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, 2000

or

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

For the transition period from ________________ to __________________.

Commission File No. 0-15341

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

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

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

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

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

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

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

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

Applicable Only to Corporate Issuers:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 8,647,474 shares of Common Stock, $1.00 par value, outstanding on April 30, 2000.

Part I. Financial Information

Item 1. Financial Statements.

Donegal Group Inc. And Subsidiaries
Consolidated Balance Sheet

Assets	March 31, 2000	December 31, 1999
Investments	(Unaudited)	
Fixed maturities		
Held to maturity, at amortized cost	$135,978,678	$136,173,547
Available for sale, at fair value	99,862,214	100,043,548
Equity securities, available for sale at fair value	14,708,561	9,229,498
Short-term investments, at cost, which approximates fair value	9,485,402	15,995,257
Total Investments	260,034,855	261,441,850
Cash	4,608,750	3,922,403
Accrued investment income	3,582,698	3,474,430
Premiums receivable	19,066,644	18,218,525
Reinsurance receivable	54,240,774	53,070,283
Deferred policy acquisition costs	11,092,479	11,203,302
Federal income tax receivable	--	698,969
Deferred federal income taxes	9,142,948	9,121,232
Prepaid reinsurance premiums	32,790,457	32,154,837

Property and equipment, net	5,412,428	5,516,688
Due from affiliate	--	262,954
Other	720,309	647,184
Total Assets	$400,692,342	$399,732,657

Liabilities and Stockholders' Equity

Liabilities		
Losses and loss expenses	$151,895,128	$149,979,141
Unearned premiums	97,946,739	97,657,020
Accrued expenses	4,841,908	5,888,392
Drafts payable	141,194	597,775
Reinsurance balances payable	1,332,699	1,216,034
Federal income taxes payable	330,060	--
Cash dividend declared to stockholders	--	760,673
Line of credit	37,000,000	37,000,000
Accounts payable - securities	500,000	2,500,000
Due to affiliate - other	186,878	--
Other	1,130,250	719,010
Total Liabilities	295,304,856	296,318,045
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 8,740,846 and 8,574,210 shares and outstanding 8,618,558 and 8,451,922 shares	8,740,846	8,574,210
Additional paid-in capital	44,400,543	43,536,748
Accumulated other comprehensive loss	(2,373,611)	(2,073,989)
Retained earnings	55,511,464	54,269,399
Treasury stock	(891,756)	(891,756)
Total Stockholders' Equity	105,387,486	103,414,612
Total Liabilities and Stockholders' Equity	$400,692,342	$399,732,657

See accompanying notes to consolidated financial statements.

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

For the three months ended March 31, 2000 and 1999

	Three Months Ended March 31, 2000	1999
Revenues:		
Premiums earned	$53,293,648	$51,836,183
Premiums ceded	17,708,555	15,742,212
Net premiums earned	35,585,093	36,093,971
Investment income, net of investment expenses	3,877,369	3,369,261
Realized loss	(281,910)	(16,930)
Lease income	206,772	197,137
Service charge income	358,210	466,551
Total Revenues	39,745,534	40,109,990
Expenses:		
Losses and loss expenses	37,927,326	36,601,455
Reinsurance recoveries	12,389,334	12,149,804
Net losses and loss expenses	25,537,992	24,451,651
Amortization of deferred policy acquisition costs	6,071,000	6,031,000
Other underwriting expenses	5,020,612	5,757,757
Policy dividends	352,962	331,376
Interest	823,210	430,944
Other expenses	273,887	382,387
Total Expenses	38,079,663	37,385,115
Income before income taxes	1,665.871	2,724,875
Income taxes	415,637	573,508
Net income	$ 1,250,234	$ 2,151,367
Earnings per common share		
Basic	$.15	$.26
Diluted	$.15	$.26

Statement of Comprehensive Income
(Unaudited)

	Three Months Ended March 31, 2000	1999
Net Income	$1,250,234	$ 2,151,367
Other comprehensive loss, net of tax		
Unrealized gains (losses) on securities:		
Unrealized holding loss arising during the period	(485,683)	(790,465)
Less: Reclassification adjustment for		
Reclassification adjustment, net of income tax	186,061	11,174
Other comprehensive loss	(299,622)	(779,291)
Comprehensive income	$ 950,612	$ 1,372,076

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, 2000

	Common Stock						
	Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 1999	8,574,210	$ 8,574,210	$ 43,536,748	$ (2,073,989)	$ 54,269,399	$ (891,756)	$103,414,612
Issuance of Common Stock	166,636	166,636	863,795				1,030,431
Net Income					1,250,234		1,250,234
Cash Dividend					(8,169)		(8,169)
Other Comprehensive Loss				(299,622)			(299,622)
Balance, March 31, 2000	8,740,846	$ 8,740,846	$ 44,400,543	$ (2,373,611)	$ 55,511,464	$ (891,756)	$105,387,486

See accompanying notes to consolidated financial statements.

DONEGAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)
For the three months ended March 31, 2000 and 1999

	Three months ended March 31, 2000	1999
Cash flows from operating activities:		
Net income	$ 1,250,234	$ 2,151,367
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	226,718	211,460
Realized investment loss	281,910	16,930
Changes in assets and liabilities:		
Losses and loss expenses	1,915,987	1,565,233
Unearned premiums	289,719	(53,849)
Premiums receivable	(848,119)	(540,608)
Deferred policy acquisition costs	110,823	193,691
Deferred federal income taxes	77,349	(45,404)
Reinsurance receivable	(1,170,491)	(2,669,163)
Prepaid reinsurance premiums	(635,620)	(793,765)
Accrued investment income	(108,268)	105,870
Due from affiliate	449,832	2,026,523
Reinsurance balances payable	116,665	(525,139)
Federal income taxes receivable	1,029,029	551,664
Other, net	(1,173,255)	14,835
Net adjustments	562,279	58,278
Net cash provided by operating activities	1,812,513	2,209,645
Cash flows from investing activities:		
Purchase of fixed maturities		
Held to maturity	(3,249,537)	(2,774,667)
Available for sale	(6,733,072)	(4,180,764)
Purchase of equity securities, available for sale	(6,554,263)	(5,223,848)
Maturity of fixed maturities		
Held to maturity	4,589,737	10,926,853
Available for sale	3,500,000	1,500,000
Sale of equity securities, available for sale	638,629	565,850
Purchase of property and equipment	(89,104)	(440,317)
Net sales of short-term investments	6,509,855	14,972,212
Net cash provided by (used in) investing activities	(1,387,755)	15,345,319
Cash flows from financing activities:		
Cash dividends paid	(768,842)	(708,513)
Issuance of common stock	1,030,431	587,939
Line of credit, net	--	(22,500,000)
Net cash provided by (used in) financing activities	261,589	(22,620,574)
Net increase (decrease) in cash	686,347	(5,065,610)
Cash at beginning of period	3,922,403	8,227,042
Cash at end of period	4,608,750	$ 3,161,432
Cash paid during period - Interest	$ 620,391	$ 417,304
Net cash received during period - Income taxes	$ 689,544	$ --

See accompanying notes to consolidated financial statements.

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

1 - Organization

Donegal Group Inc. (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 the Mid-Atlantic and Southern states through its wholly-owned stock insurance companies, Atlantic States Insurance Company ("Atlantic States"), Southern Heritage Insurance Company ("Southern Heritage"), Southern Insurance Company of Virginia ("Southern"), Delaware Atlantic Insurance Company ("Delaware") and Pioneer Insurance Company ("Pioneer") (collectively "Insurance Subsidiaries"). The Company has three operating segments: the investment function, the personal lines of insurance and the commercial lines of insurance. Products offered in the personal lines of insurance consist primarily of homeowners and private passenger automobile policies. Products offered in the commercial lines of insurance consist primarily of commercial automobile, commercial multiple peril and workers' compensation policies. The Insurance Subsidiaries are subject to regulation by Insurance Departments in those states in which they operate and undergo periodic examinations by those departments. The Insurance Subsidiaries are also subject to competition from other insurance companies in their operating areas. Atlantic States participates in an inter-company pooling arrangement with the Mutual Company and assumes 65% of the pooled business. Effective July 1, 2000 the pooling arrangement will be amended changing Atlantic States' portion of the pooled business to 70%. Southern cedes 50% of its business to the Mutual Company.

At March 31, 2000, the Mutual Company held 62% of the outstanding common stock of the Company. The Company and Donegal Mutual have been granted approval from the Federal Office of Thrift Supervision to form a savings bank. The bank will be 40% owned by the Company and 60% by Donegal Mutual and will require that the Company contribute approximately $2.8 million in start up capital. It is currently anticipated that the thrift will be formed in the second quarter and open for business in the third quarter of this year.

2 - Basis of Presentation

The financial information for the interim period included herein is unaudited; however, such information reflects all adjustments, consisting only of normal recurring adjustments, which, in the opinion of management, are necessary to a fair presentation of the financial position, results of operations and cash flow for the interim period included herein. The results of operations for the three months ended March 31, 2000, are not necessarily indicative of results of operations to be expected for the twelve months ended December 31, 2000.

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, 1999.

