UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 17, 1998

DONEGAL GROUP INC.
(Exact name of registrant as specified in its charter)

Delaware	0-15341	23-2424711
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1195 River Road, Marietta, Pennsylvania	17547
(Address of principal executive offices)	(Zip Code)

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

N/A
(Former name or former address, if changed since last report)

Item 2. Acquisition or Disposition of Assets.

(a) On November 17, 1998, Registrant purchased all of the outstanding capital stock of Southern Heritage Insurance Company (the "Company"), a Georgia property and casualty insurance company, from Southern Heritage Limited Partnership (the "Partnership") for a purchase price (the "Purchase Price") of $19,166,670 in cash. The purchase was effected pursuant to a Stock Purchase Agreement (the "Agreement") dated as of May 14, 1998 between Registrant and the Partnership, a copy of which Agreement is filed as Exhibit 10(W) to this Form 8-K Report, and an amendment (the "Amendment") to the Agreement dated as of November 17, 1998, a copy of which Amendment is filed as Exhibit 10(X) to this Form 8-K Report. Reference is made to the Agreement and the Amendment for further information regarding the terms and conditions of Registrant's purchase of all of the outstanding capital stock of the Company, including a potential adjustment to the Purchase Price based upon the final determination of certain account balances as of October 31, 1998.

No material relationship exists between the Partnership or any of its partners or their associates or Registrant or any of Registrant's affiliates or any director or officer of Registrant or any associate of such directors or officers. The Purchase Price was determined by arms' length negotiations between Registrant and the Partnership and took into account the following principal factors regarding the Company: the assets, liabilities and surplus of the Company, the results of operations of the Company over the past several years, the management of the Company, the anticipated financial impact of certain changes contemplated by Registrant in the nature and manner of the Company's operations including underwriting and reinsurance criteria and judgments regarding the future results of operations and value of the Company.

On July 27, 1998, Registrant entered into an Amended and Restated Credit Agreement (the "Credit Agreement") with the Banks and other financial institutions from time to time party thereto (currently Fleet National Bank ("Fleet") and Credit Lyonnais New York Branch) and Fleet as Agent. The Credit Agreement amended and restated the December 29, 1995 Credit Agreement between Registrant and Fleet and, effective November 17, 1998, increased Registrant's credit availability under the Credit Agreement to $40 million. All of the funds used by Registrant in paying the Purchase Price were obtained from a borrowing

pursuant to the Credit Agreement. A copy of the Credit Agreement is filed as Exhibit 10(Y) to this Form 8-K Report and reference is made thereto for further information regarding the terms and conditions thereof.

On November 17, 1998, Registrant issued a press release reporting the consummation of the acquisition of all of the outstanding capital stock of the Company. A copy of the press release is included as Exhibit 10(Z) to this Form 8-K Report.

Item 7. Financial Statements and Exhibits.

(a) Financial statements of businesses acquired:

None required pursuant to Rule 3-05(b)(2)(i) of Regulation S-X.

(b) Pro forma financial information:

None required pursuant to Article 11 of Regulation S-X.

(c) Exhibits:

Reference is made to the Exhibit Index contained on page 5 of this Form 8-K Report.

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 hereunto duly authorized.

DONEGAL GROUP INC.

By: /s/ Donald H. Nikolaus

Donald H. Nikolaus, President and Chief Executive Officer

Date: November 24, 1998

EXHIBIT INDEX

Exhibit No.	Description of Exhibit
10(W)	Stock Purchase Agreement dated as of May 14, 1998 between Donegal Group Inc. and Southern Heritage Limited Partnership
10(X)	Amendment dated November 17, 1998 to Stock Purchase Agreement dated as of May 14, 1998 between Donegal Group Inc. and Southern Heritage Limited Partnership
10(Y)	Amended and Restated Credit Agreement dated as of July 27, 1998 among Donegal Group Inc., The Banks and other financial institutions from time to time party thereto and Fleet National Bank, as Agent
10(Z)	November 17, 1998 press release of Donegal Group Inc. reporting its acquisition of all of the outstanding capital stock of Southern Heritage Insurance Company

EXHIBIT 10(W)

STOCK PURCHASE AGREEMENT

Between

DONEGAL GROUP INC.

and

SOUTHERN HERITAGE LIMITED PARTNERSHIP

Relating to the
Capital Stock
of

SOUTHERN HERITAGE INSURANCE COMPANY

TABLE OF CONTENTS

		Page
RECITALS		1
ARTICLE I - DEFINITIONS		1
1.1	Definitions	1
ARTICLE II - REPRESENTATIONS, WARRANTIES AND AGREEMENTS OF THE PARTNERSHIP		7
2.1	Organization	7
2.2	Subsidiaries	7
2.3	Authority	7
2.4	Capital Structure	8
2.5	No Distributions on Capital Stock	8
2.6	Financial Statements; Examinations	9
2.7	Material Changes Since December 31, 1997	9
2.8	Availability of Assets and Legality of Use	10
2.9	Title to Property	10
2.10	Books and Records	10
2.11	Accounts Receivable	10
2.12	Compliance with Legal Requirements; Governmental Authorizations	11
2.13	Real Property and Leases	11
2.14	Insurance	12
2.15	Conduct of Business	12
2.16	No Undisclosed Liabilities	13
2.17	No Default or Litigation	13
2.18	Tax Liabilities	13
2.19	Contracts	14
2.20	Employee Agreements	15
2.21	Employee Relations	15
2.22	Employee Retirement Income Security Act	15
2.23	Conflicts; Sensitive Payments	16
2.24	Corporate Name	16
2.25	Trademarks and Proprietary Rights	16
2.26	Environmental Matters	17
2.27	Insurance Issued by the Company	18
2.28	Health and Safety Matters	19

2.29	No Omissions	19
2.30	Finders	19
2.31	Representations and Warranties to Be True on the Closing Date	19
ARTICLE III - REPRESENTATIONS, WARRANTIES AND AGREEMENTS OF DGI		19
3.1	Organization of DGI	20
3.2	Corporate Authority	20

3.3 Finders 20
3.4 Representations and Warranties to be True on the Closing Date 20

ARTICLE IV - ACTION PRIOR TO THE CLOSING DATE 20
4.1 Investigation of the Company 20
4.2 Confidential Nature of Information 21
4.3 Preserve Accuracy of Representations and Warranties 21
4.4 Maintain the Company As a Going Concern 21
4.5 Make No Material Change in the Company 22
4.6 No Public Announcement 22
4.7 Antitrust Law Compliance 22
4.8 Required Filings 23

ARTICLE V - ADDITIONAL COVENANTS OF THE PARTNERSHIP 23
5.1 Non-Competition 23
5.2 Use of Trademarks 24
5.3 Use of Name 24
5.4 1998 Excess of Loss Reinsurance Agreement 24

ARTICLE VI - PURCHASE PRICE AND CLOSING 24
6.1 Closing Date 24
6.2 Purchase and Sale 24
6.3 Delivery by the Partnership 25
6.4 Delivery by DGI 25

ARTICLE VII - CONDITIONS PRECEDENT TO OBLIGATIONS OF DGI 25
7.1 No Misrepresentation or Breach of Covenants and Warranties 25
7.2 No Changes in or Destruction of Property 25
7.3 Legal Matters 26
7.4 Additional Claims 26
7.5 Opinion of Counsel for the Partnership 26
7.6 Resignations 28
7.7 Financing Commitment 28
7.8 John C. Heller Employment Agreement 28
7.9 Items to be Received by DGI 28
7.10 Minimum Company Surplus 29
7.11 Assumption of Florida Homeowners Business 29
7.12 Company Withdrawal from Florida 30

ARTICLE VIII - CONDITIONS PRECEDENT TO OBLIGATIONS OF THE PARTNERSHIP 30
8.1 No Misrepresentation or Breach of Covenants and Warranties 30
8.2 Opinion of Counsel for DGI 31
8.3 Legal Matters 31

ARTICLE IX - TERMINATION 32
9.1 Termination 32
9.2 Effect of Termination 33

ARTICLE X - AMENDMENT, WAIVER AND INDEMNIFICATION 33
10.1 Amendment 33
10.2 Extension; Waiver 33
10.3 Survival of Obligations 34
10.4 Indemnification 34

ARTICLE XI - MISCELLANEOUS 36
11.1 Notices 36
11.2 Expenses 37
11.3 Governing Law; Jurisdiction and Service of Process 37
11.4 Successors and Assigns 38
11.5 Partial Invalidity 38
11.6 Execution in Counterparts 38
11.7 Titles and Headings 38
11.8 Schedules 38
11.9 Entire Agreement 38

SIGNATURES 39

SCHEDULES:

2.1 - Jurisdictions of Admission of the Company
2.4 - Capital Structure
2.6(C) - Reports of Examination
2.6(E) - Bank Accounts of the Company
2.7 - Material Changes Since December 31, 1997
2.8 - Non-Available Assets; Non-Conforming Uses
2.12 - Compliance Exceptions
2.13(A) - Leases
2.13(B) - Consents regarding Leases
2.14 - Insurance
2.15 - Pending and Threatened Claims
2.17 - Defaults or Litigation
2.18 - Tax Sharing
2.19 - Contracts
2.20 - Employee Agreements
2.21 - Employee Compensation
2.23 - Conflicts, Sensitive Payments
2.25 - Trademarks and Proprietary Rights
2.26 - Underground Storage Tanks
2.27 - Assumed Reinsurance
2.28 - Health and Safety Matters
7.9 - Further Loss Development

STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT (this "Agreement") made and entered into as of the 14th day of May, 1998 between DONEGAL GROUP INC., a Delaware corporation ("DGI") and SOUTHERN HERITAGE LIMITED PARTNERSHIP, a Delaware limited partnership (the "Partnership"), which owns all of the issued and outstanding shares (the "Shares") of capital stock of SOUTHERN HERITAGE INSURANCE COMPANY, a Georgia property and casualty insurance company (the "Company").

WITNESSETH:

WHEREAS, the Company is a property and casualty insurance company;

WHEREAS, the Partnership owns all of the outstanding capital stock of the Company;

WHEREAS, the Partnership desires to sell the Shares to DGI pursuant to the terms and conditions set forth in this Agreement; and

WHEREAS, DGI desires to purchase the Shares from the Partnership on the terms and conditions set forth in this Agreement;

NOW, THEREFORE, DGI and the Partnership, in consideration of the agreements, covenants and conditions contained herein, hereby make the following representations and warranties, give the following covenants and agree as follows:

ARTICLE I

DEFINITIONS

1.1 Definitions. When used in this Agreement, the following words or phrases have the following meanings:

"Affiliate" shall mean a Person that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with another Person. For purposes of this definition, "control", including the terms "controlling" and "controlled", means the power to direct or cause the direction of the management and policies of a Person, directly or indirectly, whether through the ownership of securities or partnership or other ownership interests, by contract or otherwise.

"Agreement" shall have the meaning ascribed to it in the preamble hereto.

"Annual Statements" shall mean the annual statements of condition and affairs filed pursuant to the Georgia Insurance Law.

"Assets" shall mean all rights, titles, franchises and interests in and to every species of property, real, personal and mixed, tangible and intangible, and things in action relating thereto, including, without limitation, cash and cash equivalents, securities, including, without limitation, exempted securities under the Securities Act of 1933, as amended (the "Securities Act"), receivables, recoverables from reinsurance and otherwise, deposits and advances, loans, agents balances, real property, together with buildings, structures and the improvements thereon, fixtures contained therein and appurtenances thereto and easements and other rights relating thereto, machinery, equipment, furniture, fixtures, leasehold improvements, vehicles and other assets or property, leases, licenses, permits, approvals, authorizations, joint venture agreements, contracts or commitments, whether written or oral, policy forms, training materials, underwriting manuals, lists of policyholders and agents, processes, trade secrets, know-how, computer software, computer programs and source codes, protected formulae, all other Intellectual Property, research, goodwill, prepaid expenses, books of account, records, files, invoices, data, rights, claims and privileges and any other assets whatsoever.

"Closing" and "Closing Date" shall have the respective meanings set forth in Section 6.1 hereof.

"COBRA" shall mean the requirements of Part 6 of Subtitle B of Title I of ERISA and Section 4980B of the Code.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Commissioner of Insurance" shall mean the Commissioner of Insurance of the State of Georgia.

"Company" shall have the meaning ascribed to it in the preamble hereto.

"Company Adverse Effect" shall mean a material adverse effect on the Condition of the Company, taken as a whole, other than resulting from general economic or financial conditions which do not affect the Company uniquely.

"Company Property" shall mean any property on which the Company holds a Lien or any facility which is owned or leased by the Company or in the management of which the Company actively participates.

"Condition" shall mean, as to a Person, the financial condition, business, results of operations, prospects and the properties or other Assets of such Person.

"Contract" shall mean a contract, indenture, bond, note, mortgage, deed of trust, lease, agreement or commitment, whether written or oral, including, without limitation, an Insurance Contract.

"DGI" shall have the meaning ascribed to it in the preamble hereto.

"Environmental Claim" shall mean any written notice by a Person alleging actual or potential Liability, including, without limitation, potential Liability for any investigatory cost, cleanup cost, governmental response cost, natural resources damage, property damage, personal injury or penalty, arising out of, based on or resulting from (a) the presence, transport, disposal, discharge or release, of any Materials of Environmental Concern at any location, whether or not owned by the Company, as the case may be, or (b) circumstances forming the basis of any violation or alleged violation of any Environmental Law.

"Environmental Law" shall mean all federal, state, local and foreign Laws relating to pollution or protection of human health or the environment, including, without limitation, ambient air, surface water, ground water, land surface or subsurface strata, including, without limitation, Laws relating to emissions, discharges, releases or threatened releases, the presence of Materials of Environmental Concern or otherwise relating to the manufacture, processing, distribution, use, existence, treatment, storage, disposal, transport, recycling, reporting or handling of Materials of Environmental Concern.

"Employee Welfare Plan" shall have the meaning as set forth in Section 3(1) of ERISA.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations promulgated thereunder.

"ERISA Affiliate" shall mean, with respect to the Company, any trade or business that together with the Company would be deemed a "single employer" within the meaning of Section 4001(a)(14) of ERISA.

"Financial Statements" shall mean statements of financial condition and statements of operations and changes in surplus, and the footnotes, schedules, exhibits and other attachments thereto.

"GAAP" shall mean generally accepted accounting principles.

"Georgia Insurance Law" shall mean Title 33 of the Official Code of Georgia Annotated, as amended, and the regulations promulgated thereunder.

"Governmental Entity" shall mean a court, legislature, governmental agency, commission or administrative or regulatory authority or instrumentality, domestic or foreign.

"Hazardous Materials" shall mean any (i) "hazardous substance," "pollutants," or "contaminant" (as defined in Sections 101(14) and (33) of the United States Comprehensive Environmental Response, Compensation, and Liability Act, as amended ("CERCLA") or the regulations issued pursuant to Section 102 of CERCLA, including any element, compound, mixture, solution or substance that is or may be designated pursuant to Section 102 of CERCLA; (ii) substance that is or may be designated pursuant to Section 311(b)(2)(A) of the Federal Water Pollution Control Act, as amended ("FWCPA");

(iii) hazardous waste having the characteristics identified under or listed pursuant to Section 3001 of the Resource Conservation and Recovery Act, as amended ("RCRA") or having the characteristics that may subsequently be considered under RCRA to constitute a hazardous waste; (iv) substance containing petroleum, as that term is defined in Section 9001(8) of RCRA; (v) toxic pollutant that is or may be listed under Section 307(a) of FWPCA; (vi) hazardous air pollutant that is or may be listed under Section 112 of the Clean Air Act, as amended; (vii) imminently hazardous chemical substance or mixture with respect to which action has been or may be taken pursuant to Section 7 of the Toxic Substance Control Act, as amended; (viii) source, special nuclear, or by-product material as defined by the Atomic Energy Act of 1954, as amended; (ix) asbestos-containing material, or urea formaldehyde or material that contains it; (x) waste oil and other petroleum products and (xi) any other toxic materials, contaminants or hazardous substances or wastes pursuant to any Environmental Law.

"Health and Safety Requirements" shall mean all federal, state, local and foreign statutes, regulations, ordinances and other provisions having the force and effect of Law, all judicial and administrative orders and determinations, all contractual obligations and all common law concerning public health and safety, worker health and safety, including without limitation those relating to the presence, use, production, generation, handling, transportation, treatment, storage, disposal, labeling, testing, processing, discharge, release, threatened release, control or cleanup of any hazardous materials, substances or wastes, chemical substances or mixtures, pesticides, pollutants, contaminants, toxic chemicals, petroleum products or byproducts, asbestos, polychlorinated biphenyls or noise, each as amended and as now or hereafter in effect.

"Insurance Contract" shall mean any Contract of insurance including, without limitation, reinsurance contracts issued by the Company.

"Insurance License" shall mean a License granted by a Governmental Entity to transact an insurance or reinsurance business.

"Intellectual Property" shall mean (i) all inventions whether patentable or unpatentable and whether or not reduced to practice, all improvements thereof and all patents, applications and patent disclosures, together with all reissuance, continuations, continuations-in-part, revisions, extensions and reexaminations thereof; (ii) all trademarks, service marks, trade dress, logos, trade names and corporate names, together with all translations, adaptions, derivations and applications, registrations and renewals in connection therewith; (iii) all copyrightable works, all copyrights and all applications, registrations and renewals in connection therewith; (iv) all mask works and all applications, registrations and renewals thereof; (v) all trade secrets and confidential business information including ideas, research and development, know-how, formulas, data, designs, drawings, specifications, policy forms, training materials, underwriting manuals, pricing and cost information and business and marketing plans and proposals; (vi) all computer software including data and related documentation; (vii) all other proprietary rights and (vii) all copies and tangible embodiments thereof in whatever form or medium.

"Investment Assets" shall mean bonds, notes, debentures, mortgage loans, collateral loans and all other instruments of indebtedness, stocks, partnership interests and other equity interests, real estate and leasehold and other interests therein, certificates issued by or interests in trusts, cash on hand and on deposit, personal property and interests therein and all other Assets acquired for investment purposes.

"IRS" shall mean the Internal Revenue Service.

"Knowledge" shall mean the knowledge of the relevant Person, after due inquiry by the appropriate officer or officers.

"Law" shall mean a law, ordinance, rule or regulation enacted or promulgated, or an Order issued or rendered, by any Governmental Entity.

"Liability" shall mean a liability, obligation, claim or cause of action of any kind or nature whatsoever, whether absolute, accrued, contingent or other and whether known or unknown, including, without limitation, any liability, obligation, claim or cause of action arising as a result of an Insurance Contract.

"License" shall mean a license, certificate of authority, permit or other authorization to transact an activity or business issued or granted by a Governmental Entity.

"Lien" shall mean a lien, mortgage, deed to secure debt, pledge, security interest, lease, sublease, charge, levy or other encumbrance of any kind.

"Losses" shall mean losses, claims, damages, costs, expenses, Liabilities and judgments, including, without limitation, court costs and attorneys' fees.

"Officers' Certificate" shall mean, with respect to any Person, a certificate executed by the President or an appropriate Vice President of such Person, as attested by the Secretary or an Assistant Secretary of such Person.

"Order" shall mean an order, writ, ruling, judgment, injunction or decree of, or any stipulation to or agreement with, any arbitrator, mediator or Governmental Entity.

"Ordinary Course of Business" shall mean an action taken by a Person if: (i) such action is consistent with the past practices of such Person and is taken in the ordinary course of the normal day-to-day operations of such Person; (ii) such action is not required to be authorized by the board of directors of such Person or by any Person or group of Persons exercising similar authority or by a parent company and (iii) such action is similar in nature and magnitude to actions customarily taken, without any authorization by the board of directors or by any Person or group of Persons exercising similar authority or by a parent company, in the ordinary course of the normal day-to-day operations of other Persons that are in the same line of business as such Person.

"Partnership" shall have the meaning assigned to it in the preamble hereto.

"PBGC" shall mean the Pension Benefit Guaranty Corporation or any successor entity.

"Permitted Liens" shall mean as to the Company, (i) all Liens disclosed in a schedule attached hereto, (ii) statutory Liens arising out of operation of Law with respect to a Liability incurred in the Ordinary Course of Business of the Company and which is not delinquent and can be paid without interest or penalty or (iii) such Liens and other imperfections of title as do not materially detract from the value or impair the use of the property subject thereto.

"Person" shall mean an individual, corporation, partnership, association, joint stock company, Governmental Entity, business trust, unincorporated organization or other legal entity.

"Proceedings" shall mean actions, suits, hearings, claims and other similar proceedings.

"Quarterly Statements" shall mean the quarterly statements of condition and affairs filed pursuant to Georgia Insurance Laws.

"Required Filings and Approvals" shall mean (i) the filing of this Agreement with and the approval of such by the Commissioner of Insurance, and such other applications, registrations, declarations, filings, authorizations, Orders, consents and approvals as may be required to be made or obtained prior to consummation of the transactions contemplated hereby under the insurance Laws of any jurisdiction and (ii) receipt of such consents and approvals as are required for the designation of Donegal Mutual Insurance Company as an authorized reinsurer in the states of Alabama, Arkansas, Georgia, Illinois, Kentucky, Louisiana, North Carolina, South Carolina, Tennessee and Virginia.

"Riggs" shall mean The Riggs National Bank of Washington, D.C., a national banking association.

"Riggs-Southern Heritage Loan Repayment Amount" shall mean the amount as of the Closing Date required to repay the principal of, all accrued interest on and all other sums due to repay in full the Riggs loan to the Partnership and release the Company from all liability thereunder, including the release of any security interest in the Shares and any Assets of the Company.

"SAP" shall mean statutory accounting practices as prescribed or permitted by the Commissioner of Insurance and the National Association of Insurance Commissioners subject, in the case of unaudited interim Financial Statements, to normal year end adjustments.

"Shares" shall have the meaning ascribed to it in the preamble hereto.

"Subsidiary" of a Person means any Person with respect to whom such specified Person, directly or indirectly, beneficially owns 50% or more of the equity

interests in, or holds the voting control of 50% or more of the equity interests in, such Person.

"Taxes" shall mean all income, gross income, gross receipts, premium, sales, use, transfer, franchise, profits, withholding, payroll, employment, excise, severance, property and windfall profits taxes, and all other taxes, assessments or similar charges of any kind whatsoever thereon or applicable thereto, together with any interest and any penalties, additions to tax or additional amounts, in each case imposed by any taxing authority, domestic or foreign, upon the Company, including, without limitation, all such amounts imposed as a result of being a member of an affiliated or combined group.

"Tax Returns" or "Returns" shall mean all Tax returns, declarations, reports, estimates, information returns and statements required to be filed under federal, state, local or foreign Laws.

ARTICLE II

REPRESENTATIONS, WARRANTIES AND AGREEMENTS OF THE PARTNERSHIP

As an inducement to DGI to enter into this Agreement and to consummate the transactions contemplated herein, the Partnership represents and warrants to DGI and agrees as follows:

2.1 Organization.

(a) The Partnership is a limited partnership duly organized, validly existing and in good standing under the laws of the State of Delaware.

(b) The Company is a stock property and casualty insurance company duly organized, validly existing and in good standing under the laws of the State of Georgia and is duly admitted to transact an insurance business as a foreign insurance company and is in good standing in the jurisdictions listed in Schedule 2.1 hereto, which are the only jurisdictions in which the failure to be admitted would have a Company Adverse Effect.

(c) The Company has the corporate power and authority and other authorizations necessary or required in order for it to own or lease and operate the Company Property and to carry on its business as now conducted.

2.2 Subsidiaries. The Company has no subsidiaries.

2.3 Authority. This Agreement and the transactions contemplated herein have been duly approved by all necessary corporate action on the part of the Company and all necessary partnership action on the part of the Partnership. This Agreement, when executed and delivered by the Partnership and assuming the due execution hereof by DGI,

will constitute the valid, legal and binding agreement of the Partnership enforceable in accordance with its terms, subject to bankruptcy, insolvency, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general principles of equity. Neither the execution nor the delivery of this Agreement nor the consummation of the transactions contemplated herein, nor compliance with nor fulfillment of the terms and provisions hereof, will (i) conflict with or result in a breach of the terms, conditions or provisions of or constitute a default under the Certificate of Incorporation or By-laws of the Company or the Agreement of Limited Partnership of the Partnership, any instrument, agreement, mortgage, judgment, order, award, decree or other restriction to which the Company or the Partnership is a party or by provisions affecting any of them; (ii) give any party to or with rights under any such instrument, agreement, mortgage, judgment, order, award, decree or other restriction the right to terminate, modify or otherwise change the rights or obligations of the Company under such instrument, agreement, mortgage, judgment, order, award, decree or other restriction or (iii) require the approval, consent or authorization of or any filing with or notification to any federal, state or local court, Governmental Entity, except (x) as provided under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "HSR Act"), (y) the Required Filings and Approvals and (z) such conflicts, breaches, defaults, rights or approvals which, individually or in the aggregate, do not have a Company Adverse Effect. The Partnership has full power and authority to sell, assign, transfer and deliver the Shares to DGI pursuant to this Agreement and each of the Company and the Partnership have full power and authority to do and perform all acts and things required to be done by the Company and the Partnership under this Agreement. True and complete copies of the Certificate of Incorporation and By-laws of the Company and the Agreement of Limited Partnership of the Partnership have been delivered to DGI.

2.4 Capital Structure. The authorized capital stock of the Company consists of 10,000,000 shares of common stock, par value $1.00 per share, of which 2,660,024 shares are issued and outstanding, all of which, except as set forth in Schedule 2.4 hereto, have been owned by the Partnership since January 1, 1998, and none of which is held by the Company as treasury shares. Except for this Agreement, there are no agreements, arrangements, options, warrants or other rights or commitments of any character relating to the issuance, transfer, sale, purchase or redemption of any shares of capital stock of the Company, and no such agreements, arrangements, options, warrants or other rights or commitments will be entered into or granted between the date hereof and the Closing Date. All of the outstanding shares of the Company are validly issued, fully paid and nonassessable with no liability attaching to the ownership thereof, and are owned of record and beneficially by the Partnership, except as set forth in Schedule 2.4 hereto, and, upon the payment of the Riggs-Southern Heritage Loan Repayment Amount, free and clear of any liens, claims, encumbrances and restrictions of any kind; and the transfer and delivery of the outstanding shares of the Company to DGI by the Partnership as contemplated by this Agreement will be sufficient to transfer good and marketable record and beneficial title to such outstanding shares to DGI, free and clear of liens, claims, encumbrances and restrictions of any kind.

