock for shares of stock or other securities of its own or another corporation?

In the event that the outstanding shares of Common Stock of the Company are hereafter increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company, or of another corporation, by reason of reorganization, merger, consolidation, recapitalization, reclassification, stock split-up, stock dividend (either in shares of the Company's Common Stock or of another class of the Company's stock), spin-off or combination of shares, appropriate adjustments shall be made by the Committee in the aggregate number and kind of shares that are reserved for sale under the Plan.

27. What are the federal income tax consequences of participation by an Eligible Agency in the Plan?

At the time of purchase, and where an Eligible Agency will be purchasing shares of Common Stock in its own name, the Eligible Agency will be treated as having received ordinary income in an amount equal to the difference between the Subscription Price paid and the then fair market value of the Common Stock acquired. At the end of each calendar year, the Company will mail to each participating agency a Form 1099 reflecting the amount of ordinary income earned under the Plan. The Company is entitled to a deduction at the same time in a corresponding amount. The participating agency's basis in the Common Stock acquired is equal to the purchase price plus the amount of ordinary income recognized. When an agency disposes of shares of Common Stock acquired under the Plan, any amount received in excess of the value of the shares Common Stock on which the agency was previously taxed will be treated as a long-term or short-term capital gain, depending upon the holding period of the shares. If the amount received is less than that value, the loss will be treated as a long-term, or short-term capital loss, depending upon the holding period of the shares (which begins on the date after each share is acquired).

Each participating agency is strongly advised to consult with a tax advisor to determine the tax consequences of a given transaction, particularly if a taxpayer other than an Eligible Agency has been designated by the Eligible Agency to become a participant in the Plan.

28. May the Plan be changed or discontinued?

Yes. The Company's Board of Directors has the right to amend, modify or terminate the Plan at any time without notice as long as no participating agency's existing rights are adversely affected as a result of such amendment, modification or termination.

DESCRIPTION OF CAPITAL STOCK

The authorized Common Stock of the Company consists of 10,000,000 shares, $1.00 par value per share. As of June 1, 1996, 4,412,944 shares of Common Stock were issued and outstanding. Each share of Common Stock is entitled to one vote. The shares of Common Stock do not have cumulative voting rights and, therefore, holders of more than 50% of the voting power of the Company are able to elect all directors entitled to be elected by the stockholders. The absence of cumulative voting and the Company's staggered board of directors, together with the ownership of more than a majority of the Company's Common Stock by the Mutual Company and insurance laws and regulations applicable to the acquisition of insurance holding companies could be expected to have the effect of delaying, averting or preventing a change in control of the Company and would probably prevent any change in control of the Company unless the Mutual Company was in favor of such a change. All the shares of Common Stock offered by the Company hereby, when issued, will, upon payment therefor, be fully paid and non-assessable. In the event of any liquidation, dissolution or winding-up of the Company, holders of Common Stock will be entitled to share ratably in the assets available for distribution, subject to the rights of any Preferred Stock which may be outstanding at the time. No holder of Common Stock has any preemptive rights. Holders of Common Stock have equal rights share for share, to receive dividends when and if declared by the Board of Directors. There can be no assurance that dividends will be declared in the future.

The transfer agent and registrar for the Company's Common Stock is First Chicago Trust Company of New York.

The Company also has authorized 1,000,000 shares of Preferred Stock issuable in series upon resolution of the Board of Directors. The Board of Directors is authorized to establish the relative terms, rights and other provisions of any such series of Preferred Stock. No Preferred Stock has been issued, and the Board of Directors does not intend to issue any Preferred Stock at the present time. The Board of Directors, without stockholder approval can issue Preferred Stock with voting and conversion rights which could adversely affect the voting power of the Common Stock. The issuance of Preferred Stock could be expected to, and may have the effect of, delaying, averting or preventing a change in control of the Company.

