Filed pursuant to Rules 424(b)(3) and 424(c)
Registration No. 333-06787

DONEGAL GROUP INC.

AGENCY STOCK PURCHASE PLAN

PROSPECTUS SUPPLEMENT
TO PROSPECTUS DATED AUGUST 22, 1996

On August 14, 1997, Donegal Group Inc. (the "Company") filed with the Securities and Exchange Commission a Form 10-Q Quarterly Report for the quarter ended June 30, 1997, a copy of which, without exhibits, is attached to this Prospectus Supplement.

This Prospectus Supplement should be read in conjunction with the Company's Prospectus dated August 22, 1996 and the Company's 1996 Annual Report to Stockholders.

The date of this Prospectus Supplement is August 26, 1997.

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 June 30, 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: 6,021,835 shares of Common Stock, $1.00 par value, outstanding on July 31, 1997.

Part I. Financial Information

Item 1. Financial Statements.

Donegal Group Inc. and Subsidiaries
Consolidated Balance Sheet

Assets	June 30, 1997 (Unaudited)	December 31, 1996*
Investments		
Fixed maturities		
Held to maturity, at amortized cost	$ 120,401,349	$ 114,339,006
Available for sale, at market value	55,909,200	53,536,543
Equity securities, available for sale at market	4,812,501	3,142,944
Short-term investments, at cost, which approximate market	14,963,275	21,470,757
Total Investments	196,086,325	192,489,250
Cash	1,835,392	3,700,163
Accrued investment income	2,779,641	2,628,563
Premiums receivable	11,091,026	11,075,415
Reinsurance receivable	38,426,808	40,894,788
Deferred policy acquisition costs	7,910,695	7,837,899
Federal income tax recoverable	150,889	--
Deferred federal income taxes	3,723,498	3,613,307
Prepaid reinsurance premiums	22,888,431	22,373,319
Property and equipment, net	3,410,621	2,622,399
Accounts receivable - securities	--	98,622
Other	2,146,193	677,048
Total Assets	$ 290,449,519	$ 288,010,773

Liabilities and Stockholders' Equity	June 30, 1997	December 31, 1996*
Liabilities		
Losses and loss expenses	$ 114,908,968	$ 114,641,740
Unearned premiums	71,119,082	70,555,906
Accrued expenses	2,070,340	2,387,040
Reinsurance balances payable	696,313	746,935
Federal income tax payable	--	644,529
Cash dividend declared to stockholders	--	492,619
Line of credit	8,500,000	8,500,000
Accounts payable - securities	--	2,748,838
Other	293,248	204,989
Due to affiliate - Pioneer acquisition	5,191,774	5,191,774
- Other	1,264,462	297,129
Total Liabilities	204,044,187	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 4,561,578 and 4,540,569 shares and outstanding 4,492,791 and 4,471,782 shares	4,561,578	4,540,569
Additional paid-in capital	38,239,783	37,862,715
Net unrealized gains on investments	422,327	422,916
Retained earnings	44,073,400	39,664,830
Treasury stock	(891,756)	(891,756)
Total Stockholders' Equity	86,405,332	81,599,274
Total Liabilities and Stockholders' Equity	$ 290,449,519	$ 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 June 30, 1997 and 1996

	Three Months Ended June 30, 1997	1996*
Revenues:		
Premiums earned	$39,721,921	$34,005,961
Premiums ceded	12,898,416	8,026,590
Net premiums earned	26,823,505	25,979,371
Investment income, net of investment expenses	2,881,771	2,468,432
Realized gain	35,527	32,674
Lease income	154,396	134,360
Service charge income	358,661	504,549
Total Revenues	30,253,860	29,119,386
Expenses:		
Losses and loss expenses	25,799,082	22,207,837
Reinsurance recoveries	8,469,679	4,925,416
Net losses and loss expenses	17,329,403	17,282,421
Amortization of deferred policy acquisition costs	4,251,000	4,186,000
Other underwriting expenses	4,605,054	3,825,503
Policy dividends	308,070	354,085
Interest	277,938	102,676
Other expenses	376,348	411,456
Total Expenses	27,147,813	26,162,141
Income before income taxes	3,106,047	2,957,245
Income taxes	705,450	449,209
Net income	$ 2,400,597	$ 2,508,036
Earnings per common share	$.54	$.57

*Restated

See accompanying notes to consolidated financial statements.