2.5 No Distributions on Capital Stock. The Company has never purchased or redeemed any shares of its outstanding capital stock and, since December 31, 1997, has not

declared or paid any dividend or made any other distribution in respect of its capital stock.

2.6 Financial Statements; Examinations.

(a) The Company has furnished to DGI the balance sheets of the Company as of December 31, 1995, 1996 and 1997 and the related statements of operations and of changes in financial position for the periods then ended, together with appropriate notes to such financial statements (collectively, the "Company Financial Statements"). Company Financial Statements are accompanied by the reports thereon by Coopers & Lybrand LLP, independent certified public accountants. The Company Financial Statements are correct and complete in all material respects and fairly present the financial position of the Company as at the respective dates thereof and the results of its operations, the changes in its financial position, for the respective periods covered thereby, and have been prepared in conformity with accounting principles and practices prescribed or permitted by the Insurance Department of the State of Georgia consistently applied throughout all periods.

(b) Each of the Company Financial Statements was in compliance in all material respects with applicable Law when filed.

(c) The most recently completed reports of examination of the Company conducted by any insurance Governmental Entities was for the periods set forth in Schedule 2.6(C) hereto, and the Company has furnished DGI with a complete and correct copy of such reports.

(d) Since the dates of all examinations referred to in Section 2.6(c) hereto, the Company has not been the subject of further examination by any insurance Governmental Entity, and the Company is not currently undergoing examination by any insurance Governmental Entity.

(e) There is set forth in Schedule 2.6(E) hereto a correct and complete list of all (i) accounts, borrowing resolutions and deposit boxes maintained by the Company at any bank or other financial institution, (ii) the names of the persons authorized to sign or otherwise act with respect thereto and (iii) powers of attorney for the Company with respect thereto.

2.7 Material Changes Since December 31, 1997. Except as described in Schedule 2.7 hereto, since December 31, 1997, the business of the Company has been operated only in the ordinary course and, whether or not in the Ordinary Course of Business of the Company, other than as disclosed in this Agreement or the schedules referred to in herein there has not been, occurred or arisen (i) any material adverse change in the Condition of the Company from that shown on the balance sheet of the Company as of December 31, 1997 referred to in Section 2.6 hereof; (ii) any damage or destruction in the nature of a casualty loss, whether covered by insurance or not, to any Company Property which is material to the financial condition, operations or business of the Company; (iii) any material increase in any employee benefit plan listed in Section 2.19 hereof; (iv) any amendment or termination of any agreement, or cancellation or reduction of any debt

owing to the Company or waiver or relinquishment of any right of material value to the Company or (v) any other event, condition or state of facts of any character which would constitute a Company Adverse Effect.

2.8 Availability of Assets and Legality of Use. Except as specified in Schedule 2.8 hereof, the Assets owned or leased by the Company constitute all of the Assets which are being used in its business, and such Assets are in good and serviceable condition, normal wear and tear excepted, and suitable and adequate for the uses for which intended and such Assets and their uses conform in all material respects to all applicable Laws. Such Assets will be sufficient for the continued conduct of the Company's business immediately after the Closing in substantially the same manner as the Company's business was conducted immediately prior to the Closing.

2.9 Title to Property. Except as shown on Schedule 2.8 hereof, the Company has good and marketable title to all of its Assets, including the Assets reflected on the December 31, 1997 balance sheet referred to in Section 2.6 hereof and all of the Assets thereafter acquired by it, except to the extent that such Assets have thereafter been disposed of for fair value in the Ordinary Course of Business of the Company.

2.10 Books and Records. The books of account, minute books, stock record books and other records of the Company, all of which have been made available to DGI, are complete and correct and have been maintained in accordance with sound business practices and the requirements of the Georgia Insurance Law and any other applicable Laws, including but not limited to the requirements of Section 13(b)(2) of the Securities Exchange Act of 1934, as amended, regardless of whether or not the Company is subject to that Section, including the maintenance of an adequate system of internal controls. Since April 11, 1991, the minute books of the Company contain accurate and complete records of all meetings held of, and corporate action taken by, the stockholders, the board of directors and committees of the board of directors of the Company, and no meeting of any such stockholders, board of directors or committees thereof has been held for which minutes have not been prepared and are not contained in such minute books. At the Closing, all of the aforementioned books and records will be in the possession of the Company.

2.11 Accounts Receivable. All accounts receivable reflected on the December 31, 1997 balance sheet referred to in Section 2.6 hereof arising prior to the date hereof, not collected at the date hereof, have arisen from bona fide transactions in the Ordinary Course of Business of the Company. None of such receivables is subject to counterclaims or set-offs or is in dispute and all of such accounts are good and collectable in the Ordinary Course of Business at the aggregate recorded amounts thereof, subject in each case to the allowance for possible losses shown on such balance sheet. All accounts receivable existing on the Closing Date will be good and collectible in the Ordinary Course of Business at the aggregate recorded amounts thereof, net of any applicable allowance for doubtful accounts, which allowance will be determined on a basis consistent with the basis used in determining the allowance for doubtful accounts reflected in the December 31, 1997 balance sheet referred to in Section 2.6 hereof.

2.12 Compliance with Legal Requirements; Governmental Authorizations. Schedule 2.12 hereto contains a complete and accurate list of each license to transact insurance in a state and each other material license, permit and other authorization held by the Company in the operation of its business. Except as set forth in Schedule 2.12 hereto:

(a) The Company is, and at all times since April 11, 1991 has been, in compliance in all material respects with the Georgia Insurance Law, and all other Laws that are applicable to it or to the conduct or operation of its business or the ownership or use of any of its Assets or Company Property.

(b) No event has occurred or circumstance exists that with or without notice or lapse of time (i) may constitute or result in a violation by the Company of, or a failure on the part of the Company to comply with, any Law in any material respect or (ii) may give rise to any material obligation on the part of the Company to undertake, or to bear all or any portion of the cost of, any remedial action of any nature.

(c) The Company has not received, at any time since April 11, 1991, any oral or written notice or other communication from any Governmental Entity or any other Person regarding (i) any actual, alleged, possible or potential violation of, or failure to comply with, any Law in any material respect or (ii) any actual, alleged, possible or potential material obligation which may give rise on the part of the Company to undertake, or to bear all or any portion of the cost of, any material remedial action of any nature.

(d) The Company possesses all material licenses, permits and other authorizations necessary to own or lease and operate its properties and to conduct its business as now conducted and each of the Company's agents is duly licensed as such. All of such licenses, permits and authorizations of the Company and such agents' appointments are hereinafter collectively called the "Permits." All Permits are in full force and effect and will continue in effect after the date hereof and the Closing Date without the consent, approval or act of, or the making of any filing with, any Governmental Entity other than (i) the Required Filings and Approvals and (ii) as provided under the HSR Act. The Company is, and at all times since April 11, 1991 has been in material compliance with all terms and requirements of each Permit. Neither the Company nor, to the Knowledge of the Partnership, any of the Company's agents is in material violation of the terms of any Permit, and the Company has not received notice of any violation or claimed violation thereunder. All applications required to have been filed for the renewal of any and all Permits have been duly filed on a timely basis with the appropriate Governmental Entity, and all other filings required to have been made with such Governmental Entities with respect to the Permits have been duly made on a timely basis.

2.13 Real Property and Leases. The Company does not own any real property. Attached hereto as Schedule 2.13(A) are true and correct copies of every lease or agreement under which the Company is lessee or sublessee of, or holds or operates, any real property owned by any third party. Each of such leases and agreements is in full force and effect and constitutes a legal, valid and binding obligation of the Company and, to the Knowledge of the Partnership, the other parties thereto. The Company is not in default in

any material respect under any such lease or agreement nor has any event occurred which with the passage of time or giving of notice would constitute such a default nor will the Company take any action or fail to take required action between the date hereof and the Closing Date which would permit any such default or event to occur. Except as set forth on Schedule 2.13(B) hereto, none of such leases and agreements requires the consent of any party thereto in order to undertake or consummate the transactions contemplated by this Agreement.

2.14 Insurance. The Company maintains policies of fire and casualty, product and other liability and other forms of insurance in such amounts and against such risks and losses as are adequate and reasonable for its business and properties and are sufficient for compliance with all Laws applicable to the Company. All such policies are valid, duly issued and enforceable in accordance with their respective terms and conditions. Attached as Schedule 2.14 hereto is a list and an accurate description of all policies of insurance that are or were owned, held or maintained by or for the benefit of the Company or under which the Company is or was a named insured from January 1, 1992 to the date hereof, including policy numbers, nature of coverage, limits, deductibles, carriers, premiums and effective and termination dates, under which the Company has any remaining coverage. The Company has complied with each of such policies and has not failed to give any notice or present any known claim thereunder. The Company will keep such insurance in full force and effect through the Closing Date. The Company has not received, and to the Knowledge of the Partnership after due inquiry, no event or omission has occurred which may cause it to receive, notice that any such policies will be cancelled or will be reduced in amount or scope. True and complete copies of all such policies have been delivered to DGI.

2.15 Conduct of Business.

(a) Schedule 2.15 hereto lists all claims arising in other than the Ordinary Course of Business of the Company which are pending or to the Knowledge of the Partnership threatened against the Company and correctly sets forth the data reflected therein. No insurance carrier listed therein has denied coverage of any claim listed opposite its name or accepted investigation of any such loss or defense of any such claim under a reservation of rights.

(b) The aggregate actuarial reserves and other actuarial amounts held in respect of Liabilities with respect to Insurance Contracts of the Company as established or reflected in the December 31, 1997 Annual Statement of the Company and in the Company Financial Statements as of December 31, 1997: (i) were determined in accordance with sound actuarial standards consistently applied, (ii) were fairly stated in accordance with sound actuarial principles, (iii) were based on actuarial assumptions that are in accordance with those specified in the related Insurance Contracts, (iv) met the requirements of the insurance Laws of the applicable jurisdiction in all material respects and (v) to the Knowledge of the Company, were adequate to cover the total amount of all reasonably anticipated matured and unmatured Liabilities of the Company under all outstanding Insurance Contracts pursuant to which the Company has any Liability. For purposes of clause (v) above, (x) the adequacy of reserves shall be determined only on the basis of

facts and circumstances known or which reasonably should have been known based on procedures consistently applied by the Company in connection with assessing the adequacy of reserves from time to time by the Company as at the date hereof and (y) the fact that reserves covered by any such representation may be subsequently adjusted at times and under circumstances consistent with the Company's ordinary practice of periodically reassessing the adequacy of its reserves shall not be used to support any claim regarding the accuracy of such representation.

(c) All of the Company's outstanding insurance coverage is, to the extent required by applicable Law, on forms and at rates approved by the insurance regulatory authority of the jurisdiction where issued or has been filed with and not objected to by such authority within the period provided for objection. The Company has not exceeded any authority granted to it by any party to bind it in connection with the Company's business.

2.16 No Undisclosed Liabilities. The Company is not subject to any material Liability, including, to the Company's Knowledge, unasserted claims, absolute or contingent, which is not shown or which is in excess of amounts shown or reserved for in the December 31, 1997 balance sheet referred to in Section 2.6 hereof, other than Liabilities of the same nature as those set forth in such balance sheet and reasonably incurred in the Ordinary Course of Business of the Company after December 31, 1997.

2.17 No Default or Litigation. Except as set forth in Schedule 2.17 hereto, the Company is not in default in any material respect under any agreement, lease or other document to which it is a party. Except as set forth and described in Schedules 2.15 and 2.17 hereto, there are no lawsuits, proceedings, claims or governmental investigations pending or, to the Knowledge of the Partnership, threatened against the Company or against the properties or business thereof which might, individually or in the aggregate, have a Company Adverse Effect and the Partnership knows of no factual basis for any such lawsuit, proceeding, claim or investigation and there is no action, suit, proceeding or investigation pending, threatened or contemplated which questions the legality, validity or propriety of the transactions contemplated by this Agreement.

2.18 Tax Liabilities. Schedule 2.18 hereto sets forth a correct description of any agreement relating to and the procedures followed with respect to all payments by the Company to the Partnership in connection with Taxes, including the amount paid in 1996, the dates of such payments and any amounts remaining to be paid in respect to any period prior to January 1, 1998. The amounts reflected as liabilities for Taxes on the December 31, 1997 balance sheet referred to in Section 2.6 hereof are sufficient for the payment of all Taxes of the Company accrued for or applicable to the period ended on such balance sheet date and all years and periods prior thereto. All Tax Returns which are required to be filed by or in respect of the Company up to and including the date hereof have been filed and all Taxes, including any interest and penalties thereon, which have become due pursuant to such Returns or pursuant to any assessment have been paid and no extension of the time for filing of any such return is presently in effect. All such Returns which have been filed or will be filed by or in respect of the Company for any period ending on or before the Closing Date are or will be true and correct. There exists

no proposed assessment against the Company. No consent to the application of Section 341(f)(2) of the Code has been filed with respect to any Company Property. The Company has withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, stockholder or other third party. No claim has ever been made by a Governmental Entity in a jurisdiction where the Company or the Partnership on behalf of the Company, does not file Tax Returns that it is or may be subject to taxation by that jurisdiction. The Company has delivered to DGI correct and complete copies of all federal, state and local Tax Returns, examination reports and statements of deficiencies assessed against or agreed to by the Company since January 1, 1994. The federal Tax Returns for the Company have been examined by the IRS for the tax year ended December 31, 1993 or the applicable statute of limitations relating thereto has expired for the tax year ended December 31, 1993 and all prior periods.

2.19 Contracts. Except as set forth in Schedule 2.19 hereto or any other schedule referred to herein, the Company is not a party to (i) any contract for the purchase or sale of real property to or from any third party; (ii) any contract for the lease or sublease of personal property from or to any third party which provides for annual rentals in excess of $50,000, or any group of contracts for the lease or sublease of similar kinds of personal property from or to third parties which provides in the aggregate for annual rentals in excess of $50,000; (iii) any contract for the purchase or sale of equipment, computer software, lists of clients, insurance carriers or agents or similar information, commodities, merchandise, supplies, other materials or personal property or for the furnishing or receipt of services which calls for performance over a period of more than 60 days and involves more than the sum of $50,000; (iv) any license agreement involving the use of copyrights, franchises, licenses, trademarks, or information owned by the Company or others; (v) any broker's representative, sales, agency or advertising contract which is not terminable on notice of 30 days or less; (vi) any contract involving the borrowing or lending of money or the guarantee of the obligations of officers, directors, employees or others; (vii) any contract with the Partnership or (viii) any other contract, whether or not made in the Ordinary Course of Business of the Company which is material to the business or Assets of the Company. Copies of all contracts and agreements identified in Schedule 2.19 hereto have been made available to DGI. No outstanding purchase commitment by the Company is in excess of its ordinary business requirements or at a price in excess of market price at the date thereof. Except as set forth in Schedule 2.19 hereto or any other schedule referred to herein, none of such contracts and agreements will expire or be terminated or be subject to any modification of terms or conditions by reason of the consummation of the transactions contemplated by this Agreement. With respect to the contracts described in clause (vii) hereinabove, none of the agents who is party to any such agreement has terminated, threatened to terminate or given any notice, written or oral, of an intention to terminate its agreement with the Company or to substantially reduce the volume of business placed with or through the Company, and the Partnership knows of no condition or state of facts or circumstances which would cause any such termination or reduction in the foreseeable future. The Company is not in default in any material respect under the terms of any such contract nor is it in default in the payment of any insurance premiums due to insurance carriers nor any principal of or interest on any indebtedness for borrowed money nor has any event occurred which with the passage of time or giving of notice would constitute

such a default by the Company and, to the Knowledge of the Partnership, no other party to any such contract is in default in any material respect thereunder nor has any such event occurred with respect to such party. Without the prior written consent of DGI, the Partnership will not cause or permit the Company to make any changes or modifications in any of the foregoing, nor incur any further obligations or commitments, nor make any further additions to its properties, except in each case in the Ordinary Course of Business of the Company and as contemplated by this Agreement.

2.20 Employee Agreements. Listed on Schedule 2.20 hereto are all plans, contracts and arrangements, oral or written, including but not limited to union contracts, employee benefit plans, employment agreements, consulting agreements, confidentiality agreements, non-competition agreements or other agreements with any of the Company's employees, whereunder the Company has any obligations, other than obligations to make current wage or salary payments terminable on notice of 30 days or less, to or on behalf of its officers, employees or their beneficiaries or whereunder any of such persons owes money to the Company.

2.21 Employee Relations. The Company has not engaged in any unfair labor practice, unlawful employment practice or unlawful discriminatory practice in the conduct of its business. The Company has complied in all material respects with all applicable laws, rules and regulations relating to wages, hours and collective bargaining and has withheld all amounts required by agreement to be withheld from the wages or salaries of employees. The relations of the Company with its employees are satisfactory and the Company is not a party to or affected by or threatened with, or to the Knowledge of the Partnership, in danger of being a party to or affected by, any labor dispute which materially interferes or would materially interfere with the conduct of its business. There is set forth in Schedule 2.21 hereto the name and total annual compensation, including bonuses, payable to each of the officers, directors and employees of the Company whose total annual compensation, including bonuses, during the year ended December 31, 1997 exceeded the sum of $75,000. Since December 31, 1997, there has been no material increase in the compensation payable to any of such officers, directors and employees, except as set forth in Schedule 2.21 hereto.

2.22 Employee Retirement Income Security Act. Schedule 2.20 hereto contains a list of any "employee benefit plan" within the meaning of Section 3(3) of ERISA established or maintained by the Company or to which the Company has made any contributions. The Company is not required, and was not required within the immediately preceding five years, to make any contribution to any "multiemployer plan" within the meaning of Section 3(37) of ERISA. The Company has no liability in respect of any employee benefit plans established or maintained or to which contributions are or were made by it to the PBGC or to any beneficiary of such plans. All required reports and descriptions, including Form 5500 Annual Reports, summary annual reports, PBGC-1's and summary plan descriptions, have been timely filed and distributed appropriately with respect to each such employee benefit plan. The requirements of COBRA have been met with respect to each such employee benefit plan that is an Employee Welfare Plan.

Except as set forth in Schedule 2.20 hereto, (i) no employee pension benefit plan, as defined in Section 3(2) of ERISA, maintained or contributed to by the Company or in respect of which the Company is considered an "employer" under Section 414 of the Code, has incurred any "accumulated funding deficiency," as defined in Section 412 of the Code, whether or not waived or has incurred any liability to PBGC and (ii) the Company has not breached any of the responsibilities, obligations or duties imposed on it by ERISA with respect to any employee pension benefit plan maintained by it, which breach has given rise to, or will in the future give rise to, an obligation to pay money. Except as set forth in Schedule 2.20 hereto, neither the Company nor any of its affiliates or, to the Knowledge of the Partnership, any "party in interest," as defined in Section 3(14) of ERISA, in respect of any such plan has engaged in any non-exempted prohibited transaction described in Section 406 and 408 of ERISA or Section 4975 of the Code. Except as set forth in Schedule 2.20 hereto, no reportable event, as defined in Section 4043 of ERISA, has occurred with respect to any employee pension benefit plan maintained or contributed to by the Company or in respect of which the Company is an employer under Section 414 of the Code and none of such plans has been terminated by the plan administrator thereof or by the PBGC. None of the Company or its affiliates has incurred any liability under ERISA. The original or a complete correct copy of each plan listed in Schedule 2.20 hereto has been delivered to DGI.

2.23 Conflicts; Sensitive Payments. There are (i) no material situations involving the interests of the Partnership except as listed in Schedule 2.19 hereto or described in Schedule 2.23 hereto or, to the Knowledge of the Partnership, any officer or director of the Company which may be generally characterized as a "conflict of interest," including, but not limited to, the leasing of property to or from the Company or direct or indirect interests in the business of competitors, suppliers or customers of the Company and (ii) no situations involving illegal payments or payments of doubtful legality from corporate funds of the Company since April 11, 1991 to governmental officials or others which may be generally characterized as a "sensitive payment."

2.24 Corporate Name. The Company owns and possesses, to the exclusion of the Partnership and its affiliates, all rights to the use of the name Southern Heritage Insurance Company in the operation of the Company's present business or any other business similar to or competitive with that being conducted by the Company, including, but not limited to, the right to use such name in advertising.

2.25 Trademarks and Proprietary Rights. All trademarks, trade names, copyrights and applications therefor which are owned or used or registered in the name of or licensed to the Company are listed and briefly described in Schedule 2.25 hereto. Other than as specified in Section 2.25 hereto, no proceedings have been instituted or are pending or threatened or, to the Knowledge of the Partnership, contemplated which challenge the validity of the ownership by the Company of any of such trademarks, trade names, copyrights or applications. The Company has not licensed anyone to use any of the foregoing or any other technical know-how or other proprietary rights of the Company, and the Partnership has no Knowledge of the infringing use of any of such trademarks and trade names or the infringement of any of such copyrights by any person except as set forth in Section 2.25 hereto. The Company owns and has properly

registered all trademarks, trade names, copyrights, processes and other technical know-how and other proprietary rights now used in the conduct of its business and has not received any notice of conflict with the asserted rights of others except as specified in Schedule 2.25 hereto.

2.26 Environmental Matters.

(a) The Company is, and, to the Knowledge of the Partnership, all Properties of the Company including, with respect to any Company Property, all owners or operators thereof, are, and at all times have been in substantial compliance with all applicable Environmental Laws. The Company has not received any communication, written or oral, that alleges that the Company or any Company Property including, with respect to any Company Property, any owner or operator thereof, is not in such compliance, and, to the Knowledge of the Partnership, there are no circumstances that may prevent or interfere with such compliance in the future.

(b) There is no Environmental Claim pending against the Company or any Company Property or, to the Knowledge of the Partnership, threatened against the Company or any Company Property, or any Person whose Liability for any Environmental Claims the Company has or may have retained or assumed either contractually or by operation of Law, except for Environmental Claims which, individually or in the aggregate, would not have a Company Adverse Effect.

(c) There are no past or present actions, activities, circumstances, conditions, events or incidents, including, without limitation, the release, emission, discharge, disposal or presence of any Hazardous Materials, that, to the Knowledge of the Partnership, could form the basis of any Environmental Claim against the Company, any Company Property or any Person whose Liability for any Environmental Claim the Company has or may have retained or assumed either contractually or by operation of Law.

(d) There are no Hazardous Materials present on or in any Company Property, including Hazardous Materials contained in barrels, above or underground storage tanks, except as set forth in Schedule 2.26 hereto, landfills, land deposits, dumps, equipment, whether movable or fixed, or other containers, either temporary or permanent, and deposited or located in land, water, sumps or any other part of the Company Property or such adjoining property, or incorporated into any structure therein or thereon.

(e) Without in any way limiting the generality of the foregoing, to the Knowledge of the Partnership, (i) Schedule 2.26 hereto identifies all underground storage tanks and the capacity and contents of such tanks currently or formerly located on any Company Property, (ii) there is no friable asbestos contained in or forming part of any building or structure owned or leased by the Company and (iii) no polychlorinated biphenyls are used or stored at or on any Company Property.

2.27 Insurance Issued by the Company.

(a) The Company has provided to DGI all forms of Insurance Contracts used by the Company as of December 31, 1996. Since December 31, 1996, no forms of Insurance Contracts written by the Company have been amended and no sales of any new forms of Insurance Contracts have been commenced, other than changes to forms, which changes are not, in the aggregate, material.

(b) To the Knowledge of the Partnership, all benefits payable on or prior to the date as of which this representation is made by the Company under Insurance Contracts have in all material respects been paid, or provision for payment thereof has been made, in accordance with the terms of the Insurance Contracts under which they arose, such payments were not delinquent and were paid, or if provision has been made will be paid, without fines or penalties, except for fines or penalties which do not exceed $10,000, individually, or $100,000, in the aggregate, and except for such benefits for which the Company reasonably believes there is a reasonable basis to contest payment and is taking such action.

(c) To the Knowledge of the Partnership, all outstanding Insurance Contracts of the Company were issued in conformity with underwriting standards which conform in all material respects to industry accepted practices and, with respect to such Contracts reinsured in whole or in part, conform in all material respects to the standards required pursuant to the terms of the related reinsurance, coinsurance or other similar Contracts.

(d) To the Knowledge of the Partnership, (i) all amounts recoverable under reinsurance, coinsurance or other similar Contracts including, without limitation, amounts based on paid and unpaid Losses are fully collectible except for any such amounts which are less than $100,000 in the aggregate; (ii) each insurance agent or broker, at the time such agent or broker wrote, sold or produced business for the Company, was duly licensed as an insurance agent or broker for the type of business written, sold or produced by such insurance agent or broker in the particular jurisdiction in which such agent or broker wrote, sold or produced such business for the Company, except for such failures to be so licensed which would not, in the aggregate, have a Company Adverse Effect and (iii) no such insurance agent or broker has violated or has taken any action which with notice or lapse of time or both, would have violated any Law except for such violations as would not have a Company Adverse Effect.

(e) Since the incorporation of the Company, except as set forth in Schedule 2.27 hereto, the Company has not undertaken any liability under assumed reinsurance agreements of any nature, except for state mandated guaranty funds and residual market insurance plans.

2.28 Health and Safety Matters.

(a) The Company has complied and is in compliance with all Health and Safety Requirements.

(b) Without limiting the generality of the foregoing, the Company has obtained and complied with, and is in compliance with, all Permits, licenses and other authorizations that are required pursuant to the Health and Safety Requirements for the occupation of its facilities and the operation of its business; a list of all such permits, licenses and other authorizations is set forth on Schedule 2.28 hereto.

(c) Neither the Partnership nor the Company has received any written or oral notice, report or other information regarding any actual or alleged violation of Health and Safety Requirements, or any Liabilities or potential Liabilities, including any investigatory, remedial or corrective obligations, relating to the Company or its facilities arising under Health and Safety Requirements.

2.29 No Omissions. None of the representations or warranties of the Partnership contained herein, none of the information contained in the Schedules referred to in this Article II, and none of the other information or documents furnished to DGI or its representatives by the Partnership or the Company in connection with this Agreement is false or misleading in any material respect or omits to state a fact herein or therein necessary to make the statements herein or therein not misleading in any material respect. To the Knowledge of the Partnership, there is no fact which adversely affects, or in the future is likely to effect adversely, the business or assets of the Company in any material respect which has not been disclosed in writing to DGI.

2.30 Finders. None of the Company or the Partnership has paid or become obligated to pay any fee or commission to any broker, finder or intermediary. Neither the Company nor the Partnership has any agreement or obligation whatsoever with entities other than DGI regarding any proposed acquisition of the Company by any such entity and none of them is engaged in any negotiations with any such entity for any such acquisition.