3 - Earnings Per Share

The computation of basic and diluted earnings per share is as follows:

	Net Income	Weighted Average Shares Outstanding	Earnings Per Share
Three Months Ended March 31:			
2000			
Basic	$1,250,234	8,572,383	$ .15
Effect of stock options	--	--	--
Diluted	$1,250,234	8,572,383	$ .15
1999			
Basic	$2,151,367	8,237,582	$ .26
Effect of stock options	--	--	--
Diluted	$2,151,367	8,237,582	$ .26

4 - Segment Information

The Company evaluates the performance of the personal lines and commercial lines based upon underwriting results as determined under statutory accounting practices (SAP) which is used by management to measure performance for the total business of the Company.

Financial data by segment is as follows:

	Three Months Ended March 31 2000	1999
	($ in thousands)	
Revenues:		
Premiums earned:		
Commercial lines	$ 12,399	$ 11,385
Personal lines	23,186	24,709
Total net premiums earned	35,585	36,094
Net investment income	3,877	3,369
Realized investment losses	(282)	(17)
Other	566	664
Total revenues	$ 39,746	$ 40,110
Income before income taxes:		
Underwriting income (loss)		
Commercial lines	$ (895)	$ (621)
Personal lines	(470)	622
SAP underwriting gain (loss)	(1,365)	1
GAAP adjustments	(32)	(479)
GAAP underwriting loss	(1,397)	(478)
Net investment income	3,877	3,369
Realized investment losses	(282)	(17)
Other	(532)	(149)
Income before income taxes	$ 1,666	$ 2,725

5 - Restructuring Charge

On September 29, 1999, the Company announced a plan to consolidate certain subsidiary support functions into its Marietta, Pennsylvania office. As a result of this consolidation, the Company recorded a restructuring charge in 1999 of $2,044,000 for employee termination benefits, occupancy charges, lease cancellation costs, and asset impairments. The charge was included in other underwriting expenses. The consolidation has been completed.

Employee termination benefits include severance payments, which were paid either in a lump sum or over a defined period, and related benefits for approximately 60 employees. Of the terminated employees, approximately 50% were from subsidiary support functions and approximately 50% were from the Marietta, Pennsylvania office. By December 31, 1999, all of the terminated employees had left the employment of the Company.

Included in occupancy charges are future lease obligations, less anticipated sublease benefits, for leased space which is no longer being used by the Delaware and Southern Heritage subsidiary support functions.

Also included in the restructuring charges were contract cancellation costs that represented the estimated cost to buy out of the remaining term on printer, copier, and computer processing contracts that provided no future benefits to the Company as a result of the restructuring. By December 31, 1999 all such assets had been taken out of service.

Asset impairments, which were a direct result of the consolidation of subsidiary functions, amounted to $407,000. They consisted of capitalized programming and data center costs, voice systems, and leasehold and office improvements. These assets were written-down to zero in 1999. By December 31, 1999 all such assets were taken out of service.

Activity in the restructuring accrual is as follows:

	Employee Termination Benefits	Occupancy	Contract Cancellations	Totals
BALANCE AT 12/31/99	$ 368,000	$ 441,000	$ 73,000	$ 882,000
CASH PAYMENTS	(165,000)	(47,000)	(73,000)	(285,000)
BALANCE AT 3/31/00	$ 203,000	$ 394,000	$ --	$ 597,000

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

Results of Operations - Three Months Ended March 31, 2000 to Three Months Ended March 31, 1999

Revenues for the three months ended March 31, 2000 were $39,745,534 a decrease of $364,456 or 0.9%, over the same period of 1999. A decrease in net premiums earned of $508,878 or 1.4%, represented most of this change. Premiums earned of Southern Heritage decreased $2.4 million as part of the reunderwriting of its book of business. This decrease was mostly offset by an increase of 6.5% in the earned premiums of the Company's other subsidiaries. Net premiums written by the insurance subsidiaries, excluding Southern Heritage, increased 9.1% in the first quarter of 2000 compared to the first quarter of 1999. Investment income for the first three months of 2000 increased $508,108 or 15.1%. An increase in the annualized average return on investments from 5.5% in the first three month of 1999 to 5.6% in the first three months of 2000 and an increase in average invested assets from $246.9 million in the first three months of 1999 to $265.0 million in the first three months of 2000, accounted for this change. Realized investment losses were $281,910 in the first three months of 2000 compared to $16,930 for the same period of 1999. The realized losses in 2000 included $285,228 in losses which resulted from declines in the market value of two securities that were determined to be other than temporary. The realized losses in 1999 resulted from the normal turnover of the Company's portfolio.