Delaware Law and Certain By-Law Provisions

The Company is subject to the provisions of Section 203 of the Delaware General Corporation Law. In general, Section 203 prohibits a publicly-held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless (i) prior to such date the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder or (ii) upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced (excluding, for determining the number of shares outstanding, (a) shares owned by persons who are directors or officers and (b) employee stock plans, in certain instances) or (iii) on or subsequent to such date the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders by at least 66 2/3% of the outstanding voting stock that is not owned by the interested stockholder. The restrictions imposed by Section 203 will not apply to a corporation if (i) the corporation's original certificate of incorporation contains a provision expressly electing not to be governed by Section 203 or (ii) the corporation, by the action of its stockholders holding a majority of outstanding stock, adopts an amendment to its certificate of incorporation or by-laws expressly electing not to be governed by Section 203 (such amendment will not be effective until 12 months after adoption and will not apply to any business combination between such corporation and any person who became an interested stockholder of such corporation on or prior to such adoption).

The Company has not elected out of Section 203, and the restrictions imposed by Section 203 apply to the Company. Section 203 could, under certain circumstances, make it more difficult for a third party to gain control of the Company, deny stockholders the receipt of a premium on their Common Stock and have a depressive effect on the market price of the Common Stock. Section 203 defines a business combination to include: (i) any merger or consolidation involving the corporation and the interested stockholder, (ii) any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder, (iii) subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder, (iv) any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder or (v) the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation. An "interested stockholder" is a person who, together with affiliates and associates, owns (or within the prior three years did own) 15% or more of the corporation's voting stock.

The Company's By-laws provide for a classified Board of Directors consisting of three classes as nearly equal in size as possible, with staggered three-year terms. The classification of the Board of Directors could have the effect of making it more difficult for a third party to acquire, or discouraging a third party from acquiring, control of the Company.

Limitation of Liability; Indemnification

As permitted by the Delaware General Corporation Law, the Company's Certificate of Incorporation provides that directors of the Company will not be personally liable to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Company or its stockholders, (ii) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, relating to prohibited dividends, distributions and repurchases or redemptions of stock or (iv) for any transaction from which the director derives an improper personal benefit. However, such limitation on liability would not apply to violations of the federal securities laws, nor does it limit the availability of non-monetary relief in any action or proceeding against a director. The By-laws include provisions for indemnification of the Company's directors and officers to the fullest extent permitted by the Delaware General Corporation Law as now or hereinafter in effect. Insofar as indemnification for liabilities arising under the federal securities laws may be permitted to directors, officers and persons controlling the Company pursuant to the foregoing provisions, the Company has been informed that in the opinion of the Commission such indemnification is against public policy as expressed in such laws and is therefore unenforceable.

USE OF PROCEEDS

The proceeds to the Company from sales of Common Stock pursuant to the Plan will be used for general corporate purposes, including investment in and advances to the Company's subsidiaries.

EXPERTS

The consolidated financial statements and schedules of Donegal Group Inc. as of December 31, 1995 and 1994 and for each of the years in the three-year period ended December 31, 1995 have been incorporated herein and in the Registration Statement in reliance upon the reports of KPMG Peat Marwick LLP, independent certified public accountants, incorporated by reference herein, and upon the authority of said firm as experts accounting and auditing. Such reports refer to a change in the Company's method of accounting for investment securities by adopting the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities."

LEGAL OPINION

The validity of the issuance of the shares of Common Stock offered hereby will be passed upon for the Company by Duane, Morris & Heckscher, Philadelphia, Pennsylvania.

DONEGAL GROUP INC.

AGENCY STOCK PURCHASE PLAN

300,000
Shares of
Common Stock,
par value $1.00

PROSPECTUS

Dated: August 22, 1996

No person has been authorized to give any information or to make any representation not contained in this Prospectus, and, if given or made, such information or representation must not be relied upon as having been authorized by the Company. Neither delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date hereof. This Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any of the securities offered hereby in any jurisdiction to any person to whom it is unlawful to make such offering in such jurisdiction.