2.31 Representations and Warranties to Be True on the Closing Date. All of the representations and warranties set forth in this Article II shall be true and correct on the Closing Date.

ARTICLE III

REPRESENTATIONS, WARRANTIES AND AGREEMENTS OF DGI

As an inducement to the Partnership to enter into this Agreement and to consummate the transactions contemplated herein, DGI represents and warrants to the Partnership and agrees as follows:

3.1 Organization of DGI. DGI is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware.

3.2 Corporate Authority. This Agreement and the transactions contemplated herein have been duly approved by all necessary corporate action on the part of DGI. This Agreement, when executed and delivered by DGI, and assuming due execution hereof by the Partnership, will constitute the valid and binding agreement of DGI enforceable in accordance with its terms, subject to bankruptcy, insolvency, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general principles of equity. Neither the execution nor the delivery of this Agreement, nor the consummation of the transactions contemplated herein, nor compliance with nor fulfillment of the terms and provisions hereof, will (i) conflict with or result in a breach of the terms, conditions or provisions of or constitute a default under the Certificate of Incorporation or By-laws of DGI, any instrument, agreement, mortgage, judgment, order, award, decree or other restriction to which DGI is a party or by which it is bound or any statute or regulatory provisions affecting it or (ii) require the approval, consent or authorization of or any filing with or notification to any federal, state or local court, Governmental Entity except (x) as provided under the HSR Act, (y) the Required Filings and Approvals and (z) such conflicts, breaches, defaults, rights or approvals which, individually or in the aggregate, do not have a material adverse effect on the Condition of DGI.

3.3 Finders. DGI has not paid or become obligated to pay any fee or commission to any broker, finder or intermediary other than Philo Smith and DGI shall be responsible for the payment of all fees and expenses payable to Philo Smith for or on account of the transactions provided for in this Agreement based on actions taken or agreements entered into by DGI.

3.4 Representations and Warranties to Be True on the Closing Date. All of the representations and warranties set forth in this Article III shall be true and correct on the Closing Date.

ARTICLE IV

ACTION PRIOR TO THE CLOSING DATE

The parties covenant and agree to take the following action between the date hereof and the Closing Date:

4.1 Investigation of the Company. The Partnership shall cause the Company to afford to the officers, employees and authorized representatives, including, without limitation, independent public accountants and attorneys, of DGI such reasonable access upon reasonable prior notice during normal working hours to the offices, properties, personnel, business and financial and other records of the Company as DGI shall deem necessary or desirable, and shall furnish to DGI or its authorized representatives such additional financial and operating and other data as shall be reasonably requested,

including all such information and data as shall be necessary in order to enable DGI or its representatives to verify to their satisfaction the accuracy of the Company Financial Statements and the representations and warranties contained in Article II of this Agreement. No investigation made by DGI or its representatives, except to the extent of actual Knowledge by DGI of any inaccuracy or breach of the representations and warranties of the Partnership contained herein, shall affect the representations and warranties of the Partnership hereunder or the liability of the Partnership with respect thereto.

4.2 Confidential Nature of Information. DGI and the Partnership agree that, in the event that the transactions contemplated herein shall not be consummated, each will treat in confidence all documents, materials and other information which it shall have obtained during the course of the negotiations leading to this Agreement, the investigation of the other party hereto and the preparation of this Agreement and other documents relating to this Agreement (collectively, the "Confidential Information"), and shall return to the other party all copies of the Confidential Information which have been furnished in connection therewith. In the event that a party hereto becomes legally compelled to disclose any of the Confidential Information, it shall provide the other party with reasonable notice so that it may seek a protective order or other appropriate remedy or waive compliance with the provisions of this Section 4.2. In the event that such protective order or other remedy is not obtained or that the other party waives compliance with the provisions of this Section 4.2, the first party will furnish only that portion of the Confidential Information which it is advised by opinion of counsel, which counsel shall be reasonably acceptable to the other party, is legally required and will endeavor to obtain assurance that confidential treatment will be accorded the Confidential Information so furnished. DGI and the Partnership agree and acknowledge that a breach of the provisions of this Section 4.2 would cause the other party to suffer irreparable damage that could not be adequately remedied by an action at law. Accordingly, each party agrees that the other party shall have the right to seek specific performance of the provisions of this Section 4.2 to enjoin a breach or attempted breach of the provisions of this Section 4.2, such right being in addition to all other rights and remedies that are available to each party at law, in equity or otherwise.

4.3 Preserve Accuracy of Representations and Warranties. The Partnership shall refrain from taking any action and shall cause the Company to refrain from taking any action which would render any representation or warranty contained in Article II of this Agreement inaccurate as of the Closing Date hereunder. The Partnership will promptly notify DGI of any lawsuits, claims, proceedings or investigations that, to the Knowledge of the Partnership, may be threatened, brought, asserted or commenced against the Company, its officers or directors or the Partnership (i) involving in any way the transactions contemplated by this Agreement or (ii) which would, if determined adversely, have a Company Adverse Effect.

4.4 Maintain the Company As a Going Concern. Except as otherwise specifically provided herein, the Partnership shall cause the Company to conduct its business in accordance with past practices and to use its best efforts to maintain the business organization of the Company intact, keep available the services of the Company's officers, employees and agents and preserve the good will of its insurance underwriters, employees, clients

and others having business relations with it. The Partnership shall cause the Company to provide DGI promptly with interim monthly financial information and any other management reports, as and when they shall become available, confer with DGI concerning operational matters of a material nature and otherwise report periodically to DGI concerning the status of the business, operations and financial condition of the Company and the status of the actions the Company has agreed to undertake in Section 5.4 hereof.

4.5 Make No Material Change in the Company. Prior to the Closing Date, the Partnership shall not, without the prior written approval of DGI, cause or permit the Company to (i) make any material change in the business or operations of the Company except as set forth in Schedule 4.5 hereto; (ii) make any material change in the accounting policies applied in the preparation of the financial statements referred to in Section 2.6 hereof; (iii) declare any dividends on its issued and outstanding shares of capital stock or make any other distribution of any kind in respect thereof; (iv) issue, sell or otherwise distribute any authorized but unissued shares of its capital stock or effect any stock split or reclassification of any such shares or grant or commit to grant any option, warrant or other rights to subscribe for or purchase or otherwise acquire any shares of capital stock of the Company or any security convertible or exchangeable for any such shares; (v) purchase or redeem any of the capital stock of the Company; (vi) incur or be liable for indebtedness to the Partnership or any of its subsidiaries or affiliates; (vii) make any material change in the compensation of officers or key employees of the Company; (viii) enter into any contract, license, franchise or commitment other than in the Ordinary Course of Business of the Company or waive any rights of substantial value; (ix) make any donation to any charitable, civic, educational or other eleemosynary institution in excess of donations made in comparable past periods, (x) make any reduction in any loss expense reserve or incurred but not reported reserve prior to the Closing Date; (xi) make any change in the levels, procedures or methods employed in the setting or changing of case basis loss reserves; (xii) make any reduction in net case basis loss reserves not consistent with the levels, procedures or methods employed by the Company in the setting or changing of case basis loss reserves as in effect on the date hereof and, in any event, within 10 days following any reduction in the Company's net case basis loss reserve in any one claim file in excess of $10,000, except for a reduction occurring because a payment has been made on the reserve or because the claim has been settled and the case closed, provide DGI with a written explanation of such reduction in reasonable detail certified by the Company's Claims Manager or (xiii) enter into any other transaction affecting in any material respect the business of the Company other than in the Ordinary Course of Business of the Company and in conformity with the past practices of the Company or as contemplated by this Agreement.

4.6 No Public Announcement. Neither the Partnership nor DGI shall, without the approval of the other, make any press release or other public announcement or filing concerning the transactions contemplated by this Agreement, except as and to the extent that any such party shall so determine, in which case the other party shall be advised thereof and given a reasonable opportunity to comment thereon.

4.7 Antitrust Law Compliance. DGI and the Partnership have filed with the Federal Trade Commission and the Antitrust Division of the Department of Justice the

notifications and other information required to be filed under the HSR Act, or any rules and regulations promulgated thereunder, with respect to the transactions contemplated hereby. Each party warrants that all such filings by it were, and any future filings will be, as of the date filed, true and accurate and in accordance with the requirements of the HSR Act and any such rules and regulations. Each of DGI and the Partnership agrees to make available to the other such information as each of them may reasonably request relative to its business, assets and property as may be required of each of them to file any additional information requested by such agencies under the HSR Act and any such rules and regulations.

4.8 Required Filings. As promptly as practical after the date of this Agreement, the Partnership, the Company and DGI shall promptly commence and make all Required Filings with the appropriate Governmental Entity required by Law to be made by any of them in order to consummate the transactions contemplated by this Agreement. Between the date of this Agreement and the Closing Date, the Partnership shall cooperate with DGI with respect to all Required Filings that DGI elects to make or is required by law to make in connection with the transactions contemplated by this Agreement.

ARTICLE V

ADDITIONAL COVENANTS OF THE PARTNERSHIP

5.1 Non-Competition.

(a) In furtherance of the sale of the shares to DGI, upon the consummation of the transactions contemplated hereby and more effectively to transfer and protect the business and goodwill of the Company, the Partnership agrees that for a period ending on the fourth anniversary of the date hereof, it will not (i) directly or indirectly own, manage, operate, participate in, perform services for or otherwise carry on a standard property and casualty insurance business similar to the business of the Company anywhere in Alabama, Arkansas, Georgia, Illinois, Kentucky, Louisiana, North Carolina, South Carolina, Tennessee and Virginia and any other state in which the Company presently conducts its business; provided that ownership of not more than 10% of the issued and outstanding shares of a class of securities of a corporation the securities of which are traded on a national securities exchange or in the over-the-counter market shall not be deemed ownership of the issuer of such shares for the purposes of this paragraph or (ii) induce or attempt to persuade any employee or agent of the Company to terminate such employment or agency relationship in order to enter into any such relationship with the Partnership or any of its subsidiaries or affiliates or to enter into any such relationship on behalf of any other business organization in competition with the Company.

(b) Without limiting the right of DGI and any of its successors or assigns to pursue all other legal and equitable rights available to them for violation of the covenant set forth in Section 5.1(a) hereof by the Partnership, it is agreed that other remedies cannot fully compensate DGI and its successors and assigns for such a violation and that DGI and its successors and assigns shall be entitled to injunctive relief to prevent

violation or continuing violation hereof. It is the intent and understanding of each party hereto that if, in any action before any court or agency legally empowered to enforce this covenant, any term, restriction, covenant or promise is found to be unreasonable and for that reason unenforceable, then such term, restriction, covenant or promise shall be deemed modified to the extent necessary to make it enforceable by such court or agency.

5.2 Use of Trademarks. From the date hereof, neither the Partnership nor any partner or employee of the Partnership shall have the right to use any of the trademarks, trade names or applications therefor heretofore used or owned by the Company or to use any trademarks or trade names similar thereto or designs imitative thereof, except as officers or agents of the Company in connection with its business prior to the Closing Date. From the date hereof, neither the Partnership nor any partner or employee thereof shall have the right to use or to disclose, except in the Ordinary Course of Business of the Company, to any person, firm or corporation other than DGI, its employees, agents and representatives, any secret processes, know-how, trade or business secrets or client lists or other proprietary information of the Company.

5.3 Use of Name. From and after the Closing Date, the Company and its successors, assigns and affiliates shall own or possess, to the exclusion of the Partnership and any person controlling or controlled by the Partnership, all rights to use the name Southern Heritage Insurance Company and any name similar thereto.

5.4 1998 Excess of Loss Reinsurance Agreement. Not later than the date of this Agreement, the Partnership shall have caused the Company to enter into excess of loss reinsurance treaties effective as of January 1, 1998 with reinsurers, placement and other terms and conditions satisfactory to DGI in its sole discretion pursuant to which the Company's per loss loss retention will not exceed $200,000, except for losses involving personal umbrella policies in which the Company's per loss loss retention will not exceed $350,000.

ARTICLE VI

PURCHASE PRICE AND CLOSING

6.1 Closing Date. Subject to the fulfillment of the conditions precedent specified in Articles VII and VIII, the transactions contemplated by this Agreement shall be consummated (the "Closing") at 10:00 a.m., on the second business day following receipt of all Required Filings and Approvals and expiration of the waiting period under the HSR Act (the "Closing Date") at the offices of Duane, Morris & Heckscher LLP, 4200 One Liberty Place, Philadelphia, Pennsylvania 19103 or at such other place or such other time as DGI and the Partnership shall mutually agree.

6.2 Purchase and Sale. On the Closing Date, DGI shall purchase from the Partnership, and the Partnership shall sell to DGI, the Shares for a cash purchase price of $21,000,000 (the "Purchase Price"), subject to reduction as provided in Section 7.10 hereof or Section 7.11(b) hereof.

6.3 Delivery by the Partnership. In addition to the deliveries called for by Article VII hereof, the Partnership shall deliver to DGI a certificate or certificates representing all of the Shares, together with fully executed and witnessed stock powers in blank attached thereto with signatures guaranteed by a bank or trust company or a member firm of the New York Stock Exchange, Inc.

6.4 Delivery by DGI. In addition to the deliveries called for by Article VIII hereof, DGI shall make payment of the Purchase Price less the Riggs-Southern Heritage Repayment Amount to the Partnership by wire transfer of immediately available funds to such account as the Partnership specifies in writing to DGI and pay Riggs the Riggs-Southern Heritage Loan Repayment Amount by wire transfer of immediately available funds to such account as Riggs specifies to DGI in writing.

ARTICLE VII

CONDITIONS PRECEDENT TO OBLIGATIONS OF DGI

The obligations of DGI under this Agreement to purchase and pay for the Shares shall, at the option of DGI, be subject to the satisfaction, on or prior to the Closing Date, of the following conditions:

7.1 No Misrepresentation or Breach of Covenants and Warranties. There shall have been no material breach by the Partnership in the performance of any of its covenants and agreements herein, each of the representations and warranties of the Partnership contained or referred to in this Agreement that is qualified by materiality shall be true and correct on the Closing Date as though made on the Closing Date and each of the representations and warranties that is not so qualified shall be true and correct in all material respects on the Closing Date as though made on the Closing Date and the information concerning the Company contained in its Annual Statements for the years ended December 31, 1995, 1996 and 1997 shall have been true and correct in all material respects as of the last day of each such year and there shall have been delivered to DGI a certificate or certificates to that effect, dated the Closing Date, and signed on behalf of the Partnership.

7.2 No Changes in or Destruction of Property. There shall have been, between the date hereof and the Closing Date, (i) no Company Adverse Effect, (ii) no adverse federal, state or local legislative or regulatory change affecting in any material respect the services or business of the Company, (iii) no material damage to any Company Property or Assets of the Company by fire, flood, casualty, act of God or the public enemy or other cause, regardless of insurance coverage for such damage, so as to impair in any material respect the ability of the Company to render services or continue operations and (iv) no material and adverse development or proceeding affecting the Company's Insurance Licenses in each of the states listed in Schedule T of the Company's Annual Statement for the year ended December 31, 1997. There shall have been delivered to DGI a certificate, dated the Closing Date, and signed on behalf of the Partnership (a) to the effect that between the date hereof and the Closing Date there has been no such Company Adverse Effect as stated in clause (i) hereof, no such material damage as stated in clause (iii) hereof

and no adverse licensing development as stated in clause (iv) hereof and (b) further stating that nothing has come to the signer's attention, in the course of his activities on behalf of the Company, which causes him to believe that during such period there occurred any adverse federal, state or local legislative or regulatory change affecting in any material respect the services or business of the Company.

7.3 Legal Matters.

(a) Filings. All Required Filings and Approvals required to be obtained prior to the Closing Date shall have been obtained and not rescinded or adversely modified or limited as set forth in the proviso below or, if merely required to be filed, such filings shall have been made and accepted, and all waiting periods prescribed by applicable Law shall have expired or been terminated in accordance with applicable Law; provided that such approvals shall not contain any conditions or limitations that compel or seek to compel the Company to dispose of all or any portion of the business or Assets of the Company or impose or seek to impose any limitation on the ability of the Company to conduct its business or own its Assets after the Closing Date in substantially the same manner as the Company currently conducts its business or owns its Assets.

(b) No Order entered or Law promulgated or enacted by any Governmental Entity shall be in effect which would prevent the consummation of the purchase or sale of the Shares or the other transactions contemplated hereby, and no Proceeding brought by a Governmental Entity shall have been commenced and be pending which seeks to restrain, prevent or materially delay or restructure the transactions contemplated hereby or which otherwise questions the validity or legality of any such transactions.

7.4 Additional Claims. There shall have been delivered to DGI a certificate, dated the Closing Date, and signed on behalf of the Partnership by its General Partner describing all claims pending, or to the Knowledge of the Partnership, threatened against the Company, up to the Closing Date not described on Schedule 2.15 hereto.

7.5 Opinion of Counsel for the Partnership. DGI shall have received from Brown & Wood LLP, counsel for the Partnership, an opinion dated the Closing Date, in form and substance satisfactory to DGI and its counsel, substantially to the effect that:

(a) The Partnership is a limited partnership duly organized, validly existing and in good standing under the laws of the State of Delaware.

(b) The Company is a stock property and casualty insurance company duly organized, validly existing and in good standing under the laws of the State of Georgia; and the Company has full corporate power and authority to own or lease and operate its properties and to carry on its business as now conducted. The Company is duly admitted to do business and is in good standing as a foreign insurance company in each state where the failure to be so admitted would have a Company Adverse Effect. The Company has no subsidiaries.

(c) The authorized capital stock of the Company consists of 10,000,000 shares of common stock, par value $1.00 per share, of which 2,660,024 shares have been issued and are outstanding and are owned beneficially and of record by the Partnership; except for this Agreement, to the knowledge of such counsel there are no agreements, arrangements, options, warrants or other rights or commitments of any character relating to the issuance, sale, purchase or redemption of any shares of capital stock of the Company and all of the issued and outstanding shares of common stock of the Company on the Closing Date are validly issued, fully paid and nonassessable with no liability attaching to the ownership thereof.

(d) This Agreement and the transactions contemplated herein have been duly approved by all necessary partnership action of the Partnership. This Agreement has been duly and validly executed and delivered by the Partnership and such Agreement, assuming due execution by DGI, is the valid and binding agreement of the Partnership enforceable against the Partnership in accordance with its terms except as enforcement thereof may be limited by bankruptcy, insolvency or other similar laws affecting creditors' rights generally and that the remedy of specific performance is subject to the discretion of the court before which proceedings therefor are brought.

(e) The Partnership has full power and authority to execute and deliver this Agreement and to perform its obligations thereunder. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated herein, nor compliance with and fulfillment of the terms and provisions hereof (i) conflicts with or results in the breach of the terms, conditions or provisions of, or constitutes a default under, the Certificate or Articles of Incorporation or the By-laws of the Company or the Agreement of Limited Partnership of the Partnership or, to such counsel's Knowledge, any agreement or instrument to which the Company or the Partnership is a party or by which any of them is bound, (ii) to such counsel's Knowledge, gives any party to or with rights under any such agreement or instrument the right to terminate, modify or otherwise change the rights or obligations of the Company under any such agreement or instrument or (iii) to such counsel's Knowledge, requires the consent, approval or authorization of or any filing with or notification to any federal, state or local court, Governmental Entity not already obtained or made, as the case may be.

(f) Such counsel do not know of any action, suit, proceeding or investigation pending or threatened against the Partnership or the Company, other than actions, suits, proceedings or investigations described in Schedules 2.15 or 2.17 hereto, which might result in a Company Adverse Effect, or that any action, suit, proceeding or investigation is pending or to their knowledge threatened which questions the legality, validity or propriety of this Agreement or of any action taken or to be taken by the Partnership pursuant to or in connection with this Agreement.

(g) The Partnership is the lawful owner of the Shares, free and clear of all adverse claims, with unrestricted right and power to transfer and deliver the Shares to DGI. The Partnership has executed and delivered to DGI such instruments as are sufficient to vest good and marketable title to the Shares in DGI free and clear of all adverse claims.

(h) To such further effect with respect to legal matters relating to the Agreement as DGI or its counsel may reasonably request.

In giving such opinion, counsel for the Partnership may rely, as to matters of fact, upon certificates of officers of the Company, and as to matters relating to the Law of any state other than the State of Delaware, upon opinions of other counsel satisfactory to them, provided that such counsel shall state that they believe that they are justified in relying upon such certificates and opinions and deliver copies thereof to DGI prior to the Closing Date.

7.6 Resignations. DGI shall have received the resignations of each director of the Company and the resignation of each officer of the Company designated by DGI on or prior to the Closing Date.

7.7 Financing Commitment. Not later than the third business day prior to the Closing Date, DGI shall have received a commitment from Fleet National Bank of Connecticut to make available to DGI additional financing of not less than $18,000,000 to be used to pay the Purchase Price.

7.8 John C. Heller Employment Agreement. Not later than the Closing Date, John C. Heller shall have entered into an employment agreement with the Company acceptable to DGI in its sole discretion and, except as provided in such employment agreement, the Company shall have no other obligation to Mr. Heller in respect of his employment by the Company or the termination of such employment. In addition, Mr. Heller shall have delivered to DGI a written waiver of any right to acquire or otherwise receive any capital stock of the Company or any payment in respect thereof.

7.9 Items to be Received by DGI. Not later than the third business day prior to the Closing Date:

(a) the Company shall have received the unqualified opinion of Coopers & Lybrand LLP on the Company's GAAP financial statements for the year ended December 31, 1997 and a copy thereof shall have been furnished to DGI;

(b) the Company shall have received the unqualified opinion of Coopers & Lybrand LLP as to the actuarial adequacy of the loss reserves of the Company as of December 31, 1997 and a bring-down certificate with respect to the adequacy of such reserves as of the date of Closing and a copy thereof shall have been furnished to DGI;

(c) DGI shall have received a Catastrophe Analysis of the Company prepared by RMS (or the Herbert Clough reinsurance organization, provided that in such event DGI also receives the certification of the Herbert Clough reinsurance organization that it prepared the Catastrophe Analysis under a license from RMS and utilizing the most current RMS software release without modification) which Catastrophe Analysis shall include a separate windstorm and earthquake analysis under each of the "Deterministic" and "Probalistic" approaches and which Catastrophe Analysis shall be satisfactory to DGI in its sole discretion;

(d) the Company shall have (i) an in force and fully placed catastrophe reinsurance treaty with an aggregate retention not exceeding $1,000,000 with coverage of $14,000,000 excess of $1,000,000 and (ii) an in force second layer of catastrophe reinsurance with an aggregate retention not exceeding $15,000,000 with coverage of $55,000,000 excess of $15,000,000, in each case with reinsurers, placement and terms and conditions satisfactory to DGI in its sole discretion, including coverage for net losses, including demand surge, for both windstorm and earthquake coverages and copies thereof shall have been furnished to DGI;

(e) the Company shall have received written verification, in form and substance satisfactory to DGI in its sole discretion, from General Reinsurance Co. ("GenRe") that the existing reinsurance treaties between the Company and GenRe apply to, and that GenRe is responsible, to the extent of such reinsurance, for assessments received by the Company for periods covered by such reinsurance from the Florida Wind Underwriting Authority and the Florida Catastrophe Reinsurance Fund and a copy thereof shall have been furnished to DGI; and

(f) the Company shall have entered into a retroactive excess of loss reinsurance treaty for the year 1997 covering unreported losses and adverse loss development (including extra-contractual and punitive damages coverage) for reported 1997 losses pursuant to which the Company's per loss loss retention will not exceed $300,000 exclusive of several known losses exceeding $300,000, but inclusive of further loss development on such losses as set forth in Schedule 7.9 to this Agreement and with reinsurers, placement and other terms and conditions satisfactory to DGI in its sole discretion.

(g) In the event the Partnership terminates this Agreement because DGI shall not have performed or complied in all material respects with all covenants required by this Agreement to be performed by DGI before or as of the Closing Date, DGI shall reimburse the Partnership for any out-of-pocket expenses incurred by the Partnership by reason of the cancellation of the reinsurance the Partnership is required to obtain pursuant to Section 7.09(d) hereof and Section 7.09(f) hereof.

7.10 Minimum Company Surplus. The policyholders surplus of the Company, determined in accordance with SAP, shall be not less than $16,500,000 as of the last day of the month immediately preceding the month in which the Closing occurs, provided, however, that if the policyholders surplus as so determined at such date is less than $16,500,000 but more than $15,000,000, this Section 7.10 shall be deemed satisfied if the Partnership, at its election, either makes a capital contribution to the Company or reduces the Purchase Price, in each case in the amount by which the policyholders surplus of the Company, determined in accordance with SAP as of such date is less than $16,500,000.

7.11 Assumption of Florida Homeowners Business.

(a) Not later than the Closing Date, Bankers Security Insurance Company ("Bankers") shall have entered into an agreement in form and substance satisfactory to DGI whereby Bankers is obligated to assume approximately 850 policies of homeowners insurance issued by the Company to residents of the State of Florida (the "Florida Policies") in a transaction in which (i) Bankers

offers agents licenses to each of the Company's agents whose principal place of business is in the State of Florida, (ii) Bankers agrees to offer a policy of homeowners insurance to each holder of the Florida Policies, (iii) any consideration paid or payable by the Company to Bankers in respect of the assumption of any Florida Policy (the "Consideration") shall not exceed $155.00 per policy assumed and (iv) the Company shall pay to the holder of each Florida Policy (the "Policyholder Payment") either (A) that amount as shall equal the amount by which Bankers annual premium for such policy for one year shall exceed the Company's most recent annual premium for such policy for one year or (B) such other payment or credit as is required by the Department of Insurance of the State of Florida and which Consideration and Policyholder Payment, subject to Section 7.11(b) hereof, shall have been accrued or paid in full by the Company prior to the Closing Date.

(b) The portion of the Consideration payable to Bankers and any Policyholder Payment, in each case as referred to in Section 7.11(a) hereof, which has not been paid or accrued by the Company prior to the Closing Date shall reduce the Purchase Price referred to in Section 6.2 hereof by an amount equal to the sum of (i) (x) the number of the Florida Policies as to which such Consideration has not been paid or accrued on the Closing Date multiplied by (y) $155.00 and (ii) all Policyholder Payments that have not been paid or accrued on the Closing Date.

7.12 Company Withdrawal from Florida. The Company shall have commenced and diligently pursued by all appropriate proceedings its withdrawal as a licensed insurer in the State of Florida in accordance with Regulation 4-141-020 under Section 624.430 of the Florida Insurance Law.