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

For the six months ended June 30, 1997 and 1996

	Six Months Ended June 30, 1997	1996
Revenues:		
Premiums earned	$78,763,105	$67,939,361
Premiums ceded	25,535,267	16,124,495
Net premiums earned	53,227,838	51,814,866
Investment income, net of investment expenses	5,726,754	5,188,639
Realized gain	73,354	294,748
Lease income	296,848	266,357
Service charge income	752,437	732,717
Total Revenues	60,077,231	58,297,327
Expenses:		
Losses and loss expenses	49,706,729	45,955,736
Reinsurance recoveries	15,464,783	9,962,108
Net losses and loss expenses	34,241,946	35,993,628
Amortization of deferred policy acquisition costs	8,730,000	8,298,000
Other underwriting expenses	8,717,870	7,738,718
Policy dividends	741,769	699,320
Interest	442,925	208,681
Other expenses	773,813	799,035
Total Expenses	53,648,323	53,737,382
Income before income taxes	6,428,908	4,559,945
Income taxes	1,465,878	715,515
Net income	$ 4,963,030	$ 3,844,430
Earnings per common share	$1.11	$.87

See accompanying notes to consolidated financial statements.

DONEGAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)
FOR THE SIX MONTHS ENDED JUNE 30, 1997

	Common Stock Shares	Common Stock 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	21,009	21,009	377,068				398,077
Net Income					4,963,030		4,963,030
Change in unrealized gains (losses) on investments (Net of applicable federal income taxes)				(589)			(589)
Dividends					(554,460)		(554,460)
Balance, June 30, 1997	4,561,578	$4,561,578	$38,239,783	$422,327	$44,073,400	$(891,756)	$86,405,332

*Restated

See accompanying notes to financial statements.

DONEGAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)
For the six months ended June 30, 1997 and 1996

	Six months ended June 30, 1997	1996*
Cash Flows from Operating Activities:		
Net income	$ 4,963,030	$ 3,844,430
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	178,538	206,574
Realized investment gain (loss)	(73,354)	(294,748)
Changes in Assets and Liabilities:		
Losses and loss expenses	267,228	10,590,575
Unearned premiums	563,176	3,893,517
Premiums receivable	(15,611)	(313,537)
Deferred acquisition costs	(72,796)	(637,845)
Deferred income taxes	(110,876)	(63,579)
Reinsurance receivable	2,467,980	(8,425,120)
Prepaid reinsurance premiums	(515,112)	(248,421)
Accrued investment income	(151,078)	(107,780)
Due from affiliate	967,333	(285,991)
Accounts payable reinsurance	(50,622)	30,838
Current income taxes payable	(795,418)	(489,049)
Other, net	(1,697,586)	(1,013,792)
Net adjustments	961,802	2,841,642
Net cash provided by operating activities	5,924,832	6,686,072
Cash flows from investing activities:		
Purchase of fixed maturities		
Held to maturity	(13,087,963)	(15,788,466)
Available for sale	(10,183,672)	(8,581,524)
Purchase of equity securities, available for sale	(3,015,732)	(8,515,859)
Maturity of fixed maturities		
Held to maturity	4,484,420	5,256,550
Available for sale	3,594,999	9,019,295
Sale of fixed maturities - available for sale	4,010,313	3,603,517
Sale of equity securities - available for sale	1,538,232	8,016,369
Acquisition of Delaware American	--	(202,243)
Purchase of property and equipment	(988,680)	(146,570)
Net sales of short-term investments	6,507,482	1,059,314
Net cash used in investing activities	(7,140,601)	(8,398,245)
Cash flows from financing activities:		
Cash dividends paid	(1,047,079)	(898,159)
Issuance of common stock	398,077	2,287,157
Net cash provided by (used in) financing activities	(649,002)	1,388,998
Net decrease in cash	(1,864,771)	(323,175)
Cash at beginning of year	3,700,163	2,397,386
Cash at end of quarter	$ 1,835,392	$ 2,074,211
Cash paid during period - Interest	$ 334,014	$ 169,806
- Income taxes	$ 559,584	$ 1,268,143