DONEGAL GROUP INC.
AGENCY STOCK PURCHASE PLAN

SUBSCRIPTION AGREEMENT

Instruction: Please indicate the desired payment method(s) by marking the appropriate block(s) below. (Note: 1, 2 or all 3 payment methods may be elected up to an aggregate of $12,000 per Subscription Period.)

On behalf of ____ (the "Agency"), ___________________ (insert agency number), the Agency hereby elects to enroll in the Donegal Group Inc. Agency Stock Purchase Plan (the "Plan"). The Agency understands that a maximum total contribution of $12,000 from all payment methods applies for each Subscription Period. The Agency further understands that, subject to the terms of the Plan, shares of Common Stock of the Company will be purchased in accordance with the Prospectus, a copy of which has been delivered to the Agency.

[ ] Direct Bill Commission Payment Method (By the End of the Applicable Enrollment Period)

The Agency requests that ______% (not less than 1% and not more than 10% of direct bill commissions subject to a maximum of $12,000 per Subscription Period) of the Agency's direct bill commission be withheld from each commission statement during the next six-month Subscription Period and for future Subscription Periods.

[ ] Lump-Sum Payment Method (By the End of the Applicable Subscription Period)

The Agency will make a lump-sum payment (not less than $1,000 and not greater than $12,000 per Subscription Period less amounts paid under the direct bill commission payment method and/or the contingent commission payment method). Enclosed is a check in the amount of $___________ or, if no check is enclosed, a Lump-Sum Contribution Supplemental Transmittal Statement, in the form provided to the Agency, will be submitted with the Agency's payment by September 30 or March 31 of the respective Subscription Period.

[ ] Contingent Commission Payment Method (By the End of the Enrollment Period Applicable to the October 1 through March 31 Subscription Period)

The Agency requests that ______% (subject to a maximum dollar amount not greater than $12,000 per Subscription Period less amounts paid under the direct bill commission payment method and/or the lump-sum payment method) be deducted from the Agency's contingent commission, if any, payable to the Agency under the applicable agency contingent plan for the purchase of stock during the next October 1 to March 31 Subscription Period in which the contingent commission, if any, is paid.

[complete reverse side also]

Please check the applicable block:

[ ] New Participant

[ ] Change of Direct Bill Commission Withholding Percentage

[ ] Withdrawal from the Plan at the end of the current Subscription Period

[ ] Withdrawal from the Plan immediately and receive all funds withheld for the current Subscription Period

[ ] Addition or deletion of Payment Option for current Subscription Period

____ Federal ID No.: __________
(Agency Name)

By: ____ Date: ____________________

Title: _______________________________________

Note:

Registration of stock will be in the Agency's name, unless written instructions are received pursuant to the permitted designations set forth in the Plan and the Prospectus.

This form should be submitted to Donegal Group, Inc., 1195 River Road, Marietta, Pennsylvania 17547, Attention: Ralph G. Spontak, Senior Vice President, Chief Financial Officer and Secretary.

DONEGAL GROUP INC.
AGENCY STOCK PURCHASE PLAN

Lump-Sum Contribution
Supplemental Transmittal Statement

The undersigned Agency has previously submitted, or is concurrently submitting, to Donegal Group Inc. (the "Company") a Subscription Agreement in connection with the Agency's participation in the Company's Agency Stock Purchase Plan (the "Plan"). The Agency hereby elects to make a lump-sum contribution under the Plan. For the current Subscription Period, enclosed is $___________ to be used to purchase the Company's Common Stock in accordance with the terms of the Plan.

Please Complete:

____ Fed ID No.:______________________
(Agency Name)

By: ______________________________________ Date: ___________________________

Title: _______________________________

Instructions:

This form should be sent to Donegal Group Inc., 1195 River Road, Marietta, Pennsylvania 17547, Attention: Ralph G. Spontak, Senior Vice President, Chief Financial Officer and Secretary, along with a Subscription Agreement if not previously submitted for the Subscription Period and your check and be received prior to September 30 or March 31 of the respective Subscription Period. The dollar amount set forth above must be at least $1,000 and may not exceed, when added to the amounts paid under the direct bill commission payment method and/or the contingent commission payment method for the current Subscription Period, an aggregate of $12,000.