ARTICLE VIII

CONDITIONS PRECEDENT TO OBLIGATIONS OF THE PARTNERSHIP

The obligations of the Partnership under this Agreement to sell and receive payment for the Shares shall, at the option of the Partnership, be subject to the satisfaction, on or prior to the Closing Date, of the following conditions:

8.1 No Misrepresentation or Breach of Covenants and Warranties. There shall have been no material breach by DGI in the performance of any of its covenants herein, each of the representations and warranties of DGI contained or referred to in this Agreement that is qualified by materiality shall be true and correct on the Closing Date as though made on the Closing Date and each of the representations and warranties that is not so qualified shall be true and correct in all material respects on the Closing Date as though made on the Closing Date and there shall have been delivered to the Partnership a certificate or certificates to that effect, dated the Closing Date, and signed on behalf of DGI by its President.

8.2 Opinion of Counsel for DGI. The Partnership shall have received from Duane, Morris & Heckscher LLP, counsel for DGI, an opinion dated the Closing Date, in form and substance satisfactory to the Partnership and its counsel, to the effect that:

(a) DGI is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware; and DGI has the corporate power and authority to consummate the transactions as provided for herein;

(b) This Agreement and the transactions contemplated herein have been duly approved by all necessary corporate action on the part of DGI. This Agreement has been duly and validly executed and delivered by DGI and such Agreement, assuming due execution by the Partnership, is the valid and binding agreement of DGI enforceable against DGI in accordance with its terms except as enforcement thereof may be limited by bankruptcy, insolvency or other similar laws affecting the enforcement of creditors' rights generally and that the remedy of specific performance is subject to the discretion of the court before which proceedings therefor are brought;

(c) Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated herein, nor compliance with and fulfillment of the terms and provisions hereof (i) conflicts with or results in the breach of the terms, conditions or provisions of the Certificate of Incorporation or By-laws of DGI or any agreement or instrument known to such counsel to which DGI is a party or by which it is bound, (ii) gives any party to or with rights under any such agreement or instrument the right to terminate, modify or otherwise change the rights or obligations of the Company under any such agreement or instrument or (iii) requires the consent, approval or authorization of or any filing with or notification to any federal, state or local court or Governmental Entity not already obtained or made, as the case may be; and

(d) Such counsel do not know of any action, suit, proceeding or investigation pending or threatened against DGI which questions the legality, validity or propriety of (i) this Agreement or of (ii) any action taken or to be taken by the parties hereto pursuant to or in connection with this Agreement.

In giving such opinion, counsel for DGI may rely, as to matters of fact, upon certificates of officers of DGI and, as to matters relating to the Law of any jurisdiction other than the State of Delaware upon the opinions of other counsel satisfactory to them, provided that such counsel shall state that they believe that they are justified in relying upon such certificates and opinions and deliver copies thereof to the Partnership prior to the Closing Date.

8.3 Legal Matters.

(a) Filings. All Required Filings and Approvals required to be obtained prior to the Closing Date shall have been obtained and not rescinded or adversely modified or limited as set forth in the proviso below or, if merely required to be filed, such filings shall have been made and accepted, and all waiting periods prescribed by applicable Law shall have expired or been terminated in accordance with applicable Law;

provided that such approvals shall not contain any conditions or limitations that compel or seek to compel the Company to dispose of all or any portion of the business or Assets of the Company or impose or seek to impose any limitation on the ability of the Company to conduct its business or own its Assets after the Closing Date in substantially the same manner as the Company currently conducts its business or owns its Assets.

(b) No Order entered or Law promulgated or enacted by any Governmental Entity shall be in effect which would prevent the consummation of the purchase or sale of the Shares or the other transactions contemplated hereby, and no Proceeding brought by a Governmental Entity shall have been commenced and be pending which seeks to restrain, prevent or materially delay or restructure the transactions contemplated hereby or which otherwise questions the validity or legality of any such transactions.

ARTICLE IX

TERMINATION

9.1 Termination. This Agreement may be terminated and the purchase and sale of the Shares abandoned at any time prior to the Closing Date:

(a) by mutual consent of DGI and the Partnership;

(b) by either DGI or by the Partnership by one day's written notice to the Partnership or DGI, as the case may be, if the Closing shall not have been consummated on or before August 31, 1998; provided, however, that if any of the Required Filings and Approvals shall not have been received by August 31, 1998 such date shall be extended without any action by or on behalf of the parties hereto until five business days after all such Required Filings and Approvals shall have been received but in no event later then October 31, 1998 and further provided that the right to terminate this Agreement under this Section 9.1(b) shall not be available to any party whose failure to fulfill any obligation under this Agreement has been the cause of, or resulted in, the failure of the purchase and sale of the Shares to have been consummated on or before such date;

(c) by either DGI or the Partnership by one day's written notice to the Partnership or DGI, as the case may be, if any of the conditions to such party's obligations to consummate the transactions contemplated by this Agreement shall have become impossible to satisfy; or

(d) by DGI if (i) the Partnership is in breach at any time prior to the Closing Date of any of the representations and warranties made by the Partnership as though made on and as of such date, unless the inaccuracies (without giving effect to any materiality or material adverse effect qualifications or materiality exceptions contained therein) in such representations and warranties, individually or in the aggregate, have not had and would not reasonably be expected to result in a Company Adverse Effect or (ii) the Partnership shall not have performed and complied in all material respects with all covenants required by this Agreement to be performed or complied with by it on and as of

such date, which breach cannot be or has not been cured, in all material respects within 15 days after the giving of written notice thereof by DGI to the Partnership.

(e) by the Partnership if DGI shall not have performed and complied in all material respects with all covenants required by this Agreement to be performed or complied with by it on and as of such date, which breach cannot be or has not been cured, in all material respects within 15 days after the giving of written notice thereof by the Partnership to DGI.

9.2 Effect of Termination. In the event of the termination of this Agreement by either DGI or the Partnership, as provided in Section 9.1 hereof, this Agreement shall thereafter become void and there shall be no Liability on the part of any party hereto against any other party hereto, or their respective directors, officers, Policyholders or agents, except that (i) any such termination shall be without prejudice to the rights of any party hereto arising out of the willful breach by any other party of any covenant or agreement contained in this Agreement, (ii) Sections 4.2, 11.1, 11.2 and 11.3 shall continue in full force and effect notwithstanding such termination and (iii) each of the parties hereto shall provide the other party hereto with a copy of any proposed public announcement regarding the occurrence of such termination and an opportunity to comment thereon prior to its dissemination.

ARTICLE X

AMENDMENT, WAIVER AND INDEMNIFICATION

10.1 Amendment. This Agreement may be amended or modified in whole or in part at any time by an agreement in writing executed in the same manner as this Agreement, provided, however, that no amendment shall be made which changes the terms of this Agreement in any material respect and which requires the further approval or proceedings of any insurance Governmental Entity without such approval having first been obtained or such proceedings having first been completed.

10.2 Extension; Waiver. At any time prior to the Closing Date, any party hereto may:

(a) extend the time for the performance of any of the obligations or other acts of the other party hereto;

(b) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto; and

(c) waive compliance with any of the agreements or conditions contained herein.

Any agreement on the part of a party to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party by its President or

its General Partner, as the case may be. The failure of any party hereto to enforce at any time any provision of this Agreement shall not be construed to be a waiver of such provision, nor in any way to affect the validity of this Agreement or any part hereof or the right of such party hereafter to enforce each and every such provision. No waiver of any breach of this Agreement shall be held to constitute a waiver of any other or subsequent breach.

10.3 Survival of Obligations. All certifications, representations and warranties made herein by the Partnership and its obligations to be performed pursuant to the terms hereof, shall survive the Closing Date hereunder, notwithstanding any notice of any inaccuracy, breach or failure to perform not waived in writing and notwithstanding the consummation of the transactions contemplated herein with Knowledge of such inaccuracy, breach or failure. All representations and warranties contained herein shall terminate one year after the Closing Date; provided that (i) the representations and warranties contained in Section 2.17 hereof shall expire two years after the Closing Date or, with respect to each claim under Section 2.17 arising before or during such two-year period, upon the earlier to occur of (x) such claim's final judicial determination or settlement and satisfaction of any judgment or full payment of any settlement, as the case may be, or (y) such time, if any, as the claim shall be barred by the applicable statute of limitations, (ii) the representations and warranties contained in Section 2.18 hereof shall expire four years after the Closing Date or with respect to any dispute with the IRS upon the earlier to occur of (x) such dispute's final resolution and the payment of all taxes, interests and penalties arising therefrom and (y) the expiration of the applicable statute of limitations and (iii) the representations in Section 2.4 hereof shall not expire.

10.4 Indemnification.

(a) Each party (the "Indemnifying Person") agrees to indemnify and hold harmless the other party and their respective subsidiaries, affiliates, partners, successors and assigns (collectively, the "Indemnified Persons") from and against any and all (x) Liabilities, losses, costs, deficiencies or damages ("Loss") and (y) reasonable attorneys' and accountants' fees and expenses, court costs and all other reasonable out-of-pocket expenses ("Expense") incurred by any Indemnified Person, in each case net of any insurance proceeds received and retained by such Indemnified Person, in connection with or arising from (i) any breach by the Indemnifying Person of any of its covenants in, or any failure of the Indemnifying Person to perform any of its obligations under, this Agreement or (ii) any material breach of any warranty or the material inaccuracy of any representation of the Indemnifying Person contained or referred to in this Agreement or in any certificate delivered by or on behalf of the Indemnifying Person pursuant hereto and the Partnership agrees to indemnify and hold harmless DGI from and against any Loss and Expense incurred by DGI arising from any claim that the Partnership did not convey to DGI good and marketable title to all of the issued and outstanding capital stock of the Company pursuant to this Agreement, provided that:

(1) with respect to the representations and warranties contained in Section 2.4 hereof, the liability of the Partnership shall not be in excess of the Purchase Price; and

(2) with respect to all other representations and warranties, the liability of the Indemnifying Person shall be limited to an aggregate of $5,000,000.

The amount of the liability of the Indemnifying Person under clause (2) at any time is referred to herein as a "Liability Limit." No claim shall be made for indemnity pursuant to this Section 10.4 until the aggregate amount of Loss and Expense incurred by all Indemnified Persons exceeds $50,000, but if the aggregate amount of such Loss and Expense exceeds such amount, the Indemnifying Person shall be liable for all Loss and Expense, including such initial $50,000 amount, subject to any applicable Liability Limit.

(b) If any Indemnified Person has suffered or incurred any Loss or incurred any Expense, it shall so notify the Indemnifying Person promptly in writing describing such Loss or Expense, the amount thereof, if known, and the method of computation of such Loss or Expense, all with reasonable particularity and containing a reference to the provision of this Agreement or any certificate delivered pursuant hereto in respect of which such Loss or Expense shall have occurred. If any action at law or suit in equity is instituted by or against a third party with respect to which any Indemnified Person intends to claim any liability or expense as Loss or Expense under this Section 10.4, such Indemnified Person shall promptly notify the Indemnifying Person of such action or suit. The failure of an Indemnified Person to promptly notify the Indemnifying Person of a claim as contemplated by the preceding sentence will not relieve the Indemnifying Person of its obligations under this Section 10.4 except to the extent that the Indemnifying Person is prejudiced in its defense of such claim as a result of such failure to give prompt notice.

(c) Subject to paragraph (d) of this Section 10.4, the Indemnified Persons shall have the right to conduct and control, through counsel of their choosing, any third party claim, action or suit and may compromise or settle the same, provided that any of the Indemnified Persons shall give the Indemnifying Person advance notice of any proposed compromise or settlement. The Indemnified Persons shall permit the Indemnifying Person to participate in the defense of any such action or suit through counsel chosen by it, provided that the fees and expenses of such counsel shall be borne by the Indemnifying Person. Any compromise or settlement with respect to a claim for money damages effected after the Indemnifying Person, by notice to the Indemnified Persons, shall have disapproved such compromise or settlement, shall discharge the Indemnifying Person from liability with respect to the subject matter thereof, and no amount in respect thereof shall be claimed as Loss or Expense under this Section 10.4; provided that if the Indemnifying Person shall disapprove of a proposed compromise or settlement of a claim the acceptance of which is recommended by counsel conducting the defense of such claim and the amount of such settlement would exceed an applicable Liability Limit, the Indemnifying Person shall, notwithstanding such Liability Limit, be liable for the full amount of any judgment entered in respect of, or later compromise or settlement approved by the Indemnifying Person of, such claim less the amount by which the proposed compromise or settlement disapproved by the Indemnifying Person exceeded such Liability Limit.

(d) If the remedy sought in any action or suit referred to in paragraph (c) of this Section 10.4 is solely money damages and the sum of (i) the amount claimed in

such action or suit, (ii) all amounts previously paid by the Indemnifying Person pursuant to this Section 10.4 and (iii) all amounts claimed in all pending claims for indemnity under this Section 10.4 does not exceed the aggregate liability of the Indemnifying Person under this Section 10.4, the Indemnifying Person shall have 15 business days after receipt of the notice referred to in the last sentence of paragraph (b) of this Section 10.4 to notify the Indemnified Persons that it elects to conduct and control such action or suit. If the Indemnifying Person does not give the foregoing notice, the Indemnified Persons shall have the right to defend, contest, settle or compromise such action or suit in the exercise of their exclusive discretion and the Indemnifying Person shall, upon request from any of the Indemnified Persons, promptly pay to such Indemnified Persons in accordance with the other terms of this Section 10.4 the amount of any Loss resulting from its liability to the third party claimant and all related Expense. If the Indemnifying Person gives the foregoing notice, the Indemnifying Person shall have the right to undertake, conduct and control, through counsel of its own choosing and at its sole expense of the Indemnifying Person, the conduct and settlement of such action or suit, and the Indemnified Persons shall cooperate with the Indemnifying Person in connection therewith; provided that (x) the Indemnifying Person shall not thereby permit to exist any Lien upon any Asset of any Indemnified Person, (y) the Indemnifying Person shall permit the Indemnified Persons to participate in such conduct or settlement through counsel chosen by the Indemnified Persons, but the fees and expenses of such counsel shall be borne by the Indemnified Persons, except as provided in clause (z) hereof and (z) the Indemnifying Person shall agree promptly to reimburse to the extent required under this Section 10.4 the Indemnified Persons for the full amount of any Loss resulting from such action or suit and all related Expense incurred by the Indemnified Persons, except fees and expenses of counsel for the Indemnified Persons incurred after the assumption of the conduct and control of such action or suit by the Indemnifying Person. So long as the Indemnifying Person is contesting any such action or suit in good faith, the Indemnified Persons shall not pay or settle any such action or suit. Notwithstanding the foregoing, the Indemnified Persons shall have the right to pay or settle any such action or suit, provided that in such event the Indemnified Persons shall waive any right to indemnity therefor by the Indemnifying Person and no amount in respect thereof shall be claimed as Loss or Expense under this Section 10.4.

ARTICLE XI

MISCELLANEOUS

11.1 Notices. All notices or other communications required or permitted hereunder shall be in writing and shall be given by confirmed telex or telecopy or registered mail, postage prepaid, addressed as follows:

if to DGI, to:

Donegal Group Inc.
1195 River Road
Marietta, Pennsylvania 17547
Attention: Donald H. Nikolaus, President

with a copy to:

Duane, Morris & Heckscher LLP
4200 One Liberty Place
Philadelphia, Pennsylvania 19103
Attention: Frederick W. Dreher, Esq.

if to the Partnership, to:

Southern Heritage Limited Partnership
6900 Wisconsin Avenue, Suite 304
Chevy Chase, Maryland 20815
Attention: William B. Snyder, General Partner

with a copy to:

Brown & Wood LLP
815 Connecticut Avenue, N.W.
Washington, D.C. 20006
Attention: Frank R. Goldstein, Esq.

or to such other address as the Person to whom notice is given may have previously furnished to the other party in writing in accordance herewith.

11.2 Expenses. Except as otherwise provided herein, each party hereto shall pay its own expenses including, without limitation, legal and accounting fees and expenses incident to its negotiation and preparation of this Agreement and to its performance and compliance with the provisions contained herein.

11.3 Governing Law; Jurisdiction and Service of Process.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware without regard to its rules on conflicts of law.

(b) Each party hereto irrevocably and unconditionally consents and submits to the exclusive jurisdiction of the courts of the State of Delaware and of the United States of America located in the State of Delaware for any action, suit or proceeding arising out of or relating to this Agreement and the transactions contemplated hereby, and further agrees that service of any process, summons, notice or document by United States registered or certified mail to the Partnership or DGI, as the case may be, at the

addresses set forth in Section 11.1 hereof, shall be effective service of process for any action, suit or proceeding brought against such party in such court. Each party hereto irrevocably and unconditionally waives any objection to the laying of venue of any action, suit or proceeding arising out of this Agreement or the transactions contemplated hereby in the courts of the State of Delaware located in Wilmington, Delaware or of the United States of America located in Wilmington, Delaware, and hereby further irrevocably and unconditionally waives and agrees not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in any inconvenient forum.

11.4 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, provided that the rights of the Partnership herein may not be assigned and the rights of DGI may be assigned only (i) to such other business organization which shall succeed to substantially all the assets, liabilities and business of DGI or (ii) to a wholly owned subsidiary of DGI, in which event such assignment shall not relieve DGI of any of DGI's obligations to the Partnership under this Agreement. Nothing in this Agreement, expressed or implied, is intended to confer upon any other Person any rights or remedies of any nature under or by reason of this Agreement.

11.5 Partial Invalidity. In case any one or more of the provisions contained herein shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement, but this Agreement shall be construed as if such invalid, illegal or unenforceable provision or provisions had never been contained herein unless the deletion of such provision or provisions would result in such a material change as to cause completion of the transactions contemplated herein to be unreasonable or materially and adversely frustrate the objectives of the parties as expressed in this Agreement.

11.6 Execution in Counterparts. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement, and shall become a binding agreement when one or more counterparts have been signed by each of the parties and delivered to each of the other parties.

11.7 Titles and Headings. Titles and headings to Articles and Sections herein are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

11.8 Schedules. The Schedules to this Agreement shall be construed with and as an integral part of this Agreement to the same extent as if the same had been set forth verbatim herein.

11.9 Entire Agreement. This Agreement, including the Schedules hereto, contains the entire understanding of the parties hereto with regard to the subject matter contained herein.

IN WITNESS WHEREOF, each party hereto has caused this Agreement to be executed on its behalf all as of the date first above written.

DONEGAL GROUP INC.

By: /s/ Donald H. Nikolaus

Donald H. Nikolaus, President

SOUTHERN HERITAGE
LIMITED PARTNERSHIP

By: /s/ William B. Snyder

William B. Snyder, General Partner

November 17, 1998

Southern Heritage Limited Partnership
6900 Wisconsin Avenue, Suite 304
Chevy Chase, MD 20815
Attention: William B. Snyder, General Partner

Re: Stock Purchase Agreement (the "Agreement") dated as of May 14, 1998 between Donegal Group Inc. ("DGI") and Southern Heritage Limited Partnership (the "Partnership")

Dear Bill:

The purpose of this letter is to set forth in writing the agreements we have reached as to certain changes to the Agreement as follows:

1. Section 6.2 of the Agreement is hereby amended and restated so that, as amended and restated, Section 6.2 of the Agreement shall read in its entirety as follows:

> "6.2 Purchase and Sale. On the Closing Date, DGI shall purchase from the Partnership, and the Partnership shall sell to DGI, the Shares for a purchase price of $19,166,670 (the "Purchase Price")." In addition, DGI and the Partnership have entered into an escrow agreement (the "Escrow Agreement") of even date herewith with Duane, Morris & Heckscher LLP as escrow agent (the "Escrow Agent") for the purpose, inter alia, of setting forth a process for the determination of the accuracy of the premium balance receivable of the Company as set forth in its balance sheet as of October 31, 1998 (the "Balance Sheet") and other items reflected on the Balance Sheet that would change if there were a change in the premium balance receivable as of such date (collectively, the "Premium Balance"). If the final determination of the Premium Balance as contemplated by the Escrow Agreement results in a Premium Balance in excess of the amount thereof reflected on the Balance Sheet, the amount of such excess, up to a maximum of $1,908,333, shall be paid by DGI to the Partnership by wire transfer of immediately available funds in such amount to such account as the Partnership specifies to DGI in writing. If the final determination of the Premium Balance as contemplated by the Escrow Agreement results in a Premium Balance less than the amount thereof reflected on the Balance Sheet, the

> amount of such deficiency, net of disbursements of the Funds (as defined in the Escrow Agreement) by the Escrow Agent to DGI, shall be paid by the Partnership to DGI by wire transfer of immediately available funds in such amount to such account as DGI specifies to the Partnership in writing."

2. Section 6.4 of the Agreement is hereby amended and restated so that, as amended and restated, Section 6.4 of the Agreement shall read in its entirety as follows:

> "6.4 Delivery by DGI. In addition to the deliveries called for by Article VIII hereof, DGI shall make payment of the Purchase Price as follows: (a) the Riggs-Southern Heritage Loan Repayment Amount of $3,908,290.32 shall be paid by wire transfer of immediately available funds in such amount to Riggs Bank, N.A. to the account of Southern Heritage Holdings, Inc. which, for all purposes of the Agreement, shall constitute payment for the account of the Partnership; (b) $14,508,379.68 shall be paid by wire transfer of immediately available funds in such amount to the Partnership to such account as the Partnership specifies in writing to DGI and (c) $750,000 shall be paid by wire transfer of immediately available funds in such amount to the Escrow Agent as set forth in the Escrow Agreement in the form of Exhibit A hereto."

3. Section 9.1(b) of the Agreement is hereby amended and restated so that, as amended and restated, Section 9.1(b) of the Agreement shall read in its entirety as follows:

> "(b) by either DGI or the Partnership by one day's written notice to the Partnership or DGI, as the case may be, if the Closing shall not have been consummated on or before August 31, 1998; provided, however, that if any of the Required Filings and Approvals shall not have been received by August 31, 1998 such date shall be extended without any action by or on behalf of the parties hereto until five business days after all such Required Filings and Approvals

shall have been received but in no event later than November 17, 1998 and further provided that the right to terminate this Agreement under this Section 9.1(b) shall not be available to any party whose failure to fulfill any obligation under this Agreement has been the cause of, or resulted in, the failure of the purchase and sale of the Shares to have been consummated on or before such date;"

4. Except as specifically provided herein, the agreements, covenants and conditions set forth in the Agreement are hereby expressly confirmed and ratified and shall remain in full force and effect.

5. All capitalized terms used herein but not defined herein shall have the respective meanings assigned to them in the Agreement.

If the foregoing correctly sets forth our agreements, please sign this letter where indicated and return it to me.

Sincerely,

Donald H. Nikolaus,
President and Chief Executive Officer

Accepted and agreed to, intending
to be legally bound hereby, this
17th day of November 1998:

SOUTHERN HERITAGE LIMITED
PARTNERSHIP

By: ________________________________
William B. Snyder, General Partner

EXHIBIT 10(Y)

AMENDED AND RESTATED CREDIT AGREEMENT

among

DONEGAL GROUP INC.,

THE BANKS AND OTHER FINANCIAL INSTITUTIONS
FROM TIME TO TIME PARTY HERETO

and

FLEET NATIONAL BANK
(FORMERLY KNOWN AS FLEET NATIONAL BANK
OF CONNECTICUT), AS AGENT

DATED AS OF DECEMBER 29, 1995

AND

AMENDED AND RESTATED AS OF JULY 27, 1998

TABLE OF CONTENTS

ARTICLE 1. DEFINITIONS; ACCOUNTING TERMS....1
- Section 1.1. Definitions....1
- Section 1.2. Accounting Terms....13
- Section 1.3. Rounding....13
- Section 1.4. Exhibits and Schedules....13
- Section 1.5. References to "Borrower and its Subsidiaries"....13
- Section 1.6. Miscellaneous Terms....14

ARTICLE 2. THE CREDIT....14
- Section 2.1. The Revolving Loans....14
- Section 2.2. The Revolving Notes....14
- Section 2.3. Procedure for Borrowing....15
- Section 2.4. Termination or Optional Reduction of Commitment....16
- Section 2.5. Mandatory Annual Reduction of Commitment....16
- Section 2.6. Maturity of Revolving Loans....17
- Section 2.7. Optional Prepayments....17
- Section 2.8. Interest on the Revolving Loans....18
- Section 2.9. Fees....19
- Section 2.10. Payments Generally....19
- Section 2.11. Capital Adequacy. 19
- Section 2.12. Increased Costs; Funding Losses....20
- Section 2.13. Illegality....21
- Section 2.14. Payments to be Free of Deductions....21
- Section 2.15. Computations....22
- Section 2.16. Obligations Absolute....22
- Section 2.17. Sharing of Payments, Etc....23
- Section 2.18. Non-Receipt of Funds by the Agent....23

ARTICLE 3. CONDITIONS PRECEDENT....24
- Section 3.1. Documentary Conditions Precedent....24
- Section 3.2. Additional Conditions Precedent to Each Loan....26
- Section 3.3. Deemed Representations....27

ARTICLE 4. REPRESENTATIONS AND WARRANTIES....27
- Section 4.1. Incorporation, Good Standing and Due Qualification....27
- Section 4.2. Corporate Power and Authority; No Conflicts....27
- Section 4.3. Legally Enforceable Agreements....28
- Section 4.4. Litigation....28
- Section 4.5. Financial Statements....28

Section 4.6. Ownership and Liens....................................29
Section 4.7. Taxes..29
Section 4.8. ERISA..29
Section 4.9. Subsidiaries and Ownership of Stock......................30
Section 4.10. Credit Arrangements....................................30
Section 4.11. Operation of Business..................................31
Section 4.12. No Default on Outstanding Judgments or Orders...........31
Section 4.13. No Defaults on Other Agreements.........................31
Section 4.14. Governmental Regulation.................................31
Section 4.15. Consents and Approvals..................................31
Section 4.16. Partnerships..32
Section 4.17. Environmental Protection................................32
Section 4.18. Copyrights, Patents, Trademarks, Etc....................32
Section 4.19. Compliance with Laws....................................33
Section 4.20. Events of Default.......................................33
Section 4.21. No Adverse Change.......................................33
Section 4.22. Year 2000 Compatibility.................................33
Section 4.23. Use of Proceeds...33