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 June 30, 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 June 30, 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 June 30, 1997
to Three Months Ended June 30, 1996

Revenues for the three months ended June 30,1997 were $30,253,860 an increase of $1,134,474, or 3.9%, over the same period of 1996. An increase in net premiums earned of $844,134 or 3.2%, represented most of this change. Investment income for the second quarter of 1997 was $2,881,771 an increase of $413,339, or 16.7%, over the second quarter of 1996. An increase in the average invested assets of $21,555,080 or 12.3%, to $197,161,046 and an increase in the average return on investments to an annualized rate of 5.8% for the second quarter of 1997 compared to 5.6% for the second quarter of 1996, accounted for the change. Realized investment gains, which resulted from the normal turnover of the Company's investment portfolio, increased $2,853 for the three months ended June 30, 1997 compared to the same period in 1996, to $35,527.

The GAAP combined ratio of insurance operations in the second quarter of 1997 was 98.8% compared to 98.7% 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 64.6% for the second quarter 1997 compared to the 66.5% loss ratio it posted for the second quarter 1996. The expense ratio increased from 30.8% to 33.0% for the three months ended June 30, 1997 due to higher inspection costs related to a reunderwriting program for existing Homeowners business and increases in incentive expenses for employees and agents related to the lower claims activity for the first six months of the year. The dividend ratio decreased slightly from 1.4% for the second quarter of 1996 to 1.1% for the second quarter of 1997, due primarily to a 25% mandatory rate rollback in Pennsylvania Workers' Compensation rates.

Federal income taxes for the second quarter of 1997 represented 22.7% of income before income taxes, compared to 15.2% for the same period of 1996. A tax benefit from the exercise of options in 1996 which reduced that year's tax expense accounted for the difference.

Results of Operations - Six Months Ended June 30, 1997 to Six Months Ended June 30, 1996

Revenues for the six months ended June 30,1997 were $53,227,838 an increase of $1,779,904, or 3.1%, over the same period of 1996. An increase in net premiums earned of $1,412,972, or 2.7%, represented most of this change. Investment income for the first six months of 1997 was $5,726,754 an increase of $538,115, or 10.4%, over the first six months of 1996. An increase in the average invested assets of $20,971,625, or 11.9%, to $197,055,565 and a decrease in the average return on investments to an annualized rate of 5.8% for the first six months of 1997 compared to 5.9% for the first six months of 1996, accounted for the change. Realized investment gains, which resulted from the normal turnover of the Company's investment portfolio, decreased $221,394 for the six months ended June 30, 1997 compared to the same period in 1996, to $73,354.

The GAAP combined ratio of insurance operations in the first six months of 1997 was 98.5% compared to 103.6% 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 64.3% for the first six months of 1997 compared to the 69.5% loss ratio it posted for the first six months of 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 30.9% to 32.8% for the six months ended June 30, 1997 due to higher inspection costs related to a reunderwriting process in the Homeowners line and increases in incentive expenses for employees and agents related to the lower claims activity for the first quarter. The dividend ratio remained the same at 1.3%.

Federal income taxes for the first six months of 1997 represented 22.8% of income before income taxes, compared to 15.7% for the same period of 1996. Larger underwriting profits in 1997 representing a larger portion of overall income than in 1996 and tax deductions from the exercise of options in 1996 reducing that year's tax liability 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 June 30, 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 June 30, 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 June 30, 1997, the interest rate on the outstanding balance was 7.57891%. 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 June 30, 1997, the Registrant filed one report on Form 8-K on April 21, 1997.

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: August 15, 1997

By:/s/ Donald H. Nikolaus
Donald H. Nikolaus,
President and
Chief Executive Officer

Date: August 15, 1997

By:/s/ Ralph G. Spontak
Ralph G. Spontak,
Corporate Secretary,
Senior Vice President and
Chief Financial Officer