AGENCY STOCK PURCHASE PLAN SUMMARY

DONEGAL GROUP INC.

The items in this brochure are intended to be summaries of some of the major provisions contained in the Donegal Group Inc. Agency Stock Purchase Plan. Please refer to the prospectus for a complete discussion of each item. This brochure is not a solicitation to sell Donegal Group Inc. common stock and must be accompanied by a prospectus for the plan.

WHAT IS THE PURPOSE OF THE PLAN?

The Company has created the Plan for the purpose of facilitating the purchase and long-term investment in its shares by eligible Agencies thereby fostering stable long term relationships between the Company's affiliates and their Agencies.

WHAT ARE THE ADVANTAGES OF THE PLAN?

Eligible Agencies can purchase the Company's Common Stock at a 10% discount from current market prices without incurring any brokerage commissions or service charges.

WHO IS ELIGIBLE TO PARTICIPATE?

All Agencies meeting the eligibility guidelines specified in the prospectus are permitted to participate.

HOW MAY AN ELIGIBLE AGENCY BUY STOCK UNDER THE PLAN?

There are three ways to buy stock under the plan:

(1) Direct bill commission method

You may have deductions made from your monthly direct bill commission payments ranging from a minimum of 1 percent to a maximum of 10 percent.

(2) Lump-sum payment method

You may elect to make a lump-sum cash payment of not less than $1,000 per subscription period.

(3) Contingent commission method

You may designate a percentage of your contingent commission to purchase stock for the October 1 through March 31 subscription period.

HOW IS THE PRICE OF THE STOCK DETERMINED?

The price for each share will be 90% of the average of the closing prices of the Common Stock on the Nasdaq National Market on the last ten trading days of the subscription period.

IN WHOSE NAME CAN CERTIFICATES BE REGISTERED WHEN ISSUED?

Although an eligible Agency may not assign its subscription rights to any other person, it may designate that the shares be issued to any stockholder, partner, principal or other licensed employee of such eligible Agency or designate that the shares be issued to any retirement plan maintained for the benefit of such eligible Agency stockholder, partner, principal or licensed employee.

IS THERE A LIMIT TO HOW MUCH STOCK AN AGENCY CAN BUY?

An Agency may purchase up to $12,000 of stock in any one subscription period from all methods combined.

WHEN ARE THE SUBSCRIPTION PERIODS?

There will be two subscription periods each year: From October 1 through March 31, and April 1 through September 30. You must enroll for the Direct Bill Method between the 15th through the 30th day of September for the subscription period beginning October 1 and between the 15th through the 31st day of March for the subscription period beginning April 1. For the Contingent Commission Method you must enroll between the 15th through the 30th day of September.

MAY AN ELIGIBLE AGENCY WITHDRAW FROM THE PLAN?

An enrolled Agency may withdraw from the Plan at any time by giving written notice to the Company.

HOW DO I ENROLL MY AGENCY IN THE PLAN?

An eligible Agency may enroll in the Plan by completing a subscription agreement and returning it to the Company prior to the applicable deadline.

WHERE CAN I GET MORE INFORMATION ABOUT THE PLAN?

For more information contact Ralph G. Spontak, Senior Vice President, Chief Financial Officer and Secretary of the Company, at (717) 426-1931 or FAX at (717) 426-7009.

DONEGAL GROUP INC.
1195 River Road o P.O. Box 302
Marietta, Pennsylvania 17547
(717) 426-1931
FAX (717) 426-7009

Affiliated Companies:

Donegal Mutual Insurance Company

Atlantic States Insurance Company

Delaware Atlantic Insurance Company

Pioneer Insurance Company

Southern Insurance Company of Virginia