ARTICLE 5. AFFIRMATIVE COVENANTS.......................................33
Section 5.1. Maintenance of Existence and Domicile of Insurance Subsidiaries....................33
Section 5.2. Conduct of Business.....................................34
Section 5.3. Maintenance of Properties...............................34
Section 5.4. Maintenance of Records..................................34
Section 5.5. Maintenance of Insurance................................34
Section 5.6. Compliance with Laws....................................34
Section 5.7. Right of Inspection.....................................34
Section 5.8. Reporting Requirements..................................35
(a) Annual GAAP Statements of the Borrower..................35
(b) Annual SAP Financial Statements.........................36
(c) Quarterly GAAP Statements of the Borrower...............36
(d) Quarterly SAP Statements................................37
(e) Annual/Quarterly Reports................................37
(f) SEC Filings...37
(g) Notice of Litigation....................................37
(h) Notices of Default......................................38
(i) Actuarial Report Confirming Reserves....................38
(j) Other Filings...38
(k) Additional Information..................................38
Section 5.9. Certificates..38

(a) Officers' Certificate....................................38
Section 5.10. Compliance with Agreements...............................39
Section 5.11. Use of Proceeds..39

ARTICLE 6. NEGATIVE COVENANTS..39
Section 6.1. Debt...39
Section 6.2. Guaranties, Etc..40
Section 6.3. Liens..40
Section 6.4. Investments..41
Section 6.5. Mergers and Consolidations and Acquisitions of Asset....41
Section 6.6. Sale of Assets...41
Section 6.7. Stock of Subsidiaries, Etc...............................41
Section 6.8. Transactions with Affiliates.............................42
Section 6.9. Capital Expenditures.....................................42
Section 6.10. Minimum Statutory Surplus of Insurance Subsidiaries.....42
Section 6.11. Minimum Statutory Surplus of Donegal Mutual.............42
Section 6.12. Minimum Consolidated GAAP Net Worth.....................42
Section 6.13. Minimum Fixed Charge Coverage...........................43
Section 6.14. Minimum A.M. Best Rating................................43
Section 6.15. Minimum Ownership of Donegal Group......................43
Section 6.16. Limitations on Debt and Negative Pledges................43

ARTICLE 7. EVENTS OF DEFAULT...43
Section 7.1. Events of Default..43
Section 7.2. Remedies...46

ARTICLE 8. THE AGENT...46
Section 8.1. Authorization and Action.................................46
Section 8.2. Exculpatory Provisions; Agent's Reliance, Etc...........47
Section 8.3. Notice of Default..47
Section 8.4. Fleet and Affiliates.....................................48
Section 8.5. Credit Decision..48
Section 8.6. Indemnification..48
Section 8.7. Successor Agent..48
Section 8.8. Application of this Article to the Borrower.............49

ARTICLE 9. MISCELLANEOUS...49
Section 9.1. Amendments and Waivers...................................49
Section 9.2. Usury..50

Section 9.3. Expenses; Indemnities....................................50
Section 9.4. Term; Survival...52
Section 9.5. Assignment; Participations...............................52
Section 9.6. Notices..54
Section 9.7. Setoff...55
Section 9.8. Jurisdiction; Immunities.................................55
Section 9.9. Table of Contents; Headings..............................56
Section 9.10. Severability..56
Section 9.11. Counterparts..56
Section 9.12. Integration...56
Section 9.13. Governing Law...56
Section 9.14. Confidentiality...56
Section 9.15. Authorization of Third Parties to
Deliver Opinions, Etc.................................57
Section 9.16. Borrower's Waivers......................................57

Schedule 1.1 Commitments and Lending Offices
Schedule 4.4 Litigation
Schedule 4.6 Liens
Schedule 4.9 Subsidiaries
Schedule 4.10 Credit Arrangements
Schedule 4.15 Consents and Approvals
Schedule 4.16 Partnerships
Schedule 6.8 Permitted Transaction with Affiliates

Exhibit A Form of Revolving Note
Exhibit B Notice of Borrowing
Exhibit C Officer's Certificate
Exhibit D Form of Opinion of Counsel to Borrower
Exhibit E Form of Acceptance and Assignment
Exhibit F Form of Subordinated Debt Provisions

AMENDED AND RESTATED CREDIT AGREEMENT

AMENDED AND RESTATED CREDIT AGREEMENT dated as of December 29, 1995, amended and restated as of July 27, 1998, by and among Donegal Group Inc., a Delaware corporation (the "Borrower"), Fleet National Bank, a national banking association formerly known as Fleet National Bank of Connecticut ("Fleet" and, together with any banks or financial institutions from time to time party to this Agreement, the "Banks") and Fleet National Bank, as agent for the Banks hereunder (in such capacity, the "Agent").

Fleet and the Borrower entered into a Credit Agreement dated as of December 29, 1995, which Agreement was amended as of December 12, 1997 (as in effect immediately prior to the Amendment Effective Date defined below, the "Existing Credit Agreement").

The Borrower has requested that Fleet increase the aggregate Revolving Credit Commitment to $40,000,000 under the Existing Credit Agreement and the Banks are willing to effect such increase on the terms and conditions hereof.

Accordingly, the parties hereto agree to amend and restate the Existing Credit Agreement so that, as amended and restated, it provides in its entirety as follows:

ARTICLE 1. DEFINITIONS; ACCOUNTING TERMS.

Section 1.1. Definitions. As used in this Agreement, the following terms have the following meanings (terms defined in the singular to have a correlative meaning when used in the plural and vice versa):

"Acquisition" means the acquisition by the Borrower of all of the capital stock of Southern Heritage.

"Acquisition Agreement" means the agreement setting forth the terms and conditions of the Acquisition.

"Acquisition Pro-Formas" means financial projections, prepared by the Borrower on a GAAP and SAP basis, showing the consolidated and consolidating balance sheets and statements of operations of Borrower and its Subsidiaries giving effect to the Acquisition.

"Affiliate" means, as to any Person, any other Person which directly or indirectly controls, or is under common control with, or is controlled by, such Person. As used in this definition, "control" (including, with its correlative meanings, "controlled by" and "under common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise), provided that, in any event: (i) any

Person which owns directly or indirectly 20% or more of the securities having ordinary voting power for the election of directors or other governing body of a corporation or 20% or more of the partnership or other ownership interests of any other Person (other than as a limited partner of such other Person) will be deemed to control such corporation or other Person; and (ii) each director and officer shall be deemed to be an Affiliate of the Person.

"Agreement" means this Amended and Restated Credit Agreement, as further amended or supplemented from time to time. References to Articles, Sections, Exhibits, Schedules and the like refer to the Articles, Sections, Exhibits, Schedules and the like of this Agreement unless otherwise indicated.

"A.M. Best Rating" means the most recent rating announced by A.M. Best (or any successor thereto) or, if such rating is no longer announced by A.M. Best (or its successor), the most recent rating announced by another rating agency selected by the Agent with the consent of the Banks.

"Amendment Effective Date" means the date on which all of the conditions set forth in Section 3.1 shall have been satisfied or waived by the Banks and the Agent.

"Anniversary Date" means July 27 of each calendar year, commencing July 27, 1999.

"Applicable Interest Rate" means for any Revolving Loan, the Base Rate, plus the Applicable Margin, or Eurodollar Rate, plus the Applicable Margin, for such Revolving Loan.

"Applicable Margin" means, with respect to Base Rate Loans or Eurodollar Rate Loans, the percentage per annum set forth below in the column entitled "Base Rate" or "Eurodollar Rate", as appropriate:

Base Rate	Eurodollar Rate
0.00%	1.70%

"Assignment and Acceptance" means an assignment and acceptance entered into by a Bank and an assignee of such Bank, and accepted by the Agent, in substantially the form of Exhibit E.

"Atlantic States" means Atlantic States Insurance Company, a Pennsylvania stock casualty insurance company.

"Available Dividends" at the end of any fiscal quarter means the portion of Statutory Surplus of the Insurance Subsidiaries that is permitted by applicable laws and regulations to be distributed to shareholders.

"Base Rate" means, for any Interest Period or any other period, a fluctuating interest rate per annum as shall be in effect from time to time, which rate per annum shall at all times be equal to the highest of (a) the rate of interest announced publicly by the Agent in Hartford, Connecticut, from time to time, as the Agent's base rate or prime rate, or (b) 1/2 of 1% per annum above the Federal Funds Effective Rate.

"Base Rate Loan" means a Revolving Loan which bears interest at the Base Rate, plus the Applicable Margin.

"Borrowing" means a borrowing consisting of a Revolving Loan from the Banks under this Agreement.

"Business Day" means any day (other than a Saturday, Sunday or legal holiday) on which commercial banks are not authorized or required to close in Connecticut or New York, except that, with respect to Borrowings, notices, determinations and payments with respect to a Eurodollar Rate Loan, such day shall be a "Business Day" only if it is also a day for trading by and between banks in the London interbank Eurodollar market.

"Capital Expenditures" means, for any period, the Dollar amount of gross expenditures (including payments in respect of Capital Lease Obligations) made for fixed assets, real property, plant and equipment, and all renewals, improvements and replacements thereto (but not repairs thereof) incurred during such period, all as determined in accordance with GAAP.

"Capital Lease" means any lease which has been or should be capitalized on the books of the lessee in accordance with GAAP.

"Capital Lease Obligation" means the obligation of the lessee under a Capital Lease. The amount of a Capital Lease Obligation at any date is the amount at which the lessee's liability under the related Capital Lease would be required to be shown on its balance sheet at such date in accordance with GAAP.

"Closing Date" means December 29, 1995.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Combined Statutory Net Income" means, for any period the combined net income of each of the Insurance Subsidiaries that appears, or should appear, on the SAP Financial Statements. On the annual SAP Financial Statements form for the year ended December 31, 1997, the net income amount appears on line 16, column (1) on page 4 thereof.

"Combined Statutory Surplus" means, for any period, the positive surplus of each of the Insurance Subsidiaries that appears, or should appear, on the SAP Financial Statements of each Insurance Subsidiary, combined. On the annual SAP Financial Statements form prescribed for the year ended December 31, 1997, such amount appears on line 32, column (1) on page 4 thereof.

"Commitment" means, with respect to each Bank, the commitment of such Bank to make Revolving Loans hereunder as set forth in Schedule 1.1, as the same may be reduced from time to time pursuant to Sections 2.4 and 2.5.

"Commitment Period" means the period from and including the date hereof to but not including the Revolving Loan Termination Date or such earlier date as the Commitment shall terminate as provided herein.

"Consolidated GAAP Net Worth" means the sum of (a) the capital stock and additional paid-in capital of the Borrower and its Subsidiaries on a consolidated basis, plus (without duplication) (b) the amount of retained earnings (or, in the case of a deficit, minus the deficit), minus (c) treasury stock, plus or minus (d) any other account which is customarily added or deducted in determining shareholders' equity, all of which shall be determined on a consolidated basis in accordance with GAAP.

"Debt" means, with respect to any Person: (a) indebtedness of such Person for borrowed money; (b) indebtedness for the deferred purchase price of Property or services (except trade payables in the ordinary course of business); (c) Unfunded Vested Liabilities of such Person (if such Person is not the Borrower, determined in a manner analogous to that of determining Unfunded Vested Liabilities of the Borrower); (d) the face amount of any outstanding letters of credit issued for the account of such Person; (e) obligations arising under acceptance facilities; (f) guaranties, endorsements (other than for collection in the ordinary course of business) and other contingent obligations to purchase or to provide funds for payment of the obligations of another Person, to supply funds to invest in any Person to cause such Person to maintain a minimum working capital or net worth or otherwise assure the creditors of such Person against loss; (g) obligations secured by any Lien on Property of such Person; and (h) Capital Lease Obligations.

"Default" means any event which with the giving of notice or lapse of time, or both, would become an Event of Default.

"Default Rate" means a percentage per annum equal at all times to the lesser of 2% per annum above the Base Rate in effect from time to time or the highest rate permitted by law.

"Delaware Insurance" means Delaware Atlantic Insurance Company, a Delaware stock casualty insurance company.

"Distributions" means (a) dividends or other distributions in respect of capital stock of a Person (except distributions in such stock) and (b) the redemption or acquisition of such stock or of warrants, rights or other options to purchase such stock (except when solely in exchange for such stock) unless made, contemporaneously, from the net proceeds of a sale of such stock; in either case valued at the greater of book or fair market value of the Property being dividended, distributed or otherwise transferred as a Distribution.

"Dollars" and the sign "$" mean lawful money of the United States of America.

"Donegal Mutual" means Donegal Mutual Insurance Company, a mutual casualty insurance company organized under the laws of the Commonwealth of Pennsylvania.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, including any rules and regulations promulgated thereunder.

"ERISA Affiliate" means any corporation or trade or business which is a member of the same controlled group of corporations (within the meaning of Section 414(b) of the Code) as the Borrower or is under common control (within the meaning of Section 414(c) of the Code) with the Borrower.

"Eurodollar Rate" means, for the Interest Period for each Eurodollar Rate Loan compris ing part of the same Borrowing, an interest rate per annum equal to (x) the rate quoted by the Agent at which deposits in Dollars are offered by prime commercial banks to prime commercial banks in the London interbank Eurodollar market two Business Days before the first day of such Interest Period for a period equal to such Interest Period and in an amount equal to the Borrowing, divided by (y) one (1) minus the Reserve Requirement for each such Eurodollar Rate Loan for such Interest Period.

"Eurodollar Rate Loan" means a Revolving Loan which bears interest at the Eurodollar Rate, plus the Applicable Margin.

"Event of Default" has the meaning given such term in Section 7.1.

"Federal Funds Effective Rate" at any time means a fluctuating interest rate per annum equal to the weighted average of the rates on overnight Federal Funds transactions with members of the Federal Reserve System arranged by Federal Funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by the Agent from three (3) Federal Funds brokers of recognized standing selected by the Agent.

"Fixed Charge Coverage Ratio" at the end of any fiscal quarter means the ratio of (a) the sum of (i) Available Dividends, minus dividends paid by each Insurance Subsidiary to the Borrower for the immediately preceding four fiscal quarters (ending on such date), plus (ii) total taxes paid by the Insurance Subsidiaries to the Borrower pursuant to any intercorporate tax sharing agreement, plus (iii) an amount equal to the consolidated GAAP EBIT of the Borrower and all Subsidiaries, except the Insurance Subsidiaries, for the immediately preceding four fiscal quarters (ending on such date), minus (iv) total taxes (determined in accordance with GAAP) paid by the Borrower on a consolidated basis for the immediately preceding four fiscal quarters (ending on such date) to (b) total Fixed Charges of the Borrower and its Subsidiaries on a consolidated basis for the immediately preceding four fiscal quarters (ending on such date).

"Fixed Charges" means, with respect to any Person for any period, the sum of (a) the Interest Expense, plus (b) rental payments (other than the interest component of rental payments under Capital Leases included in Interest Expense) under all leases of such Person, plus (c) scheduled principal payments of Debt owed by such Person during such period.

"GAAP" means generally accepted accounting principles in the United States of America as in effect from time to time, applied on a basis consistent with those used in the preparation of the financial statements referred to in Section 4.5 (except for changes concurred in by the Borrower's independent public accountants).

"GAAP EBIT" means, with respect to any Person, for any period, an amount equal to Net Income for such period, plus (without duplication to the extent deducted in determining Net Income) the sum of (a) Interest Expense for such period, plus (b) income tax expense deducted in determining Net Income for such period, all of which shall be determined in accordance with GAAP and eliminating intercompany balances and transactions, as applicable.

"Insurance Commissioner" means with respect to any Insurance Subsidiary, the head of any insurance regulatory authority and/or such insurance regulatory authority in the relevant place of domicile of such Subsidiary at the relevant time.

"Insurance Subsidiary" means any of Atlantic States, Southern Insurance, Pioneer Insurance and Delaware Insurance, and any other insurance company Subsidiaries of Borrower hereafter owned or acquired.

"Interest Expense" means, with respect to any Person for any period, the consolidated interest expense, including the interest portion of rental payments under Capital Leases, as determined on a consolidated basis in accordance with GAAP.

"Interest Period" means (a) for each Eurodollar Rate Loan comprising part of the same Borrowing, the period commencing on the date of such Eurodollar Rate Loan or on the last day of the preceding Interest Period, as the case may be, and ending on the numerically corresponding day of the last month of the period selected by the Borrower pursuant to the following provisions: the duration of each Eurodollar Rate Loan Interest Period shall be one (1), two (2), three (3) or six (6) months, in each case as the Borrower may select, upon notice received by the Agent not later than 11:00 a.m. (Connecticut time) on the third Business Day prior to the first day of such Interest Period; and (b) for each Base Rate Loan comprising part of the same Borrowing, the period commencing on the date of such Base Rate Loan or on the last day of the preceding Interest Period, as the case may be, pursuant to notice received by the Agent not later than 11:00 a.m. (Connecticut time) on any Business Day selected by the Borrower as the first day of such Interest Period, and ending on the ninetieth (90th) day after the date of such Base Rate Loan or the last day of the preceding Interest Period, as the case may be; provided, however, that:

(i) all Eurodollar Rate Loans comprising part of the same Borrowing shall be of the same duration;

(ii) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day; provided that, if such extension would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day; and

(iii) no Interest Period for any Revolving Loan shall extend beyond the Revolving Loan Termination Date.

"Investment" means, with respect to any Person, any investment by or of such Person, whether by means of purchase or other acquisition of capital stock or other Securities of any other Person or by means of loan, advance (other than advances to employees for moving and travel expenses, drawing accounts and similar expenditures made in the ordinary course of

business), capital contribution or other debt or equity participation or interest, in any other Person, including any partnership, joint venture and membership interests of such Person in any other Person.

"Investment Grade Securities" means any Securities having a fixed maturity which have a rating by the NAIC of 1 or 2 or, if the NAIC rating categories in effect on the Closing Date change, such other rating or ratings of such Securities determined by the NAIC to be symbolic of investment grade quality.

"Lending Office" means, for each Bank and for each type of Revolving Loan, the lending office of such Bank (or of an affiliate of the Bank) designated as such for such type of Revolving Loan on Schedule 1.1 or such other office of such Bank (or of an affiliate of such Bank) as such Bank may from time to time specify to the Borrower as the office through which its Revolving Loans of such type are to be made and maintained.

"Lien" means any lien (statutory or otherwise), security interest, mortgage, deed of trust, priority, pledge, charge, conditional sale, title retention agreement, financing lease or other encumbrance or similar right of others, or any agreement to give any of the foregoing.

"Loan Documents" mean this Agreement, the Revolving Notes and any other documents, agreements, reports, and instruments now or hereafter executed in connection herewith or contemplated hereby.

"Materially Adverse Effect" means any material adverse effect upon the business, assets, liabilities, financial condition, results of operations or, as far as the Borrower can reasonably foresee, prospects of the Borrower and its Subsidiaries taken as a whole, or upon the ability of the Borrower or any of its Subsidiaries to perform in all material respects its obligations under this Agreement or any Loan Document resulting from any act, omission, situation, status, event, or undertaking, either singly or taken together.

"Multiemployer Plan" means a Plan defined as such in Section 3(37) of ERISA to which contributions have been made by the Borrower or any ERISA Affiliate and which is covered by Title IV of ERISA.

"NAIC" means the National Association of Insurance Commissioners or any successor thereto, or in lieu thereof, any other association, agency or other organization performing substantially similar advisory, coordination or other like functions among insurance departments, insurance commissions and similar governmental authorities of the various states of the United States of America toward the promotion of uniformity in the practices of such governmental authorities.

"Net Income" means, as applied to any Person for any period, the aggregate amount of net income of such Person, after taxes, for such period, as determined in accordance with GAAP.

"Notice of Borrowing" means the certificate, in the form of Exhibit B hereto, to be delivered by the Borrower to the Agent pursuant to Sections 2.3 and 3.2(e) and shall include any accompanying certifications or documents.

"Obligations" means all indebtedness, obligations and liabilities of the Borrower and its Subsidiaries, if any, to the Banks, individually or collectively, under this Agreement and the Revolving Notes.

"PBGC" means the Pension Benefit Guaranty Corporation and any entity succeeding to any or all of its functions under ERISA.

"Person" means an individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, governmen tal authority or other entity of whatever nature.

"Pioneer Insurance" means Pioneer Insurance Company, an Ohio stock casualty insurance company.

"Plan" means any employee benefit or other plan established or maintained, or to which contributions have been made, by the Borrower or any ERISA Affiliate and which is covered by Title IV of ERISA.

"Prohibited Transaction" means any transaction set forth in Section 406 of ERISA or Section 4975 of the Code for which there is no applicable statutory or regulatory exemption (including a class exemption or an individual exemption).

"Property" means any interest of any kind in property or assets, whether real, personal or mixed, and whether tangible or intangible.

"Regulations D, X and U" means Regulations D, X and U of the Board of Governors of the Federal Reserve System, as amended or supplemented from time to time.

"Regulatory Change" means any change after the date of this Agreement in United States federal, state or foreign laws or regulations (including Regulation D) or the adoption or making after such date of any orders, rulings, interpretations, directives, guidelines or requests applying to a class of banks including the Banks, of or under any United States federal, state, or foreign

laws or regulations (whether or not having the force of law) by any court or governmental or monetary authority charged with the interpretation or administration thereof.

"Reportable Event" means any of the events set forth in Section 4043(c) of ERISA as to which events the PBGC by regulation has not waived the requirement of Section 4043(a) of ERISA that it be notified within 30 days of the occurrence of such event, provided that a failure to meet the minimum funding standard of Section 412 of the Code or Section 302 of ERISA shall be a Reportable Event regardless of any waivers given under Section 412(d) of the Code.

"Required Banks" means, at any time, Banks holding sixty-six and two-thirds percent (66 2/3%) of the aggregate amount of the Commitments, or, if the Commitments have been terminated, Banks holding sixty-six and two-thirds percent (66 2/3%) of the aggregate principal amount of the Revolving Loans outstanding.

"Reserve Requirement" means for any Eurodollar Rate Loans for any quarterly period (or, as the case may be, shorter period) as to which interest is payable hereunder, the average maximum rate at which reserves (including any marginal, supplemental or emergency reserves) are required to be maintained during such period under Regulation D by member banks of the Federal Reserve System in Boston, Massachusetts and New York, New York with deposits exceeding one billion Dollars against "Eurocurrency liabilities" (as such term is used in Regulation D) or nonpersonal Dollar time deposits in an amount of $100,000 or more. Without limiting the effect of the foregoing, the Reserve Requirement shall reflect any other reserves required to be maintained by such member banks by reason of any Regulatory Change against: (i) any category of liabilities which includes deposits by references to which the Eurodollar Rate is to be determined as provided in the definition of "Eurodollar Rate", as applicable, in this Article 1, or (ii) any category of extensions of credit or other assets which include Eurodollar Rate Loans.

"Revolving Loan" or "Revolving Loans" has the meaning specified in Section 2.1. Each Revolving Loan shall be a Base Rate Loan or a Eurodollar Rate Loan.

"Revolving Loan Termination Date" means July 27, 2005; provided, however, if not fewer than ninety (90) days nor more than one hundred twenty (120) days prior to either or both of the first and second Anniversary Date, the Borrower requests the Banks to extend the Revolving Loan Termination Date for an additional year and if all of the Banks, in their sole discretion in writing within thirty (30) days of such request, grant such request, the Revolving Loan Termination Date means the date to which the Revolving Loan Termination Date has been so extended. If such date is not a Business Day, the Revolving Loan Termination Date shall be the next preceding Business Day.

"Revolving Note" means a promissory note of the Borrower, in the form of Exhibit A hereto, evidencing the Revolving Loans made by a Bank hereunder.

"SAP" means, for each Insurance Subsidiary, the statutory accounting practices permitted or prescribed by any applicable Insurance Commissioner for the preparation of annual statements and other financial reports by casualty insurance companies selling the same lines of insurance as such Insurance Subsidiary.

"SAP Financial Statements" means, for each Insurance Subsidiary, the financial statements which have been submitted or are required to be submitted to the applicable Insurance Commissioner.

"Securities" means any capital stock, share, voting trust certificate, bonds, debentures, notes or other evidences of indebtedness, limited partnership interests, or any warrant, option or other right to purchase or acquire any of the foregoing.

"Senior Officer" means the (a) chief executive officer, (b) chief financial officer or (c) the president of the Person designated.

"SFAS No. 115" means Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities, issued by the Financial Accounting Standards Board in May, 1993.

"Southern Heritage" means Southern Heritage Insurance Company, a Georgia stock property-casualty insurance company.

"Southern Insurance" means Southern Insurance Company of Virginia, a Virginia stock casualty insurance company.

"Statutory Net Income" with respect to any Insurance Subsidiary, means, for any period the net income that appears, or should appear, on the SAP Financial Statements of such Insurance Subsidiary. On the annual SAP Financial Statements form prescribed for the year ended December 31, 1997, the net income amount appears on line 16, column (1) on page 4 thereof.

"Statutory Surplus" with respect to any Insurance Subsidiary, means, for any period, the surplus that appears, or should appear, on the SAP Financial Statements of such Insurance Subsidiary. On the annual SAP Financial Statements form prescribed for the year ended December 31, 1997, such amount appears on line 32, column (1) on page 4 thereof.

"Subordinated Debt" means unsecured Debt which (i) does not permit any payment or prepayment of the principal amount thereof prior to ninety-one days after the indefeasible payment in full of the Obligations and termination of the Commitment, but permits payment of interest on the principal amount thereof so long as no Default or Event of Default has occurred and is continuing under this Agreement (ii) contains in the instrument evidencing such Debt or in the agreement under which it is issued (which agreement shall be binding on all holders of such Debt) subordination provisions substantially in the form of Exhibit F hereto and (iii) the proceeds of which are used to acquire all or substantially all of the assets or capital stock of any other corporation or to make an investment for the expansion of the insurance business of the Borrower's Subsidiaries.

"Subsidiary" means with respect to any Person, any corporation, partnership or joint venture whether now existing or hereafter organized or acquired: (i) in the case of a corporation, of which a majority of the securities having ordinary voting power for the election of directors (other than securities having such power only by reason of the happening of a contingency) are at the time owned by such Person and/or one or more Subsidiaries of such Person or (ii) in the case of a partnership or joint venture, in which such Person is a general partner or joint venturer or of which a majority of the partnership or other ownership interests are at the time owned by such Person and/or one or more of its Subsidiaries. Unless the context otherwise requires, references in this Agreement to "Subsidiary" or "Subsidiaries" shall be deemed to be references to a Subsidiary or Subsidiaries of the Borrower or of a Subsidiary of the Borrower.

"Total Invested Assets" means, as at any date of determination, the aggregate value of all Borrower's and the Insurance Subsidiaries' portfolios of stocks, bonds, mortgage loans, real estate, policy loans and other assets classified as invested assets under and valued in accordance with SAP as at such date.

