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

(Mark One)
[x] Quarterly Report Pursuant to Section 13 of the Securities Exchange Act of 1934

For the Quarterly Period Ended March 31, 1997

or

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _________________ to ___________________.

Commission File No. 0-15341

Donegal Group Inc.
(Exact name of registrant as specified in its charter)

Delaware	23-2424711
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1195 River Road, P.O. Box 302, Marietta, PA 17547-0302
(Address of principal executive offices, including zip code)

(717) 426-1931
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Applicable Only to Issuers Involved in Bankruptcy Proceedings During the Preceding Five Years:

Indicate by check mark whether the registrant has filed all documents and reports required by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ____ . No ____ .

Applicable Only to Corporate Issuers:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 4,548,344 shares of Common Stock, $1.00 par value, outstanding on April 30, 1997.

Part I. Financial Information

Item 1. Financial Statements.

Donegal Group Inc. And Subsidiaries
Consolidated Balance Sheet

	March 31, 1997 (Unaudited)	December 31, 1996*
Assets		
Investments		
Fixed maturities		
Held to maturity, at amortized cost	$119,857,775	$114,339,006
Available for sale, at market value	53,524,565	53,536,543
Equity securities, available for sale at market	4,404,294	3,142,944
Short-term investments, at cost, which approximate market	15,573,452	21,470,757
Total Investments	193,360,086	192,489,250
Cash	3,040,290	3,700,163
Accrued investment income	2,568,732	2,628,563
Premiums receivable	11,199,236	11,075,415
Reinsurance receivable	39,165,780	40,894,788

Deferred policy acquisition costs	7,660,694	7,837,899
Deferred federal income taxes	4,050,068	3,613,307
Prepaid reinsurance premiums	22,910,771	22,373,319
Property and equipment, net	3,116,677	2,622,399
Accounts receivable - securities	--	98,622
Other	684,484	677,048
Total Assets	$287,756,818	$288,010,773
Liabilities and Stockholders' Equity		
Liabilities		
Losses and loss expenses	$114,175,729	$114,641,740
Unearned premiums	70,198,633	70,555,906
Accrued expenses	1,945,750	2,387,040
Reinsurance balances payable	786,154	746,935
Federal Income Tax Payable	499,954	644,529
Cash dividend declared to stockholders	--	492,619
Line of credit	8,500,000	8,500,000
Accounts payable - securities	1,000,000	2,748,838
Other	414,504	204,989
Due to affiliate - Pioneer acquisition	5,191,774	5,191,774
- Other	1,415,116	297,129
Total Liabilities	204,127,614	206,411,499
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 4,341,992 and 4,540,569 shares and outstanding 4,548,344 and 4,471,782 shares	4,548,344	4,540,569
Additional paid-in capital	37,975,946	37,862,715
Net unrealized gains on investments	(215,268)	422,916
Retained earnings	42,211,938	39,664,830
Treasury stock	(891,756)	(891,756)
Total Stockholders' Equity	83,629,204	81,599,274
Total Liabilities and Stockholders' Equity	$287,756,818	$288,010,773

* Restated

See accompanying notes to consolidated financial statements.

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

For the three months ended March 31, 1997 and 1996

	Three Months Ended March 31, 1997	1996*
Revenues:		
Premiums earned	$39,041,184	$33,933,400
Premiums ceded	12,636,851	8,097,905
Net premiums earned	26,404,333	25,835,495
Investment income, net of investment expenses	2,844,983	2,720,207
Realized gain	37,827	262,074
Lease income	142,452	131,997
Service charge income	393,776	228,168
Total Revenues	29,823,371	29,177,941
Expenses:		
Losses and loss expenses	23,907,647	23,747,899
Reinsurance recoveries	6,995,104	5,036,692
Net losses and loss expenses	16,912,543	18,711,207
Amortization of deferred policy acquisition costs	4,479,000	4,112,000
Other underwriting expenses	4,112,816	3,913,215
Policy dividends	433,699	345,235
Interest	164,987	106,005
Other expenses	397,465	387,579
Total Expenses	26,500,510	27,575,241
Income before income taxes	3,322,861	1,602,700
Income taxes	760,428	266,306
Net income	$ 2,562,433	$ 1,336,394
Earnings per common share	$ .57	$ .30

*Restated

See accompanying notes to consolidated financial statements.

DONEGAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)
FOR THE THREE MONTHS ENDED MARCH 31, 1997

	Common Stock						
	Shares	Amount	Additional Paid-In Capital	Net Unrealized Gains (Losses) on Investments Available for Sale	Retained Earnings	Treasury Stock	Total Stockholders Equity
Balance, December 31, 1996*	4,540,569	$4,540,569	$37,862,715	$ 422,916	$39,664,830	$(891,756)	$81,599,274
Issuance of Common Stock	7,775	7,775	113,231				121,006
Net Income					2,562,433		2,562,433
Change in unrealized gains (losses) on investments (Net of applicable federal income taxes)				(638,184)			(638,184)
Dividends					(15,325)		(15,325)
Balance, March 31, 1997	4,548,344	$4,548,344	$37,975,946	$ (215,268)	$42,211,938	$(891,756)	$83,629,204

*Restated

See accompanying notes to financial statements.

DONEGAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)
For the three months ended March 31, 1997 and 1996

	Three months ended March 31, 1997	1996*
Cash Flows from Operating Activities:		
Net income	$ 2,562,433	$ 1,336,394
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	78,089	100,229
Realized investment gain	(37,827)	(262,074)
Changes in Assets and Liabilities:		
Losses and loss expenses	(466,011)	2,430,172
Unearned premiums	(357,273)	2,466,431
Premiums receivable	(123,821)	(278,054)
Deferred acquisition costs	177,205	(345,330)
Deferred income taxes	(108,989)	(45,426)
Reinsurance receivable	1,729,008	(902,835)
Prepaid reinsurance premiums	(537,452)	(349,812)
Accrued investment income	59,831	126,468
Due from affiliate	1,117,987	(2,030,598)
Accounts payable reinsurance	39,219	26,003
Current income taxes payable	(144,575)	306,346
Other, net	(239,211)	(1,913,000)
Net adjustments	1,186,180	(671,480)
Net cash provided by operating activities	3,748,613	664,914
Cash flows from investing activities:		
Purchase of fixed maturities		
Held to maturity	(8,732,818)	(12,388,487)
Available for sale	(7,473,721)	(7,476,040)
Purchase of equity securities, available for sale	(1,908,722)	(7,627,909)
Maturity of fixed maturities		
Held to maturity	2,042,049	3,998,961
Available for sale	2,250,000	4,006,806
Sale of fixed maturities - available for sale	4,010,313	3,427,022
Sale of equity securities, available for sale	460,763	7,225,064
Acquisition of Delaware American	--	(202,243)
Purchase of property and equipment	(582,042)	(39,140)
Net sales of short-term investments	5,897,305	8,333,388
Net cash used in investing activities	(4,036,873)	(742,578)
Cash flows from financing activities:		
Cash dividends paid	(492,619)	(427,694)
Issuance of common stock	121,006	200,157
Net cash provided by (used in) financing activities	(371,613)	(227,537)
Net decrease in cash	(659,873)	(305,201)
Cash at beginning of year	3,700,163	2,397,386
Cash at end of quarter	$ 3,040,290	$ 2,092,185
Cash paid during period - Interest	$ 164,975	$ 375
- Income taxes	$ 724,842	$ 0

*Restated

See accompanying notes to consolidated financial statements.

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

Overview

Donegal Group Inc. ("DGI" or the "Company") is a regional insurance holding company doing business in Pennsylvania, Maryland, Delaware, Virginia and Ohio through its four wholly owned property-casualty insurance subsidiaries, Atlantic States Insurance Company ("Atlantic"), Southern Insurance Company of Virginia ("Southern"), Pioneer Insurance Company ("Pioneer") and Delaware Atlantic Insurance Company ("Delaware"). The Company's major lines of business in 1996 and their percentage of total net earned premiums were Automobile Liability (27.7%), Workers' Compensation (18.0%), Automobile Physical Damage (16.0%), Homeowners (16.6%), and Commercial Multiple Peril (16.0%). 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 March 31, 1997.

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

On March 31, 1997, the Company acquired all of the outstanding stock of Pioneer 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 Pioneer 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.

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

1 - Organization

The Company was organized as a regional insurance holding company by Donegal Mutual Insurance Company (the "Mutual Company") on August 26, 1986 and operates in Pennsylvania, Maryland, Delaware, Virginia and Ohio through its wholly owned stock insurance companies, Atlantic States Insurance Company ("Atlantic States"), Southern Insurance Company of Virginia ("Southern"), Delaware Atlantic Insurance Company ("Delaware"), Pioneer Insurance Company ("Pioneer") and Atlantic Insurance Services, Inc. ("AIS"). The Company's major lines of business are Automobile Liability, Automobile Physical Damage, Homeowners, Commercial Multiple Peril and Workers' Compensation. Atlantic, Southern and Delaware are subject to regulation by Insurance Departments in those states in which they operate and undergo periodic examination by those departments. They are also subject to competition from other insurance carriers in their operating areas. Atlantic States engages in the insurance business primarily through an intercompany pooling arrangement with the Mutual Company. Southern was acquired by the Company on December 31, 1988 pursuant to a plan of conversion from a mutual to a stock company and cedes 50% of its business to the Mutual Company, 80% prior to 1991. On December 29, 1995, the Company acquired all of the outstanding stock of Delaware. This transaction was accounted for as if it were a "Pooling of interest," and as such, the Company's financial statements have been restated to include Delaware as a consolidated subsidiary from January 1, 1994 to the present. On March 31, 1997, the Company acquired all of the outstanding stock of Pioneer. This transaction was accounted for as if it were a "Pooling of Interest", and as such the Company's financial statements have been restated to include Pioneer as a consolidated subsidiary from January 1, 1994 to the present. At March 31, 1997 the Mutual Company held 59% of the outstanding common stock of the Company.