The GAAP combined ratio of insurance operations in the first three months of 2000 was 103.9% compared to 101.3% for the same period in 1999. The GAAP combined ratio is the sum of the ratios of incurred losses and loss adjusting expenses to premiums earned (loss ratio), policyholders dividends to premiums earned (dividend ratio), and underwriting expenses to premiums earned (expense ratio). The Company's loss ratio in the first three months of 2000 was 71.8% compared to 67.7% in the first three months of 1999. The loss ratio increase resulted primarily from deterioration in results from the private passenger automobile and workers compensation lines of business. The increase in the loss ratio was partially offset by an improvement in the expense ratio for the first three months of 2000 to 31.2% compared to 32.7% for the first three months of 1999. The improvement in the expense ratio resulted primarily from the Company's previously announced restructuring plan that was implemented at the end of the third quarter in 1999. The dividend ratio remained virtually unchanged at 1.0% for the first three months of 2000 compared to 0.9% for the same period of 1999.

Federal income taxes for the three months ended March 31, 2000 represented 25.0% of the income before income taxes compared to 21.0% for the same period of 1999. These rates vary from the expected rate of 34% primarily due to the effect of tax exempt investment income.

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. The Company will be required to contribute $2.8 million in capital as part of the formation of a thrift for which it and Donegal Mutual have been granted approval from the Federal Office of Thrift Supervision. The capital contribution will take place in the second quarter of this year.

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, 2000, pursuant to a credit agreement dated December 29, 1995, with Fleet National Bank of Connecticut, (the " Bank") the Company had unsecured borrowings of $37.0 million. Per the terms of the credit agreement, the Company may borrow up to $40 million at interest rates equal to the bank's then current prime rate or the then current London interbank Eurodollar bank rate plus 1.70%. At March 31, 2000, the interest rates on the outstanding balances were 9.0% on an outstanding prime rate balance of $22.0 million and 8.1% on an outstanding euro dollar rate balance of $15.0 million. In addition, the Company will pay a non-use fee at a rate of 3/10 of 1% per annum on the average daily unused portion of the Bank's commitment. On each July 27, commencing July 27, 2001, the credit line will be reduced by $8 million. Any outstanding loan in excess of the remaining credit line, after such reduction, will then be payable.

The Company's principal source of cash with which to pay stockholder dividends is dividends from Atlantic States, Southern, Pioneer, Southern Heritage 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, Southern Heritage and Delaware are subject to Risk Based Capital (RBC) requirements effective for 1994. At December 31, 1999, each of the five Companies' capital was substantially above the RBC requirements. At December 31, 1999, amounts available for distribution as dividends to Donegal Group without prior approval of the insurance regulatory authorities are $6,851,802 from Atlantic States, $184,285 from Southern, $567,793 from Pioneer, $956,381 from Delaware and $1,650,842 from Southern Heritage.

Credit Risk

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

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

Impact of Inflation

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

Year 2000 Issues

The Company has not encountered difficulties to date with respect to the Year 2000 millennium change, either internally or with third parties. The Company will continue to monitor exposure to any Year 2000 related problems.

The Company has risk that claims related to Year 2000 issues will be made under insurance policies that it underwrites. The Company has concluded that its policies do not generally provide coverage for losses relating to year 2000 issues and has issued endorsements further clarifying this exclusion. However, due in part to the potential for judicial decisions which expand policies to cover risks that were not contemplated by the policy, which in turn may produce unanticipated claims, and because there is no prior history of such claims at this point in time, the amount of any potential Year 2000 coverage liabilities is not determinable. However, the Company has not had any claims reported to date.

Part II. Other Information

Item 1. Legal Proceedings.

None.

Item 2. Changes in Securities.

None.

Item 3. Defaults upon Senior Securities.

Quantitative and Qualitative Disclosure About Market Risk

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

The Company has maintained approximately the same duration of its investment portfolio to its liabilities from December 31, 1999 to March 31, 2000. In addition, the Company has maintained approximately the investment mix during this period.

There has been no material changes to the Company's quantitative or qualitative market risk exposure.

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

Annual Stockholders meeting held April 20, 2000.
Directors elected at meeting:

C. Edwin Ireland	
Votes for	8,192,977
Votes withheld	41,142
Donald H. Nikolaus	
Votes for	8,192,977
Votes withheld	41,142

Directors Continuing:
Robert S. Bolinger
Thomas J. Finley, Jr.
Patricia A. Gilmartin
Philip H. Glatfelter
R. Richard Sherbahn

Approved KPMG LLP as Auditors for 2000:

Votes for	8,188,883
Votes against	37,152
Abstained	8,084

Item 5. Other Information.

None.

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

(a) EX -27 Financial Data Schedule
(b) Reports on 8-K:
No reports on Form 8-K were filed by the Company during the quarter ended March 31, 2000.

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.

May 15, 2000 By:____________________________________
Donald H. Nikolaus, President
and Chief Executive Officer

May 15, 2000 By: ____
Ralph G. Spontak, Senior Vice President,
Chief Financial Officer and Secretary

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