"Unfunded Vested Liabilities" means, with respect to any Plan, the amount (if any) by which the present value of all vested benefits under the Plan exceeds the fair market value of all Plan assets allocable to such benefits, as determined on the most recent valuation date of the Plan and in accordance with the provisions of ERISA for calculating the potential liability of the Borrower or any ERISA Affiliate to the PBGC or the Plan under Title IV of ERISA.

Section 1.2. Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with GAAP, applied on a consistent basis, and all financial data required to be delivered hereunder shall be prepared in accordance with GAAP, applied on a consistent basis; except as otherwise specifically prescribed herein. In the event that GAAP changes during the term of this Agreement such that the financial covenants contained in Article 6 would then be calculated in a different manner or with different components (a) the Borrower and the Bank agree to enter into good faith negotiations to amend this Agreement in such

respects as are necessary to conform those covenants as criteria for evaluating the Borrower's financial condition to substantially the same criteria as were effective prior to such change in GAAP and (b) the Borrower shall be deemed to be in compliance with the financial covenants contained in such Sections during the sixty (60) days following any such change in GAAP if and to the extent that the Borrower would have been in compliance therewith under GAAP as in effect immediately prior to such change; provided, however, if an amendment shall not be agreed upon within sixty (60) days or such longer period as shall be agreed to by the Bank, for purposes of determining compliance with such covenants until such amendment shall be agreed upon, such terms shall be construed in accordance with GAAP as in effect on the Amendment Effective Date applied on a basis consistent with the application used in preparing the financial statements for the year ended December 31, 1997.

Section 1.3. Rounding. Any financial ratios required to be maintained by Borrower pursuant to this Agreement shall be calculated by dividing the appropriate component by the other component, carrying the result to one place more than the number of places by which such ratio is expressed in this Agreement and rounding the result up or down to the nearest number (with a round-up if there is no nearest number) to the number of places by which such ratio is expressed in this Agreement.

Section 1.4. Exhibits and Schedules. All Exhibits and Schedules to this Agreement, either as originally existing or as the same may from time to time be supplemented, modified or amended, are incorporated herein by this reference. A matter disclosed on any Schedule shall be deemed disclosed on all Schedules.

Section 1.5. References to "Borrower and its Subsidiaries". Any reference herein to "Borrower and its Subsidiaries" or the like shall refer solely to Borrower during such times, if any, as the Borrower shall have no Subsidiaries.

Section 1.6. Miscellaneous Terms. The term "or" is disjunctive; the term "and" is conjunctive. The term "shall" is mandatory, the term "may" is permissive. Masculine terms also apply to females; feminine terms also apply to males. The term "including" is by way of example and not limitation.

ARTICLE 2. THE CREDIT.

Section 2.1. The Revolving Loans. Subject to the terms and conditions of this Agreement, each Bank severally agrees to make revolving loans to the Borrower (hereinafter collectively referred to as the "Revolving Loan" or "Revolving Loans") from time to time from and including the date hereof until the earlier of the Revolving Loan Termination Date or the

termination of the Commitment of such Bank, up to, but not exceeding in the aggregate principal amount at any one time outstanding, the amount of its Commitment. Each Borrowing under this Section 2.1 of (i) a Base Rate Loan shall be in the principal amount of not less than $200,000 or any greater amount which is an integral multiple of $100,000; or (ii) a Eurodollar Rate Loan shall be in the principal amount of not less than $1,000,000 or any greater amount which is an integral multiple thereof. During the Commitment Period and subject to the foregoing limitations, the Borrower may borrow, repay and reborrow Revolving Loans, all in accordance with the terms and conditions of this Agreement.

Section 2.2. The Revolving Notes.

(a) The Revolving Loans of each Bank shall be evidenced by a single promissory note in favor of each Bank in the form of Exhibit A, dated the date of this Agreement, and duly completed and executed by the Borrower.

(b) Each Bank is authorized to record and, prior to any transfer of any Revolving Note, endorse on a schedule forming a part thereof appropriate notations evidencing the date, the type, the amount and the maturity of each Revolving Loan made by it which is evidenced by such Revolving Note and the date and amount of each payment of principal made by the Borrower with respect thereto; provided, that failure to make any such endorsement or notation shall not affect the Obligations of the Borrower hereunder or under any Revolving Note. Each Bank is hereby irrevocably authorized by the Borrower to so endorse its Revolving Note and to attach to and make a part of the Revolving Note a continuation of any such schedule as and when required. Each Bank may, at its option, record and maintain such information in its internal records rather than on such schedule.

Section 2.3. Procedure for Borrowing.

(a) The Borrower shall give the Agent a Notice of Borrowing, in the form of Exhibit B hereto, prior to 11:00 a.m. (Connecticut time), on the date of a Borrowing of a Base Rate Loan and at least three (3) Business Days before a Borrowing of a Eurodollar Rate Loan, specifying:

(i) the date of such Borrowing, which shall be a Business Day,

(ii) the principal amount of such Borrowing,

(iii) whether the Revolving Loan comprising such Borrowing is to be a Base Rate Loan or a Eurodollar Rate Loan, and

(iv) if a Eurodollar Rate Loan, the Interest Period with respect to such Borrowing.

The Agent will promptly notify each Bank of its receipt of any Notice of Borrowing and the amount of the Borrowing thereunder.

(b) No Notice of Borrowing shall be revocable by the Borrower.

(c) Not later than 2:00 p.m. (Connecticut time) on the date of each Borrowing, each Bank shall (except as provided in subsection (e) of this Section) make available its pro rata share of such Borrowing, in Dollars and in federal or other funds immediately available in Hartford, Connecticut, to the Agent at its address set forth on the signature pages hereof or at such other address as the Agent may hereafter designate by notice to the Borrower and the Banks and, unless the Agent determines that any applicable condition specified in Article 3 has not been satisfied (in which case the Agent will give prompt notice to the Borrower and the Banks thereof), the Agent will promptly make the funds so received from the Banks available to the Borrower at the Agent's aforesaid address.

(d) There shall be no more than four (4) Interest Periods relating to Eurodollar Rate Loans outstanding at any time.

(e) If any Bank makes a new Revolving Loan hereunder on a day on which the Borrower is to repay an outstanding Revolving Loan from such Bank, such Bank shall apply the proceeds of the new Revolving Loan to make such repayment and only an amount equal to the excess (if any) of the amount being borrowed over the amount being repaid shall be made available by such Bank to the Agent as provided in subsection (c) of this Section, or remitted to the Agent as provided in Section 2.10, as the case may be.

(f) Notwithstanding anything to the contrary herein contained, if, upon the expiration of any Interest Period applicable to any Borrowing of a Revolving Loan, the Borrower shall not have repaid the Revolving Loan and fail to give a new Notice of Borrowing as set forth in this Section 2.3, the Borrower shall be deemed to have given a new Notice of Borrowing of a Base Rate Loan in principal amount equal to the outstanding principal amount of such Revolving Loan, and the proceeds of the new Borrowing shall be applied directly to repay such outstanding principal amount on the day of such Borrowing.

Section 2.4. Termination or Optional Reduction of Commitment. The Commitment shall terminate on the Revolving Loan Termination Date and any Revolving Loans then outstanding (together with accrued interest thereon) shall be due and payable on such date. No termination of the Commitment hereunder shall relieve the Borrower of any of its outstanding Obligations to the Banks hereunder or otherwise. The Borrower shall have the right, upon prior written notice of at least five (5) Business Days to the Agent, to terminate or, from time to time,

reduce the Commitment, provided that (i) any such reduction of the Commitment shall be accompanied by the prepayment of the Revolving Notes, together with accrued interest thereon to the date of such prepayment and any amount due pursuant to Section 2.7, to the extent, if any, that the aggregate unpaid principal amount thereof then outstanding exceeds the Commitment as then reduced and (ii) any such termination of the Commitment shall be accompanied by prepayment in full of the unpaid principal amount of the Revolving Notes, together with accrued interest thereon to the date of such prepayment and any amount due pursuant to Section 2.7 and all other amounts owing hereunder and under the Revolving Notes. Any such partial reduction of the Commitment shall be in an aggregate principal amount of $500,000 or any whole multiple thereof and shall reduce permanently the Commitment then in effect hereunder.

Section 2.5. Mandatory Annual Reduction of Commitment.

(a) On each Anniversary Date, commencing on July 27, 2001 (the "Amortization Commencement Date"), until and including the Revolving Loan Termination Date, the Commitment of the Bank shall be reduced automatically by an amount equal to $8,000,000; provided, however, if all the Banks on or prior to either or both of the first and second Anniversary Dates have granted any request of the Borrower to extend the Revolving Loan Termination Date for an additional year (as described in the definition of Revolving Loan Termination Date), the Amortization Commencement Date shall be extended to the immediately succeeding such Anniversary Date.

(b) On the effective date of each reduction of the Commitment of the Banks pursuant to Section 2.5(a), the Borrower shall repay such principal amount (together with accrued interest thereon and any amount due pursuant to Section 2.7(b), of outstanding Revolving Loans, if any, as may be necessary so that after such repayment, the aggregate unpaid principal amount of the Revolving Loans does not exceed the Commitment as then reduced.

Section 2.6. Maturity of Revolving Loans. Each Revolving Loan shall mature, and the principal amount thereof shall be due and payable, on the earlier to occur of (a) the Revolving Loan Termination Date, (b) the last day of the Interest Period applicable to such Revolving Loan, or (c) any such earlier date as may be provided for herein (whether by acceleration or otherwise); provided, however, if the Revolving Loan Termination Date occurs on a date that is not the last day of the Interest Period applicable to any Eurodollar Rate Loans being repaid on such date, the Borrower shall pay any amounts required to compensate each Bank for any reasonable losses, out-of-pocket costs or expenses (excluding any losses of anticipated profit), as certified by such Bank (such certification setting forth the basis for such compensation), which such Bank may reasonably incur as a result of such prepayment, including without limitation, any loss, cost or expense incurred by reason of funds liquidation or reemployment of deposits or

other funds acquired by such Bank to fund or maintain such Eurodollar Rate Loan and any additional administrative costs, expenses or charges of such Bank as a result thereof.

Section 2.7. Optional Prepayments.

(a) The Borrower may, upon notice to the Agent not later than 2:00 p.m. (Connecticut time) on the date of payment, prepay the Base Rate Loans, without premium or penalty, in whole at any time or from time to time in part by paying the principal amount being prepaid together with accrued interest thereon to the date of prepayment. Any partial prepayments of Eurodollar Rate Loans shall be in an aggregate principal amount of $500,000 or any greater amount which is an integral multiple of $100,000.

(b) The Borrower may, upon at least three (3) Business Days' notice to the Agent, prepay the Eurodollar Rate Loans, in whole at any time or from time to time in part, by paying the principal amount being prepaid together with (i) accrued interest thereon to the date of prepayment and (ii) if such prepayment occurs on a date that is not the last day of the Interest Period applicable to such Revolving Loan, any amounts as shall be sufficient (in the reasonable opinion of the Bank) to compensate each Bank for any loss, cost or expense which such Bank may reasonably incur as a result of such prepayment, including without limitation, any loss, cost or expense incurred by reason of funds liquidation or reemployment of deposits or other funds acquired by such Bank to fund or maintain such Eurodollar Rate Loan and any administrative costs, expenses or charges of such Bank as a result thereof. Without limiting the effect of the preceding sentence, such compensation shall include an amount equal to the excess, if any, of (i) the amount of interest that otherwise would have accrued on the principal amount so prepaid for the period from the date of such prepayment to the last day of the then current Interest Period for such Eurodollar Rate Loan at the applicable rate of interest for such Eurodollar Rate Loan provided for herein over (ii) the amount of interest that otherwise would have accrued on such principal amount at a rate per annum equal to the interest component of the amount such Bank would have bid in the London interbank market for Dollar deposits of leading banks in amounts comparable to such principal amount and with maturities comparable to such period (as reasonably determined by such Bank, if such Bank has match-funded such Eurodollar Rate Loan, or such Bank's cost of funds, if such Bank has not match-funded. Each Bank will furnish to the Borrower a certificate setting forth the basis and amount of each request by such Bank for compensation under this Section 2.7. Any partial prepayments of Eurodollar Rate Loans shall be in an aggregate principal amount of $500,000 or any greater amount which is an integral multiple of $100,000.

Section 2.8. Interest on the Revolving Loans.

(a) Each Base Rate Loan shall bear interest on the outstanding principal amount thereof, for each day from the date such Base Rate Loan is made until it becomes due, at a rate per annum equal to the Base Rate for such day, plus the Applicable Margin. Interest shall be payable on the first Business Day of each calendar quarter. Such interest shall accrue from and including the date of such Borrowing to but excluding the date of any repayment thereof and shall be computed on the basis of a fraction, the numerator of which is the actual number of days elapsed from the date of Borrowing and the denominator of which is three hundred sixty-five (365). Overdue principal of and, to the extent permitted by law, overdue interest on the Base Rate Loans shall bear interest for each day until paid at a percentage per annum equal to the Default Rate.

(b) Each Eurodollar Rate Loan shall bear interest on the unpaid principal amount thereof, for each day from the date such Eurodollar Rate Loan is made until it becomes due, at a rate per annum equal to the Eurodollar Rate for the relevant Interest Period, plus the Applicable Margin. Interest shall be payable on the last day of the Interest Period applicable thereto; provided, that if such Interest Period is longer than ninety (90) days, interest shall be payable every ninety (90) days and on the last day of such Interest Period. Such interest shall accrue from and including the date of such Borrowing to but excluding the date of any repayment thereof and shall be computed on the basis of a fraction, the numerator of which is the actual number of days elapsed from the date of Borrowing and the denominator of which is three hundred sixty (360). Overdue principal of and, to the extent permitted by law, overdue interest on the Eurodollar Rate Loans shall bear interest for each day until paid at a percentage per annum equal to the Default Rate.

Section 2.9. Fees. The Borrower shall pay to the Agent for the benefit of the Banks a non-use fee for the Commitment Period, payable in arrears at the rate of 3/10 of 1% per annum (calculated on a 365 day basis) on the average daily unused portion of the Commitment, which non-use fee shall be payable quarterly on the first Business Day of January, April, July and October of each year beginning January, 1996.

Section 2.10. Payments Generally. All payments under this Agreement shall be made in Dollars in immediately available funds not later than 2:00 p.m.(Connecticut time) on the due date (each such payment made after such time on such due date to be deemed to have been made on the next succeeding Business Day) to the Agent at its address set forth on the signature pages hereof or at such other address as it may hereafter designate by notice to the Borrower and the Banks for the account of the Lending Office of each Bank specified by such Bank on Schedule 1.1 hereto. The Borrower shall, at the time of making each payment under this Agreement, specify to the Agent the principal or other amount payable by the Borrower under this Agreement to which such payment is to be applied (and in the event that it fails to so specify, or if a Default or Event of Default has occurred and is continuing, the Agent may apply such payment as it may elect in its sole discretion). If the due date of any payment under this Agreement

would otherwise fall on a day which is not a Business Day, such date shall be extended to the next succeeding Business Day and such extension of time shall in such case be included in the computation of such payment; provided that, if such extension would cause the last day of an Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the immediately preceding Business Day.

Section 2.11. Capital Adequacy. If after the date hereof, either (i) the introduction of, or any change in, or in the interpretation or enforcement of, any law, regulation, order, ruling, interpretation, directive, guideline or request or (ii) the compliance with any order, ruling, interpretation, directive, guideline or request from any central bank or other governmental authority (whether or not having the force of law) issued, announced, published, promulgated or made after the date hereof (including, in any event, any law, regulation, order, ruling, interpretation, directive, guideline or request contemplated by the report dated July, 1988 entitled "International Convergence of Capital Measurement and Capital Standards" issued by the Basle Committee on Banking Regulation and Supervisory Practices) affects or would affect the amount of capital required or expected to be maintained by any Bank or any corporation controlling any Bank and such Bank reasonably determines that the amount of such required or expected capital is increased by or based upon the existence of such Bank's Revolving Loans hereunder or such Bank's commitment to lend hereunder, then, upon demand by such Bank, the Borrower shall be liable for, and shall pay to such Bank, within thirty (30) days following demand from time to time by such Bank, additional amounts sufficient to compensate such Bank in the light of such circumstances for the effects of such law, regulation, order, ruling, interpretation, directive, guideline or request, to the extent that such Bank reasonably determines such increase in capital to be allocable to the existence of such Bank's Revolving Loans hereunder or of such Bank's commitment to lend hereunder. A certificate substantiating such amounts and identifying the event giving rise thereto, submitted to the Borrower (with a copy to the Agent) by such Bank, shall be conclusive, absent manifest error. Each Bank shall promptly notify the Borrower of any event of which it has knowledge occurring after the date of this Agreement which will entitle such Bank to compensation pursuant to this Section, and such Bank shall take any reasonable action available to it consistent with its internal policy and legal and regulatory restrictions (including the designation of a different Lending Office, if any) that will avoid the need for, or reduce the amount of, such compensation and will not in the reasonable judgment of such Bank be otherwise disadvantageous to such Bank.

Section 2.12. Increased Costs; Funding Losses. (a) If after the date hereof, due to either (i) the introduction of or any change in or in the interpretation or enforcement of, any law, regulation, order, ruling, directive, guideline or request, or (ii) the compliance with any order, ruling, directive, guideline or request from any central bank or other governmental authority (whether or not having the force of law) issued, announced, published, promulgated or made after the date hereof, there shall be any increase in the cost to any Bank of agreeing to make or

making, funding or maintaining Eurodollar Rate Loans, then the Borrower shall be liable for, and shall from time to time, within thirty (30) days following a demand by such Bank (with a copy to the Agent), pay to such Bank for the account of such Bank additional amounts sufficient to compensate such Bank for such increased cost; provided, however, that before making any such demand, such Bank agrees to use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to designate a different Lending Office if the making of such a designation would allow such Bank or its Lending Office to continue to perform its obligations to make Eurodollar Rate Loans or to continue to fund or maintain Eurodollar Rate Loans and would not, in the reasonable judgment of such Bank, be otherwise disadvantageous to such Bank. A certificate in reasonable detail substantiating the amount of such increased cost, submitted to the Borrower (with a copy to the Agent) by such Bank, shall be conclusive, absent manifest error.

(b) Upon notice by the relevant Bank accompanied by a certificate showing in reasonable detail the calculation of such amount, the Borrower shall reimburse each Bank and shall hold each Bank harmless from any loss or expense which the Bank may sustain or incur as a consequence of the failure of the Borrower to (i) make a borrowing hereunder after the Borrower has given a Notice of Borrowing or (ii) make any optional prepayment after the Borrower has provided notice thereof under Section 2.7 hereof.

Section 2.13. Illegality; Unavailability.

(a) Notwithstanding any other provision of this Agreement, if after the date hereof the introduction of, or any change in or in the interpretation or enforcement of, any law, regulation, order, ruling, directive, guideline or request shall make it unlawful, or any central bank or other governmental authority shall assert that it is unlawful, for any Bank or its Lending Office to perform its obligations hereunder to make Eurodollar Rate Loans or to continue to fund or maintain Eurodollar Rate Loans hereunder, then, on notice thereof by such Bank to the Borrower, (i) the obligation of such Bank to make Eurodollar Rate Loans shall terminate (and such Bank shall make all of its Revolving Loans as Base Rate Loans notwithstanding any election by the Borrower to have such Bank make Eurodollar Rate Loans) and (ii) if legally permissible, at the end of the current Interest Period for such Eurodollar Rate Loans, otherwise five (5) Business Days after such notice and demand, all Eurodollar Rate Loans of such Bank then outstanding will automatically convert into Base Rate Loans; provided, however, that before making any such demand, such Bank agrees to use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to designate a different Lending Office if the making of such a designation would allow such Bank or its Lending Office to continue to perform its obligations to make Eurodollar Rate Loans and would not, in the judgment of such Bank, be otherwise disadvantageous to such Bank. A certificate describing such introduction or change in or in the interpretation or enforcement of such law, regulation, order, ruling, directive, guideline or

request, submitted to the Borrower and the Agent by such Bank, shall be conclusive evidence of such introduction, change, interpretation or enforcement, absent manifest error. The Banks and the Borrower agree to negotiate in good faith in order to agree upon a mutually acceptable mechanism to provide that Eurodollar Rate Loans made by the Banks as to which the foregoing conditions occur shall convert into Base Rate Loans.

(b) Notwithstanding any other provision of this Agreement, if after the date hereof the Agent determines that quotations of interest rates for the relevant deposits referred to in the definition of "Eurodollar Rate" in Section 1.1 hereof are not being provided in the relevant amounts or for the relevant maturities for purposes of determining rates of interest for Eurodollar Rate Loans, then, on notice thereof by the Agent to the Borrower, (i) the obligation of the Banks to make Eurodollar Rate Loans shall terminate (and the Banks shall make all Revolving Loans as Base Rate Loans notwithstanding any election by the Borrower to have the Banks make Eurodollar Rate Loans). A certificate describing such event submitted to the Borrower by the Agent shall be conclusive evidence of such event, absent manifest error.

Section 2.14. Payments to be Free of Deductions. All payments by the Borrower under this Agreement shall be made without setoff or counterclaim and free and clear of, and without deduction for, any taxes (other than any taxes imposed on or measured by the gross income or profits of any Bank), levies, imposts, duties, charges, fees, deductions, withholdings, compulsory loans, restrictions or conditions of any nature now or hereafter imposed or levied by any country or any political subdivision thereof or taxing or other authority therein unless the Borrower is compelled by law to make such deduction or withholding. If any such obligation is imposed upon the Borrower with respect to any amount payable by it hereunder, it will pay to the Agent, on the date on which such amount becomes due and payable hereunder and in Dollars, such additional amount as shall be necessary to enable each Bank to receive the same net amount which it would have received on such due date had no such obligation been imposed upon the Borrower. If any Bank, or any permitted assignee of such Bank hereunder (an "Assignee"), at any time, is organized under the laws of any jurisdiction other than the United States or any state or other political subdivision thereof, such Bank or the Assignee shall deliver to the Borrower and the Agent on the date it becomes a party to this Agreement, and at such other times as may be necessary in the determination of the Borrower in its reasonable discretion, such certificates, documents or other evidence, properly completed and duly executed by such Bank or the Assignee (including, without limitation, Internal Revenue Service Form 1001 or Form 4224 or any other certificate or statement of exemption required by Treasury Regulations Section 1.1441-4(a) or Section 1.1441-6(c) or any successor thereto) to establish that such Bank or the Assignee is not subject to deduction or withholding of United States Federal Income Tax under Section 1441 or 1442 of the Internal Revenue Code or otherwise (or under any comparable provisions of any successor statute) with respect to any payments to such Bank or the Assignee of principal, interest, fees or other amounts payable hereunder. The Borrower shall not be

required to pay any additional amount to such Bank or any Assignee under this Section 2.14 if such Bank or such Assignee shall have failed to satisfy the requirements of the immediately preceding sentence; provided that any Bank or any Assignee shall have satisfied such requirements on the date it became a party to this Agreement, nothing in this Section 2.14 shall relieve the Borrower of its obligation to pay any additional amounts pursuant to this Section 2.14 in the event that, as a result of any change in applicable law, such Bank or such Assignee is no longer properly entitled to deliver certificates, documents or other evidence at a subsequent date establishing the fact that such Bank or such Assignee is not subject to withholding as described in the immediately preceding sentence.

Section 2.15. Computations. All computations of interest and like payments hereunder on the Revolving Loans shall, in the absence of clearly demonstrable error, be considered correct and binding on the Borrower and the Banks, unless within thirty (30) Business Days after receipt of any notice by the Agent of such outstanding amount, the Borrower or any Bank notifies the Agent in writing to the contrary.

Section 2.16. Obligations Absolute. The Obligations of the Borrower to make payments under this Agreement shall be unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, and irrespective of, the following circumstances:

(a) Any lack of validity or enforceability of all or any portion of this Agreement or any other agreement or any instrument relating hereto;

(b) any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations of the Borrower;

(c) the existence of any claim, setoff, defense or other right that the Borrower may have; or

(d) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, including without limitation, any other circumstance that might otherwise constitute a defense available to, or a discharge of, the Borrower.

Section 2.17. Sharing of Payments, Etc. If any Bank shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of setoff, or otherwise) on account of the Revolving Loans made by it (other than pursuant to Sections 2.11, 2.12, 2.13 or 2.14) in excess of its ratable share of payments on account of outstanding Revolving Loans obtained by all the Banks, such Bank shall forthwith purchase from the other Banks such participations in the Revolving Loans made by them as shall be necessary to cause such Bank to share the excess payment ratably with each of them; provided, however, that if all or any portion of such excess

payment is thereafter recovered from such purchasing Bank, such purchase from each Bank shall be rescinded and each such Bank shall repay to the purchasing Bank the purchase price to the extent of such recovery, together with an amount equal to such Bank's ratable share (according to the proportion of (i) the amount of such Bank's required repayment to (ii) the total amount so recovered from the purchasing Bank) of any interest or other amount paid or payable by the purchasing Bank in respect of the total amount so recovered. The Borrower agrees that any Bank so purchasing a participation from another Bank pursuant to this Section 2.17 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of setoff) with respect to such participation as fully as if such Bank were the direct creditor of the Borrower in the amount of such participation.

Section 2.18. Non-Receipt of Funds by the Agent. Unless the Agent shall have been notified in writing by a Bank prior to any date on which a Revolving Loan is to be made, which notice shall be effective upon receipt, that such Bank does not intend to make available to the Agent such Bank's pro rata share of the Revolving Loan requested, the Agent may assume that such Bank has made such amount available to the Agent on such date and Agent may, in its sole discretion (but shall not be obligated to), make available to the Borrower a corresponding amount on such date. If such corresponding amount is not in fact made available to the Agent by such Bank, the Agent shall be entitled to recover such corresponding amount on demand from such Bank together with interest thereon, for each day from the date the Agent made such amount available to the Borrower until the date such amount is repaid to the Agent, at a rate per annum equal to the Federal Funds Rate for two days and thereafter at the Default Rate. If such Bank does not pay such corresponding amount forthwith upon the Agent's demand therefor, the Agent shall promptly notify the Borrower and the Borrower shall immediately pay such corresponding amount to the Agent provided, however, that in such event the Borrower shall not have any obligation under Section 2.7(b) or Section 2.12(b) to reimburse such Bank for any loss, cost or expense which such Bank may incur as a result of such prepayment and such payment by the Borrower shall not be deemed a failure to make a borrowing hereunder after the Borrower shall have given a Notice of Borrowing. Nothing in this Section 2.18 shall be deemed to relieve any Bank from its obligation to fulfill its Commitment hereunder or to prejudice any rights that the Borrower may have against any Bank as a result of any default by such Bank hereunder.