2 - Basis of Presentation

The financial information for the interim period included herein is unaudited; however, such information reflects all adjustments, consisting only of normal recurring adjustments, which, in the opinion of management of Registrant, are necessary to a fair presentation of Registrant's financial position, results of operations and changes in financial position for the interim period included herein. The results of operations for the three months ended March 31, 1997, are not necessarily indicative of results of operations to be expected for the twelve months ended December 31, 1996.

These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996.

Results of Operations - Three Months Ended March 31, 1997 to Three Months Ended March 31, 1996

Revenues for the three months ended March 31, 1997 were $29,823,371, an increase of $645,430 or 2.2%, over the same period of 1996. An increase in net premiums earned of $568,838 or 2.2%, represented most of this change. Investment income for the first quarter of 1997 was $2,844,983, an increase of $124,776 or 4.6%, over the first quarter of 1996. An increase in the average invested assets of $12,493,859 or 6.9%, to $192,924,668 and a decrease in the average return on investments to an annualized rate of 5.9% for the first quarter of 1997 compared to 6.0% for the first quarter of 1996, accounted for the change. Realized investment gains, which resulted from the normal turnover of the Company's investment portfolio, decreased $224,247 for the three months ended March 31, 1997 compared to the same period in 1996, to $37,827.

The GAAP combined ratio of insurance operations in the first quarter of 1997 was 98.2% compared to 104.8% for the same period in 1996. The GAAP combined ratio is the sum of the ratios of incurred losses and loss adjusting expenses to premiums earned (loss ratio), policyholders dividends to premiums earned (dividend ratio), and underwriting expenses to premiums earned (expense ratio). The Company posted a loss ratio of 56.7% for the first quarter 1997 compared to the 72.4% loss ratio it posted for the first quarter 1996. Dramatically improved weather conditions in 1997 compared to the severe and unusual weather that was experienced in early 1996 accounted for the improvement. The expense ratio increased from 31.1% to 32.5% for the three months ended March 31, 1997 due primarily to increases in incentive expenses for employees and agents related to the lower claims activity for the first quarter. The dividend ratio increased slightly from 1.3% for the first quarter of 1996 to 1.6% for the first quarter of 1997, due primarily to higher levels of profitability in the workers' compensation line.

Federal income taxes for the first quarter of 1997 represented 22.9% of income before income taxes, compared to 16.6% for the same period of 1996. Larger underwriting profits in 1997 representing a larger portion of overall income than in 1996 accounted for the increase.

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 March 31, 1997, 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 March 31, 1997, pursuant to a credit agreement dated December 29, 1995, with Fleet National Bank of Connecticut, the Company had unsecured borrowings of $8.5 million. 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 March 31, 1997, the interest rate on the outstanding balance was 7.325%. 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, Pioneer and Delaware, which are required by law to maintain certain minimum surplus on a statutory basis and are subject to regulations under which payment of dividends from statutory surplus is restricted and may require prior approval of their domiciliary insurance regulatory authorities. Atlantic States, Southern, Pioneer and Delaware are subject to Risk Based Capital (RBC) requirements effective for 1994. At December 31, 1996, all four Companies' capital was substantially above the RBC requirements. At December 31, 1996, amounts available for distribution as dividends to Donegal Group without prior approval of the insurance regulatory authorities are $5,410,536 from Atlantic States, $255,480 from Southern, $48,582 from Pioneer and $1,120,952 from Delaware.

Credit Risk

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

The Company's subsidiaries have reinsurance agreements in place with the Mutual Company and with a number of other major authorized reinsurers.

Impact of Inflation

Property and casualty insurance premiums are established before the amount of losses and loss settlement expenses, or the extent to which inflation may impact such expenses, are known. Consequently, the Company attempts, in establishing rates, to anticipate the potential impact of inflation.

Impact of New Accounting Standards

Stock-Based Compensation

Stock-based compensation plans are accounted for under the provisions of Accounting Principles Board (APB) Opinion No. 25. "Accounting for Stock Issued to Employees," and related interpretations. As such, compensation expense would be recorded on the date of a stock option grant only if the current market price of the underlying stock exceeded the exercise price. Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-based Compensation" was effective for 1996 and permits entities to recognize as expense, over the vesting period, the fair value of all stock-based awards on the date of the grant. Alternatively, SFAS No. 123 allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income and earnings per share disclosures for employee stock option grants made in 1995 and 1997 as if the fair-value-based method defined in SFAS No. 123 had been applied. The Company has elected to continue to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosures under SFAS No. 123.

Impairment of Long-Lived Assets

The Company has adopted 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 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 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 believes the adoption of SFAS No. 121 has no material effect on its financial condition or results of operation.

Part II. Other Information

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities

None.

Item 3. Defaults upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) EX-27 Financial Data Schedule
(b) Reports on Form 8-K
During the quarter ended March 31, 1997, Registrant did not file any reports on Form 8-K.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Donegal Group Inc.

Date: May 15, 1997

By:

Donald H. Nikolaus,
President and
Chief Executive Officer

Date: May 15, 1997

By:

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

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