

BEFORE THE DEPUTY INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402
: and 1403 of the Insurance Holding
Application of Donegal Mutual : Companies Act, Article XIV of the
Insurance Company Requesting : Insurance Company Law of 1921,
Exemption from the Requirements : Act of May 17, 1921, P. L. 682, as
of 40 P.S. §991.1402 to Increase its : amended, 40 P.S. §§991.1401,
Percentage of Control of Donegal : 991.1402 and 991.1403
Group Inc., Parent of Atlantic States :
Insurance Company : Order No. ID-RC-01-23

DECISION AND ORDER

AND NOW, on this 12th day of July, 2001, Stephen J. Johnson,
Deputy Insurance Commissioner of the Commonwealth of Pennsylvania
("Deputy Commissioner"), hereby makes the following Decision and Order:

Pursuant to the Insurance Holding Companies Act and in
consideration of the documents, presentations and reports received, as well as
other inquiries and studies as permitted by law, the Deputy Commissioner
hereby makes the following findings of fact:

FINDINGS OF FACT

Identity of Entities

1. Donegal Mutual Insurance Company ("Donegal Mutual") is a domestic mutual fire insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business in Marietta, Pennsylvania.

2. Donegal Group Inc. ("DGI") is an insurance holding company organized pursuant to the laws of the state of Delaware with its principal place of business in Marietta, Pennsylvania.
3. Donegal Mutual currently holds approximately 62% of the issued and outstanding voting securities of DGI.
4. No other person holds or owns 10% or more of the issued and outstanding voting securities of DGI.
5. Atlantic States Insurance Company ("Atlantic States") is a domestic stock casualty insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business in Marietta, Pennsylvania.
6. DGI is the sole shareholder of the issued and outstanding common stock of Atlantic States.
7. Donegal Mutual is the only ultimate controlling person of Atlantic States.

Filing of the Application

8. On June 29, 2001, the Insurance Department of the Commonwealth of Pennsylvania ("Department") received a request (which together with all material received subsequently is hereinafter referenced as "Request") from Donegal Mutual for approval to increase its indirect control over Atlantic States.
9. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1921, P.L. 682, as amended, 40 P.S. §§991.1401 et seq. (cited as "Insurance Holding Companies Act"), provides that all transactions resulting in an entity holding control of domestic insurers must be filed with the Department for approval or disapproval.
10. The Request was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

Background

11. The Deputy Commissioner issued an Order dated October 14, 1998, approving a request from Donegal Mutual for exemption from the requirements of Section 1402 of the Insurance Holding Companies Act for

the acquisition of additional common stock of DGI (the "October 1998 Order").

12. At the time of the October 1998 Order, there was only one class of common stock of DGI of which approximately 58.2% was held by Donegal Mutual.
13. The October 1998 Order granted an exemption to Donegal Mutual for the acquisition of no more than 65% of the common stock of DGI.
14. Effective April 19, 2001, DGI amended its Certificate of Incorporation to:
 - a) authorize a new class of common stock to be designated as Class A common stock with voting rights at one-tenth of one vote per share (the "Class A Stock"),
 - b) reclassify the existing common stock as Class B common stock with voting rights at one vote per share (the "Class B Stock"), and
 - c) effect a one-for-three reverse split of the Class B Stock.
15. Effective April 19, 2001, DGI distributed as a stock dividend two shares of Class A Stock for each post-reverse split share of Class B Stock held.

Description of the Proposed Request

16. As described in the Request, Donegal Mutual currently owns approximately 62% of the issued and outstanding Class A Stock of DGI.
17. As described in the Request, Donegal Mutual proposes to own not more than 65% of the outstanding shares of Class A Stock of DGI.
18. As described in the Request, Donegal Mutual currently owns approximately 62% of the issued and outstanding Class B Stock of DGI.
19. As described in the Request, DGI is pursuing the necessary approvals to enable it to make an exchange offer if its board of directors determines to do so whereby each holder of an outstanding share of Class B Stock of DGI would have the right to exchange such share for one share of Class A Stock of DGI.
20. As described in the Request, should Class B Stock shareholders other than Donegal Mutual accept the exchange offer, Donegal Mutual could own in

excess of 95% of the Class B Stock of DGI.

21. Donegal Mutual would continue to be the sole ultimate controlling person after the contemplated exchange.
22. Section 1402(g) of the Insurance Holding Companies Act provides for the exemption from the requirements of Section 1402(b) if the transaction does not have the effect of changing or influencing the control of a domestic insurer.
23. The Deputy Commissioner finds that the transaction described in the Request does not have the effect of changing or influencing the control of a domestic insurer.
24. If any of the above Findings of Fact are determined to be Conclusions of Law, they shall be incorporated in the Conclusions of Law as if fully set forth therein.

CONCLUSIONS OF LAW

1. Under Section 1402 of the Insurance Holding Companies Act, the Department has jurisdiction to review and approve the acquisition of voting securities of a domestic insurer if, after consummation thereof, the acquiring person would be in control of the domestic insurer.
2. The Request satisfies the requirements of all applicable laws and regulations.
3. The increase in the percent of ownership of Class A and Class B Stock as presented in the Request is not being contemplated to change or influence the ultimate control of Atlantic States, and, therefore, is exempt from the requirements of Section 1402(b) of the Insurance Holding Companies Act.
4. If any of the above Conclusions of Law are determined to be Findings of Fact, they shall be incorporated in the Findings of Fact as if fully set forth therein.

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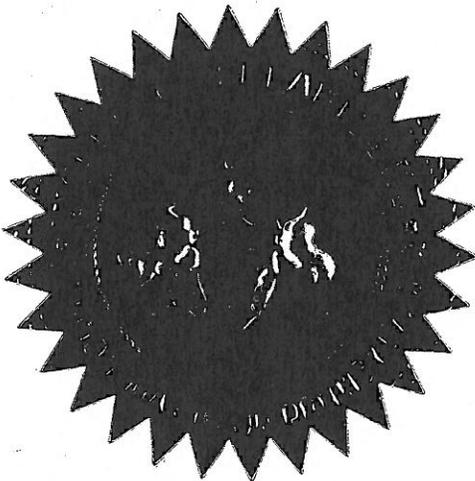
ORDER

Upon consideration of the foregoing, the Deputy Insurance Commissioner of the Commonwealth of Pennsylvania hereby makes the following Order:

An approving determination for the percent of ownership of Class A common stock in Donegal Group, Inc. by Donegal Mutual Insurance Company, as set forth in the Request, is hereby granted, subject to this Order and the following condition:

1. Donegal Mutual Insurance Company shall not increase its percentage of ownership of Donegal Group, Inc. Class A outstanding common stock in excess of 65% without obtaining the prior approval of the Insurance Department.

An approving determination for 100% ownership of Class B common stock in Donegal Group, Inc. by Donegal Mutual Insurance Company, as set forth in the Request, is hereby granted.




Stephen J. Johnson
Deputy Insurance Commissioner
Regulation of Companies