ARTICLE 3. CONDITIONS PRECEDENT.

Section 3.1. Documentary Conditions Precedent. The effectiveness of the amendment and restatement of the Existing Credit Agreement provided for hereby is subject to the receipt by the Agent of the following documents, each of which shall be satisfactory to the Agent and each Bank in form and substance:

(a) the Agent shall have received, with a counterpart for each Bank, this Agreement executed and delivered by a duly authorized officer of the Borrower;

(b) the Revolving Notes duly completed and executed and, in the case of the Existing Bank, in exchange for the promissory note issued under the Existing Credit Agreement;

(c) a certificate of the Secretary or Assistant Secretary of the Borrower, dated the Amendment Effective Date, attesting on behalf of the Borrower to all corporate action taken by the Borrower, including resolutions of its Board of Directors authorizing the execution, delivery and performance of this Agreement, the Revolving Notes and each other document to be delivered pursuant to this Agreement, and attesting to the names and true signatures of the officers of the Borrower authorized to sign this Agreement, the Revolving Notes, and the other documents to be delivered by the Borrower under this Agreement;

(d) a certificate of a Senior Officer of the Borrower, dated the Amendment Effective Date, certifying on behalf of the Borrower that (i) the representations and warranties in Article 4 are true, complete and correct in all material respects on such date as though made on and as of such date, (ii) no event has occurred and is continuing which constitutes a Default or Event of Default, (iii) the Borrower has performed and complied with all agreements and conditions contained in this Agreement which are required to be performed or complied with by the Borrower at or before the Amendment Effective Date, (iv) each consent, license, approval and notice required in connection with the execution, delivery, performance, validity and enforceability of this Agreement and each other document and instrument required to be delivered in connection herewith and the consummation of the Acquisition is in full force and effect, and (v) there has been no material adverse change in the financial condition, operations, Properties, business, or as far as the Borrower can reasonably foresee, prospects of the Borrower and its Subsidiaries, if any, taken as a whole, since December 31, 1997;

(e) a certificate of a Senior Officer of the Borrower, substantially in the form of Exhibit C, which certificate shall include information required to establish that the Borrower will be in compliance with the covenants set forth in this Agreement, after giving effect to the Acquisition and the transactions contemplated herein and in the Acquisition Agreement;

(f) a certificate of good standing for the Borrower as of a recent date by the Secretary of State of its jurisdiction of incorporation and each state where the Borrower, by the nature of its business, is required to qualify to do business, except where the failure to be so qualified would not have a Materially Adverse Effect;

(g) a certificate or similar instrument from the appropriate tax authority in the State of Delaware and, if different, its principal place of business, as to the payment by the Borrower of all taxes owed;

(h) if obtainable by insurance companies generally in such jurisdiction, a certificate of good standing for each of the Insurance Subsidiaries as of a recent date by the Secretary of State or Insurance Commissioner of its jurisdiction of incorporation;

(i) a certificate of authority from each Insurance Commissioner certifying that each Insurance Subsidiary is duly licensed and in good standing with the applicable Insurance Commissioner in the state where it is domesticated;

(j) a favorable opinion of Duane, Morris & Heckscher LLP, counsel to the Borrower, dated the Amendment Effective Date, in substantially the form set forth in Exhibit D hereto;

(k) all corporate and legal proceedings and all instruments and agreements in connection with the transactions contemplated by this Agreement shall be satisfactory in form and substance to the Agent and the Agent shall have received any and all other information and documents with respect to the Borrower which it may reasonably request;

(l) payment to the Agent and the Banks of such fees as shall have been agreed upon by the Borrower and the Agent;

(m) payment to Day, Berry & Howard LLP, special counsel to the Agent, of its legal fees and disbursements (up to $14,000); and

(n) such other documents as the Agent or any Bank or special counsel to the Agent may reasonably request.

Section 3.2. Additional Conditions Precedent to Each Loan. The obligation of each Bank to make the Revolving Loans pursuant to a Borrowing (including any Borrowing on the Amendment Effective Date), unless waived by the Required Banks, shall be subject to the further conditions precedent that on the date of such Revolving Loan:

(a) the representations and warranties contained in Article 4 of this Agreement are true and correct in all material respects on and as of the date of such Revolving Loan as though made on and as of such date (or, if such representation or warranty is expressly stated to have been made as of a specific date, as of such specific date);

(b) the Borrower has performed and complied with and is in compliance with all agreements and conditions contained in this Agreement which are required to be performed or complied with by the Borrower;

(c) there does not exist any Default or Event of Default under this Agreement;

(d) the Agent shall have received a Notice of Borrowing in the form of Exhibit B, except to the extent otherwise provided in Section 2.3(f); and

(e) with respect only to the initial Loan in excess of the Commitment under the Existing Credit Agreement, (i) the Borrower shall have consummated the Acquisition, (ii) the Agent shall have received a favorable opinion of Duane, Morris & Heckscher LLP, counsel to the Borrower, that (A) the Borrower is the record owner, with the exception of directors qualifying shares, and beneficial owner of all of the issued and outstanding shares of Southern Heritage, (B) the Acquisition Agreement does not require any authorizations, consents and shareholder approvals except the authorizations, consents, or approvals which have been obtained and are in full force and effect and (C) the Acquisition does not require the authorization, consent, approval, order, license or permit from, or filing registration or qualification with, or exemption by, any governmental or public body or authority, or any subdivision thereof, or any other Person under any law, act, rule, regulation or otherwise, or in connection with the execution, delivery and performance by the Borrower of, or the legality, validity, binding effect or enforceability of the Acquisition Agreement except those which have been obtained and are in full force and effect, (iii) the Agent shall have received a certificate of a Senior Officer of the Borrower, dated the date of such initial Loan, certifying on behalf of the Borrower that attached thereto are true, correct and complete copies of the Acquisition Pro-Formas and the Acquisition Agreement (and all amendments thereto) as in effect on the date of such initial Loan and (iv) the Agent shall have received such other documents as the Agent or any Bank or special counsel to the Agent may reasonably request.

Section 3.3. Deemed Representations. Each Notice of Borrowing hereunder and acceptance by the Borrower of the proceeds of such Borrowing shall constitute a representation and warranty that the statements contained in Section 3.2(a) are true and correct both on the date of such Notice of Borrowing and, unless the Borrower otherwise notifies the Agent prior to such Borrowing, as of the date of such Borrowing.

ARTICLE 4. REPRESENTATIONS AND WARRANTIES.

The Borrower hereby represents and warrants the following:

Section 4.1. Incorporation, Good Standing and Due Qualification. The Borrower is duly incorporated, validly existing and in good standing under the laws of the jurisdiction of incorporation, has the power and authority to own its assets and to transact the business in which it is now engaged, and is duly qualified as a foreign corporation and in good standing under the laws of each other jurisdiction in which such qualification is required, except where the failure to be so qualified would not have a Materially Adverse Effect. The Borrower has all requisite power and authority to execute and deliver and to perform all of its obligations under this Agreement, the Revolving Notes and the other writings contemplated hereby.

Section 4.2. Corporate Power and Authority; No Conflicts. The execution, delivery and performance by the Borrower of this Agreement and the Revolving Notes have been duly authorized by all necessary corporate action and do not and will not (a) require any consent or approval of its shareholders; (b) violate any provisions of its certificate of incorporation or by-laws; (c) violate any provision of, or require any filing, registration, consent or approval under, any law, rule, regulation (including without limitation, Regulation U and X), order, writ, judgment, injunction, decree, determination or award presently in effect having applicability to and binding upon the Borrower or any Subsidiary, except with respect to filings described on Schedule 4.15, which filings have been made; (d) result in a breach of or constitute a default or require any consent under any indenture, mortgage or loan or credit agreement or any other material agreement, lease or instrument to which the Borrower or any Subsidiary is a party or by which it or its Properties may be bound; or (e) result in, or require, the creation or imposition of any Lien upon or with respect to any of the Properties now owned or hereafter acquired by the Borrower.

Section 4.3. Legally Enforceable Agreements. This Agreement and the Revolving Notes constitute the legal, valid and binding obligations of the Borrower enforceable against the Borrower in accordance with their respective terms, except to the extent that such enforcement may be limited by applicable bankruptcy, insolvency and other similar laws affecting creditors' rights generally and by general principles of equity.

Section 4.4. Litigation. Except as disclosed on Schedule 4.4, there are no actions, suits or proceedings or investigations (other than routine examinations performed by insurance regulatory authorities) pending or, as far as the Borrower can reasonably foresee, threatened against or affecting, the Borrower or any of its Subsidiaries, or any Property of any of them before any court, governmental agency or arbitrator, which if determined adversely to the Borrower or any Subsidiary would in any one case or in the aggregate, have a Materially Adverse Effect.

Section 4.5. Financial Statements.

(a) The consolidated balance sheets of the Borrower and its Subsidiaries as of December 31, 1997 and December 31, 1996 and the related consolidated statements of operations, stockholders' equity, and cash flows of the Borrower and its Subsidiaries for the fiscal years then ended, and the accompanying footnotes, together with the opinion thereon of KPMG Peat Marwick LLP independent certified public accountants, copies of which have been furnished to the Agent, fairly present the financial condition of the Borrower and its Subsidiaries, taken as a whole, as at such dates and the results of the operations of the Borrower and its Subsidiaries, taken as a whole, for the periods covered by such statements, all in accordance with GAAP consistently applied. There are no liabilities of the Borrower or any Subsidiary, fixed or contingent, which are material but are not reflected in the financial statements or in the notes thereto, other than liabilities arising in the ordinary course of the Borrower's business since December 31, 1997 and liabilities arising from the Acquisition Agreement, this Agreement and the Revolving Notes. No written information, exhibit or report furnished by the Borrower to the Agent or any Bank in connection with the negotiation of this Agreement contained any material misstatement of fact or omitted to state any fact necessary to make the statements contained therein not materially misleading. Since December 31, 1997, no event or circumstance has occurred that would have a Materially Adverse Effect.

(b) The Acquisition Pro-Formas have been prepared in good faith and on reasonable assumptions.

Section 4.6. Ownership and Liens. Each of the Borrower and its Subsidiaries has good and valid title to, or valid leasehold interests in, its material Properties and assets, real and personal, including the material Properties and assets, and leasehold interests reflected in the financial statements referred to in Section 4.5 (other than any Properties or assets disposed of in the ordinary course of business of the Borrower and its Subsidiaries), and none of the material Properties and assets owned by the Borrower or its Subsidiaries, and none of its leasehold interests is subject to any Lien, except as disclosed in such financial statements or in Schedule 4.6, or as may be permitted hereunder.

Section 4.7. Taxes. Each of the Borrower and its Subsidiaries has filed all federal and state tax returns and all other material local tax returns required to be filed, has paid all due and payable taxes, assessments and governmental charges and levies, including interest and penalties, imposed upon it or upon its Properties, and has made adequate provision for the payment of such taxes, assessments and other charges accruing but not yet due and payable, except with respect to taxes which are being contested in good faith by the Borrower or its Subsidiaries and for which such Person has established and maintains adequate reserves for payment. To the best knowledge of the Borrower, there is no tax assessment contemplated or proposed by any governmental agency against the Borrower or any of its Subsidiaries that would have a Materially Adverse Effect, other than, as of each date subsequent to the Closing Date,

such contemplated or proposed tax assessments with respect to which (i) the Borrower has promptly notified the Agent in writing of its knowledge and (ii) the Borrower or the appropriate Subsidiary of the Borrower has in good faith commenced, and thereafter diligently pursued, appropriate proceedings in opposition to such assessment.

Section 4.8. ERISA. Each of the Borrower and its Subsidiaries is in compliance in all material respects with all applicable provisions of ERISA. Within the three-year period prior to the date hereof, neither a Reportable Event nor a Prohibited Transaction has occurred with respect to any Plan; no notice of intent to terminate a Plan has been filed nor has any Plan been terminated; no circumstance exists which constitutes grounds under Section 4042 of ERISA entitling the PBGC to institute proceedings to terminate, or appoint a trustee to administer, a Plan, nor has the PBGC instituted any such proceedings; neither the Borrower nor any ERISA Affiliate has completely or partially withdrawn under Sections 4201 or 4204 of ERISA from a Multiemployer Plan; each of the Borrower and its ERISA Affiliates has met its minimum funding requirements under ERISA with respect to all of its Plans and there are no Unfunded Vested Liabilities and neither the Borrower nor any ERISA Affiliate has incurred any material liability to the PBGC under ERISA other than for premium payments incurred in the normal course of operating the Plans.

Section 4.9. Subsidiaries and Ownership of Stock.

(a) Schedule 4.9 correctly sets forth the names of all Subsidiaries of the Borrower. Except as otherwise indicated on Schedule 4.9, all of the outstanding shares of capital stock, or all of the units of equity interest, as the case may be, of each Subsidiary are owned of record, except for qualifying shares held by the directors of the Subsidiaries, and beneficially by the Borrower or a Subsidiary of the Borrower, as disclosed on said Schedule; there are no outstanding options, warrants or other rights to purchase capital stock of any such Subsidiary; and all such shares or equity interests so owned are duly authorized, validly issued, fully paid, non-assessable, and were issued in compliance with all applicable state and federal securities and other laws, and are free and clear of all Liens, except as may be permitted hereunder and except for restrictions imposed upon the sale of stock of the Insurance Subsidiaries of the Borrower by the Insurance Commissioner or other insurance regulatory authorities.

(b) Each Subsidiary of the Borrower is a corporation duly incorporated, validly existing and in good standing under the laws of its jurisdiction of incorporation, has the power and authority to own its assets and to transact the business in which it is now engaged, and is duly qualified as a foreign corporation and in good standing under the laws of each other jurisdiction in which such qualification is required, except where the failure to be so qualified would not have a Materially Adverse Effect.

(c) Each Subsidiary of the Borrower is in compliance with all laws and other requirements applicable to its business and has obtained all authorizations, consents, approvals, orders, licenses, and permits from, and each Subsidiary has accomplished all filings, registrations, and qualifications with, or obtained exemptions from any of the foregoing from, any governmental or public agency that are necessary for the transaction of its business, except where the failure to be in such compliance, obtain such authorizations, consents, approvals, orders, licenses, and permits, accomplish such filings, registrations, and qualifications, or obtain such exemptions, would not have a Materially Adverse Effect.

Section 4.10. Credit Arrangements. Schedule 4.10 is a complete and correct list of all credit agreements, indentures, guaranties, Capital Leases, mortgages, and other instruments, agreements and arrangements presently in effect providing for or relating to extensions of credit (including agreements and arrangements for the issuance of letters of credit or for acceptance financing) in respect of which the Borrower or any of its Subsidiaries is in any manner directly or contingently obligated, other than trade payables in the ordinary course of business of the Borrower and its Subsidiaries; and the maximum principal or face amounts of the credit in question, which are outstanding and which can be outstanding, are therein set forth and are correctly stated as of the date hereof, and all Liens given or agreed to be given as security therefor are therein set forth and are correctly described or indicated in such Schedule.

Section 4.11. Operation of Business. Each of the Borrower and its Subsidiaries possesses all licenses, permits and franchises, or rights thereto, necessary to conduct its business as now conducted and as presently proposed to be conducted, the absence of which would have a Materially Adverse Effect, and neither the Borrower nor any of its Subsidiaries is in violation in any material respect of any valid rights of others with respect to any of the foregoing.

Section 4.12. No Default on Outstanding Judgments or Orders. Each of the Borrower and its Subsidiaries has satisfied all material judgments and neither the Borrower nor any Subsidiary is in default with respect to any judgment, writ, injunction, decree, rule or regulation of any court, arbitrator or federal, state, municipal or other governmental authority, commission, board, bureau, agency or instrumentality, domestic or foreign, which would, in any one case or in the aggregate, have a Materially Adverse Effect.

Section 4.13. No Defaults on Other Agreements. Neither the Borrower nor any of its Subsidiaries is a party to any indenture, mortgage or loan or credit agreement or any lease or other agreement or instrument or subject to any charter or corporate restriction which would have a Materially Adverse Effect. Neither the Borrower nor any of its Subsidiaries is in default in any material respect in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any agreement or instrument material to its business to which it is a party.

Section 4.14. Governmental Regulation. Neither the Borrower nor any of its Subsidiaries is subject to regulation under the Investment Company Act of 1940, as amended, or any statute or regulation limiting its ability to incur indebtedness for money borrowed as contemplated hereby.

Section 4.15. Consents and Approvals. No authorization, consent, approval, order, license or permit from, or filing, registration or qualification with, or exemption by, any governmental or public body or authority, or any subdivision thereof, or any other Person, including without limitation, any Insurance Commissioner or other regulatory authority, is required to authorize, or is required in connection with the execution, delivery and performance by the Borrower of, or the legality, validity, binding effect or enforceability of, this Agreement, the Revolving Notes or the Acquisition Agreement, except the consents, approvals or other similar actions listed on Schedule 4.15 attached hereto. Such consents, approvals or other similar actions have been obtained and have not been modified, amended, rescinded or revoked, and are in full force and effect.

Section 4.16. Partnerships. Except as set forth in Schedule 4.16, neither the Borrower nor any of its Subsidiaries is a partner in any partnership.

Section 4.17. Environmental Protection. Each of the Borrower and its Subsidiaries has obtained all material permits, licenses and other authorizations which are required under all environmental laws, including laws relating to emissions, discharges, releases or threatened releases of pollutants, contaminants, chemicals or industrial, toxic or hazardous substances or wastes into the environment (including without limitation, ambient air, surface water, ground water, or land), or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling of pollutants, contaminants, chemicals, or industrial, toxic or hazardous substances or wastes, except to the extent failure to have any such permit, license or authorization would not reasonably be expected to have a Materially Adverse Effect. Each of the Borrower and its Subsidiaries is in compliance with all terms and conditions of the required permits, licenses and authorizations, and is also in compliance with all other limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules and timetables contained in the environmental laws or contained in any regulation, code, plan, order, decree, judgment, injunction, notice or demand letter issued, entered, promulgated or approved thereunder, except to the extent failure to comply would not reasonably be expected to have a Materially Adverse Effect. None of the Properties of the Borrower or its Subsidiaries, either owned or leased, have been included or, as far as the Borrower can reasonably foresee, proposed for inclusion on the National Priorities List adopted pursuant to the Comprehensive Environmental Response Compensation and Liability Act, as amended, or on any similar list or inventory of sites requiring response or cleanup actions adopted by any other federal, state or local agency.

Section 4.18. Copyrights, Patents, Trademarks, Etc. Each of the Borrower and its Subsidiaries owns or is duly licensed or otherwise entitled to use all patents, trademarks, service marks, trade names, and copyrighted materials which are used in the operation of its business as presently conducted, except where the failure to be so licensed or entitled would not have a Materially Adverse Effect. No claim is pending or, as far as the Borrower can reasonably foresee, threatened against the Borrower or any of its Subsidiaries contesting the use of any such patents, trademarks, service marks, trade names or copyrighted materials, nor does the Borrower know of any valid basis for any such claims, other than claims which, if adversely determined, would not have a Materially Adverse Effect.

Section 4.19. Compliance with Laws. Neither the Borrower nor any of its Subsidiaries is in violation of any laws, ordinances, rules or regulations, applicable to it, of any federal, state or municipal governmental authorities, instrumentalities or agencies, including without limitation, the United States Occupational Safety and Health Act of 1970, as amended, except where such violation would not have a Materially Adverse Effect.

Section 4.20. Events of Default. No Default or Event of Default has occurred and is continuing.

Section 4.21. No Adverse Change. Since December 31, 1997, there has occurred no event which would have a Materially Adverse Effect.

Section 4.22. Year 2000 Compatibility. The Borrower and each Subsidiary has taken all action necessary to ensure that the Borrower's and each Subsidiary's computer-based systems are able to operate and effectively process data, including dates, on or after January 1, 2000. At the request of the Agent, the Borrower and its Subsidiaries shall provide the Agent reasonable assurance of such "Year 2000 Compatibility."

Section 4.23. Use of Proceeds. The Borrower shall use the proceeds of each Revolving Loan (i) to acquire 100% of the shares of capital stock of Southern Heritage, (ii) to make surplus contributions to the Insurance Subsidiaries, (iii) to acquire all or substantially all of the assets or capital stock of any other insurance corporation, and (iv) for other general corporate purposes; provided, however, that the Borrower shall use at least $18,000,000 of the proceeds of the Revolving Loans for the purposes described in clause (i) above. No part of such proceeds shall be used to purchase or carry, or to extend credit to others for the purpose of purchasing or carrying, any "margin stock" (as such term is defined in Regulation U of the Board of Governors of the Federal Reserve System) in violation of Regulations U and X. Neither the Borrower nor any of its Subsidiaries is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any such "margin stock."

ARTICLE 5. AFFIRMATIVE COVENANTS

During the term of this Agreement, and until performance, payment and/or satisfaction in full of the Obligations, the Borrower covenants and agrees that it shall, and shall cause each of its Subsidiaries to, unless the Required Banks otherwise consent in writing:

Section 5.1. Maintenance of Existence and Domicile of Insurance Subsidiaries. Preserve and maintain its corporate existence and good standing in the jurisdiction of its incorporation, and qualify and remain qualified as a foreign corporation in each jurisdiction in which such qualification is required from time to time, except where failure to be so qualified would not have a Materially Adverse Effect; and preserve and maintain the domicile of each of its Insurance Subsidiaries as in effect on the date hereof.

Section 5.2. Conduct of Business. Continue to engage in a business of the same general type as conducted by it on the date of this Agreement.

Section 5.3. Maintenance of Properties. Maintain, keep and preserve all of its material Properties (tangible and intangible), necessary or useful in the conduct of its business, in good working order and condition, ordinary wear and tear excepted, except that the failure to maintain, preserve and protect a particular item of depreciable Property that is not of significant value, either intrinsically or to the operations of the Borrower and its Subsidiaries, taken as a whole, shall not constitute a violation of this covenant.

Section 5.4. Maintenance of Records. Keep accurate and complete records and books of account, in which complete entries will be made in accordance with GAAP and SAP, reflecting all financial transactions of the Borrower and its Subsidiaries.

Section 5.5. Maintenance of Insurance. Maintain insurance (subject to customary deductibles and retentions) with financially sound and reputable insurance companies, in such amounts and with such coverages (including without limitation public liability insurance, fire, hazard and extended coverage insurance on all of its assets, necessary workers' compensation insurance and all other coverages as are consistent with industry practice) as are maintained by companies of established reputation engaged in similar businesses and similarly situated.

Section 5.6. Compliance with Laws. Comply in all respects with all applicable laws, rules, regulations and orders, except where the failure to so comply would not have a Materially Adverse Effect. Such compliance shall include, without limitation, paying all taxes, assessments and governmental charges imposed upon it or upon its Property (and all penalties and other

costs, if any, related thereto), unless contested in good faith by appropriate proceedings and for which adequate reserves have been set aside.

Section 5.7. Right of Inspection. From time to time upon prior notice and in accordance with customary standards and practices within the banking industry (including, without limitation, upon any Event of Default or whenever the Agent or any Bank may have reasonable cause to believe that an Event of Default has occurred), the Borrower shall permit the Agent or any Bank or any agent or representative thereof, to examine and make copies and abstracts from the records and books of account of, and visit the Properties of, the Borrower and its Subsidiaries to discuss the affairs, finances and accounts of the Borrower and any such Subsidiaries with any of their respective officers and directors and the Borrower's independent accountants, and to make such verification concerning the Borrower and its Subsidiaries as may be reasonable under the circumstances, and furnish promptly to the Agent or any Bank true copies of all financial information that may reasonably be requested by the Agent or any Bank; provided, that the Agent or such Bank shall use reasonable efforts to not materially interfere with the business of the Borrower and its Subsidiaries and to treat as confidential any and all information obtained pursuant to this Section 5.7, except to the extent disclosure is permitted under Section 9.14 of this Agreement.

Section 5.8. Reporting Requirements. The Borrower shall, and shall cause each of its Subsidiaries, as applicable, to, furnish to the Agent and each of the Banks:

(a) Annual GAAP Statements of the Borrower. Within one hundred twenty (120) days following the end of the Borrower's fiscal year (or such earlier date as the Borrower's Form 10-K is filed with the Securities and Exchange Commission) copies of:

(i) the consolidated and consolidating (including the Borrower on a parent-only basis) balance sheets of the Borrower and its Subsidiaries as at the close of such fiscal year, and

(ii) the consolidated and consolidating (including the Borrower on a parent-only basis) statements of operations and statements of stockholders' equity and cash flows, in each case of the Borrower and its Subsidiaries for such fiscal year,

in each case setting forth in comparative form the figures for the preceding fiscal year and prepared in accordance with GAAP, all in reasonable detail and accompanied by an opinion thereon of KPMG Peat Marwick LLP or other firm of independent public accountants of recognized national standing selected by the Borrower and reasonably acceptable to the Agent, to the effect that the financial statements have been prepared in

accordance with GAAP (except for changes in application in which such accountants concur) and present fairly in all material respects in accordance with GAAP the financial condition of the Borrower and its Subsidiaries as of the end of such fiscal year and the results of their operations for the fiscal year then ended and that the examination of such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as were considered necessary under the circumstances.

(b) Annual SAP Financial Statements. As soon as available, and in any event within one hundred twenty (120) days following the end of the fiscal year of each Insurance Subsidiary (or such earlier date as such are filed with the applicable insurance regulatory authority), copies of audited SAP Financial Statements for each such Insurance Subsidiary, in each case setting forth in comparative form the figures for the preceding fiscal year and prepared in accordance with SAP, all in reasonable detail and accompanied by an opinion thereon of KPMG Peat Marwick LLP or other firm of independent public accountants of recognized national standing selected by the Borrower and reasonably acceptable to the Agent, to the effect that the financial statements have been prepared in accordance with SAP (except for changes in application in which such accountants concur) and present fairly in all material respects in accordance with SAP the financial condition of such Insurance Subsidiary as of the end of such fiscal year and the results of its operations for the fiscal year then ended and that the examination of such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as were considered necessary under the circumstances.

(c) Quarterly GAAP Statements of the Borrower. As soon as available, and in any event within sixty (60) days after the end of each quarterly fiscal period of the Borrower (other than the fourth fiscal quarter of any fiscal year), copies of:

(i) the consolidated and consolidating (including the Borrower on a parent-only basis) balance sheets of the Borrower and its Subsidiaries as at the end of such fiscal quarter, and

(ii) the consolidated and consolidating (including the Borrower on a parent-only basis) statements of operations and consolidated statements of stockholders' equity and cash flows, in each case of the Borrower and its Subsidiaries for such fiscal quarter and the portion of such fiscal year ended with such fiscal quarter,

in each case setting forth in comparative form the figures for the preceding fiscal year and prepared in accordance with GAAP all in reasonable detail and certified as presenting fairly in accordance with GAAP the financial condition of the Borrower and its Subsidiaries as of the end of such period and the results of their operations for such period by a Senior Officer of the Borrower, subject only to normal year-end accruals and audit adjustments and the absence of footnotes.

(d) Quarterly SAP Statements. As soon as available, and in any event within sixty (60) days following the end of each fiscal quarter of each Insurance Subsidiary (or such earlier date as such are filed with the applicable insurance regulatory authority), copies of the unaudited SAP Financial Statements for each quarterly fiscal period of each such Insurance Subsidiary, in each case setting forth in comparative form the figures for the preceding fiscal year and prepared in accordance with SAP, all in reasonable detail and certified as presenting fairly in accordance with SAP the financial condition of such Insurance Subsidiary, as of the end of such period and results of operations for such period by a Senior Officer of such Insurance Subsidiary, subject to normal year-end accruals and audit adjustments and the absence of footnotes.

(e) Annual/Quarterly Reports. Concurrently with the delivery of the financial statements required pursuant to subsections (a) and (c) of this Section, copies of all reports required to be filed with the Insurance Commissioner in connection with the filing of such financial statements.

(f) SEC Filings. Promptly after the same are available, copies of each annual report, proxy or financial statement or other report or communication sent to the stockholders of the Borrower and copies of all annual, regular, periodic and special reports and registration statements which the Borrower may file or be required to file with the Securities and Exchange Commission under Sections 13 and 15(d) of the Securities Exchange Act of 1934.

(g) Notice of Litigation. Promptly after the commencement thereof, notice of any action, suit and proceeding before any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, against the Borrower or any of its Subsidiaries (A) not arising out of an insurance policy issued by the Borrower or any of its Subsidiaries, which, if determined adversely to the Borrower or such Subsidiary, would have a Materially Adverse Effect, (B) arising out of an insurance policy issued by any of the Subsidiaries of the Borrower or by any of its Subsidiaries, which demands relief, net of reinsurance obtained by the Borrower or its Subsidiaries with respect to such insurance policy, which, if determined adversely to the Borrower or such Subsidiary would have a Materially Adverse Effect, or (C) commenced by any

creditor or lessor under any written credit agreement with respect to borrowed money in excess of $500,000 or material lease which asserts a default thereunder on the part of the Borrower or any of its Subsidiaries.

(h) Notices of Default. As soon as practicable and in any event within fifteen (15) days after the occurrence of each Default or Event of Default, a written notice setting forth the details of such Default or Event of Default and the action which is proposed to be taken by the Borrower with respect thereto.

(i) Actuarial Report Confirming Reserves. As soon as available, and in any event within one hundred twenty (120) days after the close of each fiscal year of the Borrower, a report confirming the adequacy of the SAP reserves of each Insurance Subsidiary from KPMG Peat Marwick LLP or an actuarial firm of recognized national standing or the actuarial division of any other accounting firm of recognized national standing acceptable to the Agent.

(j) Other Filings. Promptly upon the filing thereof and at any time upon the reasonable request of the Agent, permit the Agent or any Bank the opportunity to review copies of all reports, including annual reports, and notices which the Borrower or any Subsidiary files with or receives from the PBGC or the U.S. Department of Labor under ERISA; and as soon as practicable and in any event within fifteen (15) days after the Borrower or any of its Subsidiaries knows or has reason to know that any Reportable Event or Prohibited Transaction has occurred with respect to any Plan or that the PBGC or Donegal Mutual, the Borrower or any such Subsidiary has instituted or will institute proceedings under Title IV of ERISA to terminate any Plan, the Borrower will deliver to the Agent or any Bank a certificate of a Senior Officer of the Borrower setting forth details as to such Reportable Event or Prohibited Transaction or Plan termination and the action the Borrower proposes to take with respect thereto.

(k) Additional Information. Such additional information as the Agent or any Bank may reasonably request concerning the Borrower and its Subsidiaries and for that purpose all pertinent books, documents and vouchers relating to its business, affairs and Properties, including investments as shall from time to time be designated by the Agent or any Bank.

Section 5.9. Certificates.

(a) Officers' Certificate. Simultaneously with each delivery of financial statements pursuant to Section 5.8(a) and 5.8(d), the Borrower shall deliver to the Agent and each of the Banks a certificate of its Chief Financial Officer which will

(i) certify on behalf of the Borrower that such officer has reviewed this Agreement and the condition and transactions of the Borrower and its Subsidiaries for the period covered by such financial statements, and state that to the best of his knowledge the Borrower has observed or performed all of its covenants and other agreements, and satisfied every condition, contained in this Agreement and the Revolving Notes, and no Default or Event of Default has occurred and is continuing or, if a Default or Event of Default has occurred and is continuing, a statement as to the nature thereof and the action which is proposed to be taken with respect thereto, and

(ii) include information (with detailed calculations in the form set out in Exhibit C) required to establish whether the Borrower was in compliance with the covenants set forth in this Agreement during the period covered by the financial statements then being delivered.

Section 5.10. Compliance with Agreements. Promptly and fully comply with all contractual obligations under all agreements, mortgages, indentures, leases and/or instruments to which any one or more of the Borrower and its Subsidiaries is a party, whether such agreements, mortgages, indentures, leases or instruments are with the Agent or any Bank or another Person, except where such failure to so comply would not have a Materially Adverse Effect.

Section 5.11. Use of Proceeds. Use the proceeds of the Revolving Loans only for the purposes described in Section 4.23.

ARTICLE 6. NEGATIVE COVENANTS.

During the term of this Agreement, and until performance, payment and/or satisfaction in full of the Obligations, the Borrower covenants and agrees that the Borrower shall not, and shall not permit its Subsidiaries to, unless the Required Banks otherwise consent in writing:

Section 6.1. Debt. Create, incur, assume or suffer to exist any Debt, except:

(a) Debt of the Borrower under this Agreement and the Revolving Notes;

(b) Debt permitted under Section 6.2;

(c) Capital Lease Obligations, subject to the limitations of Section 6.9;

(d) Debt of the Borrower or its Subsidiaries existing as of the date of this Agreement and described on Schedule 4.10, as the same may be refinanced or extended from time to time, so long as there is no increase in the principal amount outstanding thereunder or the rate of interest or fees payable in respect thereof; and

(e) Subordinated Debt of the Borrower, provided the aggregate principal amount of such Subordinated Debt does not exceed $35,000,000.

Section 6.2. Guaranties, Etc. Assume, guarantee, endorse or otherwise be or become directly or contingently responsible or liable (including, but not limited to, an agreement to purchase any obligation, or to supply or advance any funds (other than Investments permitted pursuant to Section 6.4), or an agreement to cause such Person to maintain a minimum working capital or net worth or otherwise to assure the creditors of any Person against loss) for the obligations of any Person, except guaranties by endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business.

Section 6.3. Liens. Create, incur, assume or suffer to exist any Lien, upon or with respect to any of its Properties, now owned or hereafter acquired, except:

(a) Liens for taxes or assessments or other government charges or levies if not yet due and payable or if due and payable, if they are being contested in good faith by appropriate proceedings and for which appropriate reserves are maintained;

(b) Liens imposed by law, such as mechanic's, materialmen's, landlord's, warehousemen's and carrier's Liens, and other similar Liens, securing obligations incurred in the ordinary course of business which are not past due for more than forty-five (45) days, or which are being contested in good faith by appropriate proceedings and for which appropriate reserves have been established;

(c) Liens under workers' compensation, unemployment insurance, social security or similar legislation (other than ERISA);

(d) judgment and other similar Liens arising in connection with court proceedings; provided that the execution or other enforcement of such Liens is effectively stayed and the claims secured thereby are being actively contested in good faith and by appropriate proceedings;

(e) easements, rights-of-way, restrictions and other similar encumbrances which, in the aggregate, do not materially interfere with the occupation, use and enjoyment by the Borrower or any of its Subsidiaries of the Property or assets encumbered thereby in the normal course of its business or materially impair the value of the Property subject thereto;

(f) Liens referred to in Schedule 4.6; and

(g) Liens consisting of pledges or deposits of Property to secure performance in connection with operating leases made in the ordinary course of business to which the Borrower or a Subsidiary is a party as lessee, provided the aggregate value of all such pledges and deposits in connection with any such lease does not at any time exceed fifteen percent (15%) of the annual fixed rentals payable under such lease.

Section 6.4. Investments. Permit total consolidated Investment of the Borrower and its Insurance Subsidiaries in Investment Grade Securities, as of the end of any fiscal quarter, to be less than ninety seven percent (97%) of the aggregate amount of Total Invested Assets; provided, however, for the purpose of this Section 6.4, "Total Invested Assets" shall not include Debt of any Insurance Subsidiary evidenced by surplus notes held by the Borrower.

Section 6.5. Mergers and Consolidations and Acquisitions of Assets. Merge or consolidate with any Person (whether or not the Borrower or any Subsidiary is the surviving entity), or acquire all or substantially all of the assets or any of the capital stock of any Person; provided that (a) any Subsidiary (other than any Insurance Subsidiary) may merge into the Borrower or any other Subsidiary, and (b) the Borrower may merge or consolidate with or acquire all or substantially all of the assets or capital stock of another Person, including Southern Heritage, if, after giving effect to such transaction (i) the Borrower is the corporation which survives such merger or acquisition, and (ii) no Default or Event of Default would exist.

Section 6.6. Sale of Assets. Sell, lease or otherwise dispose of all or substantially all of its assets, including through any reinsurance arrangements, except in the ordinary course of business.

Section 6.7. Stock of Subsidiaries, Etc. Pledge, assign, hypothecate, transfer, convey, sell or otherwise dispose of, encumber or grant any security interest in, or deliver to any other Person, any shares of capital stock of its Subsidiaries, or permit any such Subsidiaries to issue any additional shares of its capital stock to any Person other than the Borrower or any of its Subsidiaries, except directors' qualifying shares; provided, however, the Borrower may sell some or all of the shares of capital stock of any of its Subsidiaries (other than Atlantic States, Southern Insurance or Southern Heritage), and permit or permit any such Subsidiaries (other than Atlantic States, Southern Insurance or Southern Heritage) to issue and sell additional shares of its capital stock to any Person other than the Borrower or any Subsidiaries, so long as such sale of stock is made in exchange for cash or, with respect to any Subsidiary with a book value of less than $10,000,000, other consideration, in an amount equal to the fair market value of such shares.

Section 6.8. Transactions with Affiliates. Enter into any transaction of any kind with any Affiliate of the Borrower, or any Person that owns or holds five percent (5%) or more of the outstanding common stock of the Borrower, other than (a) transactions between or among Borrower and its wholly owned Subsidiaries or between or among its wholly owned Subsidiaries, (b) transactions between the Borrower and Donegal Mutual as described on Schedule 6.8, or (c) transactions on terms at least as favorable to the Borrower or its Subsidiaries as would be the case in an arm's-length transaction between unrelated parties of equal bargaining power.

Section 6.9. Capital Expenditures. Make or permit to be made any Capital Expenditure in any fiscal year, or commit to make any Capital Expenditure in any fiscal year, which when added to the aggregate Capital Expenditures of the Borrower and its Subsidiaries theretofore made or committed to be made in that fiscal year, would exceed $5,000,000.

Section 6.10. Minimum Statutory Surplus of Insurance Subsidiaries. As of the end of any fiscal quarter, permit the Combined Statutory Surplus to be less than an amount equal to the sum of (a) $66,000,000 plus (b) 50% of any cumulative positive Combined Statutory Net Income, after dividends to the Borrower, for each fiscal quarter following the fiscal year ended December 31, 1997, plus (c) any contributions to surplus made by the Borrower to any Insurance Subsidiary, from Revolving Loans, during each fiscal year quarter following the fiscal year ended December 31, 1997, plus (d) 50% of any contributions to surplus made by the Borrower to any Insurance Subsidiary, other than from Revolving Loans, during each fiscal quarter following the fiscal year ended December 31, 1997.

Section 6.11. Minimum Statutory Surplus of Donegal Mutual. As of the end of any fiscal quarter, permit the Statutory Surplus of Donegal Mutual to be less than an amount equal to the sum of (a) $60,000,000 plus (b) 50% of any positive Statutory Net Income of Donegal Mutual for each fiscal quarter following the fiscal quarter ended December 31, 1994.

Section 6.12. Minimum Consolidated GAAP Net Worth. As of the end of any fiscal quarter, permit Consolidated GAAP Net Worth of the Borrower and its Subsidiaries to be less than an amount equal to the sum of (a) $81,000,000 plus (b) 50% of any cumulative positive Net Income of the Borrower and its Subsidiaries for each fiscal quarter following the fiscal year ended December 31, 1997, plus (c) the amount of paid-in capital resulting from any issuance by the Borrower of its capital stock after the date of this Agreement.

Section 6.13. Minimum Fixed Charge Coverage. As of the end of each fiscal quarter during the periods set forth below, permit the Fixed Charge Coverage Ratio to be less than 1.2 to 1.

Section 6.14. Minimum A.M. Best Rating. At any time, permit the A.M. Best Rating of (a) Atlantic States to be less than "A-", (b) Southern Insurance to be less than "B+" or

(c) Southern Heritage to be less than "B+" at any time after 30 days following consummation of the Acquisition.

Section 6.15. Minimum Ownership of Donegal Group. At any time, cease to have at least 51% of the Borrower's securities having voting power for the election of directors of the Borrower owned of record and beneficially by Donegal Mutual.

Section 6.16. Limitations on Debt and Negative Pledges. Enter into any agreement with any other Person (other than any agreement existing on the date hereof and other than this Agreement) restricting its ability to create or incur Debt hereunder or to secure Debt hereunder.

ARTICLE 7. EVENTS OF DEFAULT.

Section 7.1. Events of Default. Any of the following events shall be an "Event of Default":

(a) the Borrower shall fail to pay any principal amount of any Revolving Loan when due, whether at stated maturity, by acceleration, by notice of prepayment or otherwise, or the Borrower shall fail to pay any premium or interest, or any fees or other amounts payable hereunder, within five days after the date due;

(b) any written statement, representation or warranty made by the Borrower in this Agreement, or the Revolving Notes, or which is contained in any certificate, document, financial or other written statement furnished at any time under or in connection with this Agreement or the Revolving Notes shall prove to have been incorrect in any material respect on or as of the date made or as of the date deemed made;

(c) the Borrower shall (i) fail to perform or observe any term, covenant, or agreement contained in Section 4.23, Section 5.8(h) or Article 6; or (ii) fail to perform or observe any term, covenant, or agreement on its part to be performed or observed (other than the obligations specifically referred to elsewhere in this Section 7.1) in this Agreement (including without limitation any such term, covenant or agreement contained in Article 5 hereof) or the Revolving Notes and such failure shall continue unremedied for thirty (30) consecutive days from the occurrence of such failure. (The Agent shall use reasonable efforts to give the Borrower notice of any Default or Event of Default under this Section 7.1(c); provided, however, that failure to give any such notice shall not impair or otherwise adversely affect the Agent's or the Banks' rights and remedies hereunder);

(d) the Borrower or any Subsidiary shall (i) fail to pay any indebtedness, including but not limited to indebtedness for borrowed money (other than the payment Obligations described in (a) above) of the Borrower or such Subsidiary, as the case may be, or any interest or premium thereon, when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise); or (ii) fail to perform or observe any term, covenant or condition on its part to be performed or observed under any agreement or instrument relating to any such indebtedness, when required to be performed or observed and such failure continues after any applicable notice and grace period, if the effect of such failure to perform or observe is to accelerate, or to permit the acceleration of the maturity of such indebtedness, or (iii) any such indebtedness shall be declared to be due and payable, or required to be prepaid (other than by a regularly scheduled required prepayment), prior to the stated maturity thereof; provided, however, with the exception of any Subordinated Debt, that it shall not be a Default or Event of Default under this Section 7.1(d) unless the aggregate principal amount of all such indebtedness as described in clauses (i) through (iii) above shall exceed $100,000;

(e) the Borrower or any Subsidiary (i) shall generally not, or be unable to, or shall admit in writing its inability to, pay its debts as such debts become due; or (ii) shall make an assignment for the benefit of creditors or petition or apply to any tribunal for the appointment of a custodian, receiver or trustee for it or a substantial part of its assets; or (iii) shall commence any proceeding under any bankruptcy, reorganization, arrangement, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction, whether now or hereafter in effect; or (iv) shall have had any such petition or application filed or any such proceeding shall have been commenced against it in which an adjudication or appointment is made or order for relief is entered, or which petition, application or proceeding remains undismissed for a period of sixty (60) days or more; or (v) shall be the subject of any proceeding under which its assets may be subject to seizure, forfeiture or divestiture (other than a proceeding in respect of a Lien permitted under this Agreement); or (vi) by any act or omission shall indicate its consent to, approval of or acquiescence in any such petition, application or proceeding or order for relief or the appointment of a custodian, receiver or trustee for all or any substantial part of its Property; or (vii) shall suffer any such custodianship, receivership or trusteeship to continue undischarged for a period of sixty (60) days or more;

(f) (A) Any Insurance Commissioner or any other head of any insurance regulatory authority and/or such insurance regulatory authority shall apply for an order pursuant any section of the applicable insurance code, directing the rehabilitation, conservation or liquidation of any Insurance Subsidiary, and any such application shall not be dismissed or otherwise terminated during a period of sixty (60) consecutive days, or a court of competent jurisdiction shall enter an order granting the relief sought; or (B) any Insurance Commissioner shall file a complaint or petition pursuant any applicable insurance code seeking the dissolution of any Insurance Subsidiary, and such complaint or petition is not dismissed or otherwise terminated for a period

of sixty (60) consecutive days, or a court of competent jurisdiction shall order the dissolution of any Insurance Subsidiary;

(g) one or more judgments, decrees or orders for the payment of money in excess of $100,000 in the aggregate shall have been rendered against the Borrower or any of its Subsidiaries (excluding judgments which are covered by insurance other than self-insurance and excluding judgments rendered against any Insurance Subsidiary which judgments have been both (i) rendered in the ordinary course of business in connection with its insurance and reinsurance obligations, and (ii) adequately reserved against) and such judgments, decrees or orders shall continue unsatisfied and in effect for a period of sixty (60) consecutive days without being vacated, discharged, satisfied or stayed or bonded pending appeal;

(h) any of the following events shall occur or exist with respect to the Borrower or any ERISA Affiliate: (i) any Prohibited Transaction involving any Plan; (ii) any Reportable Event shall occur with respect to any Plan; (iii) the filing under Section 4041 of ERISA of a notice of intent to terminate any Plan or the termination of any Plan (other than in a "standard termination" referred to in Section 4041 of ERISA); (iv) any event or circumstance exists which would constitute grounds entitling the PBGC to institute proceedings under Section 4042 of ERISA for the termination of, or for the appointment of a trustee to administer any Plan, or the institution by the PBGC of any such proceedings; (v) complete or partial withdrawal under Section 4201 or 4204 of ERISA from a Multiemployer Plan or the reorganization, insolvency or termination of any Multiemployer Plan; and in each case above, such event or condition, together with all other such events or conditions, if any, would in the reasonable opinion of the Bank subject the Borrower or any ERISA Affiliate to any tax, penalty or other liability to a Plan, Multiemployer Plan, the PBGC or otherwise (or any combination thereof) which in the aggregate exceed or may exceed $500,000; or

(i) this Agreement or any Revolving Note shall at any time after its execution and delivery and for any reason cease to be in full force and effect or shall be declared null and void, or the validity or enforceability thereof shall be contested by the Borrower or the Borrower shall deny it has any further liability or obligation hereunder.

Section 7.2. Remedies. Without limiting any other rights or remedies of the Agent or the Banks provided for elsewhere in this Agreement or the Revolving Notes, or by applicable law, or in equity, or otherwise, if any Event of Default shall occur and be continuing, the Agent may, and if requested by the Required Banks shall, by notice to the Borrower, (i) declare the Commitment to be terminated, whereupon the same shall forthwith terminate, and/or (ii) declare all amounts owing under this Agreement and the Revolving Notes (whether or not such Obligations be contingent or unmatured) to be forthwith due and payable, whereupon all such amounts shall become and be forthwith due and payable, without presentment, demand, protest

or further notice of any kind, all of which are hereby expressly waived by the Borrower; provided that, in the case of an Event of Default referred to in Section 7.1(e) and Section 7.1(f) above with respect to the Borrower, the Commitment shall be immediately automatically terminated, and all such amounts shall be immediately due and payable without notice, presentment, demand, protest or other formalities of any kind, all of which are hereby expressly waived by the Borrower.

ARTICLE 8. THE AGENT.

Section 8.1. Authorization and Action.

(a) Each Bank hereby irrevocably appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers and discretion under this Agreement and the Revolving Notes as are delegated to the Agent by the terms hereof, together with such powers as are reasonably incidental thereto. As to any matters not expressly provided for by this Agreement and the Revolving Notes, the Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Required Banks, and such instructions shall be binding upon all Banks; provided, however, that the Agent shall not be required to take any action which exposes the Agent to liability or which is contrary to this Agreement, the Revolving Notes or applicable law.

(b) The Banks agree to cooperate in good faith and in a commercially reasonable manner in connection with the exercise by the Agent of the rights granted to the Banks by law, this Agreement and the Revolving Notes, including, but not limited to, providing necessary information to the Agent with respect to the Obligations and preparing and executing necessary affidavits, certificates, notices, instruments and documents. Subject to the authority of the Required Banks or other applicable number of Banks as provided in this Agreement to direct the Agent in writing when such direction by the Banks is required by this Agreement for such action, the Agent is hereby authorized to act for and on behalf of the Banks in all day-to-day matters with respect to the exercise of rights described herein, such as the supervision of attorneys, accountants, appraisers or others in connection with litigation or other similar actions.

Section 8.2. Exculpatory Provisions; Agent's Reliance, Etc. Neither the Agent, nor its directors, officers, agents, employees or Affiliates shall be liable for any action taken or omitted to be taken by it or them under or in connection with this Agreement and the Revolving Notes, except for its or their own gross negligence or willful misconduct. Without limitation of the generality of the foregoing, the Agent (i) may consult with legal counsel (including counsel for the Borrower), independent public accountants and other experts selected by it and shall not be

liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (ii) makes no warranty or representation to any Bank and shall not be responsible to any Bank for any statements, warranties or representations made in or in connection with this Agreement or the Revolving Notes; (iii) shall have no duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of this Agreement and the Revolving Notes on the part of the Borrower, (iv) shall not be responsible to any Bank for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement and the Revolving Notes or any other instrument or document furnished pursuant hereto or thereto; and (v) shall incur no liability under or in respect of this Agreement and the Revolving Notes by acting upon any notice, consent, certificate or other instrument or writing (which may be by telegram, cable, telex or telecopy) purported to be genuine and signed or sent by the proper party or parties. The Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement in accordance with a request of the Required Banks, and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Banks.

Section 8.3. Notice of Default. The Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder unless the Agent has received notice from a Bank or the Borrower, describing such Default or Event of Default and stating that such notice is a "notice of default". In the event that the Agent receives such a notice, the Agent may, and upon the written direction of the Required Banks shall, give prompt notice thereof to the Banks. The Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Required Banks, provided that unless and until the Agent shall have received such directions, the Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of the Banks; provided further, that Agent shall not be required to take any action which exposes the Agent to liability or which is contrary to this Agreement, the Revolving Notes or applicable law.

Section 8.4. Fleet and Affiliates. With respect to its Commitment and the Revolving Loans made by it, the Agent shall have the same rights and powers with respect to this Agreement or the Revolving Notes as any other Bank and may exercise the same as though it were not the Agent; and the term "Bank" or "Banks" shall, unless otherwise expressly indicated, include Fleet in its individual capacity. Fleet and its Affiliates may accept deposits from, lend money to, act as trustee under indentures of, and generally engage in any kind of business with, the Borrower and its Affiliates and any of their respective Affiliates and any Person who may do business with or own securities of the Borrower or its Affiliates all as if Fleet were not the Agent, and without any duty to account therefor to the Banks.

Section 8.5. Credit Decision. Each Bank acknowledges that it has, independently and without reliance upon the Agent or any other bank and based on such information as it deems necessary (the receipt of which such Bank acknowledges), made its own credit analysis and decision to enter into this Agreement. Each Bank also acknowledges that it will, independently and without reliance upon the Agent or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement and the Revolving Notes.

Section 8.6. Indemnification. The Banks severally and ratably agree to indemnify the Agent (to the extent not reimbursed by the Borrower), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against the Agent in any way relating to or arising out of this Agreement and the Notes, or any action taken or omitted by the Agent under this Agreement and the Revolving Notes, provided that no Bank shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the Agent's gross negligence or willful misconduct. Without limitation of the foregoing, each Bank agrees to reimburse the Agent promptly upon demand for its ratable share of any out-of-pocket expenses (including reasonable counsel fees) incurred by the Agent in connection with the preparation, execution, administration, or enforcement of, or legal advice in respect of rights or responsibilities under, this Agreement and the Revolving Notes, to the extent that the Agent is not reimbursed for such expenses by the Borrower.

Section 8.7. Successor Agent. The Agent may resign at any time as Agent under this Agreement by giving written notice thereof to the Banks and the Borrower. Upon any such resignation, the Required Banks shall have the right to appoint a successor Agent hereunder with the approval of the Borrower, which shall not be unreasonably withheld (provided no approval by the Borrower shall be required if the Borrower is in Default hereunder). If no successor Agent shall have been so appointed by the Required Banks and shall have accepted such appointment, within 30 days after the retiring Agent's giving of notice of resignation of the retiring Agent, then the retiring Agent may, on behalf of the Banks, appoint a successor Agent with the approval of the Borrower, which shall not be unreasonably withheld (provided no approval by the Borrower shall be required if the Borrower is in Default hereunder), which shall be a commercial bank organized under the laws of the United States of America or of any state thereof and having a combined capital and surplus of at least $500,000,000. Upon the acceptance of any appointment as Agent under this Agreement by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations under this Agreement arising from and after the date of resignation. After any retiring Agent's resignation as Agent under this Agreement, the provisions of this Article 8 shall

inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

Section 8.8. Application of this Article to the Borrower. Notwithstanding anything to the contrary in this Article 8, the provisions of Sections 8.1, 8.2, 8.3, 8.5 and 8.6 shall be deemed to govern the rights and obligations as among the Banks and the Agent only, and shall not be construed to affect any rights or obligations of the Borrower with respect to the Banks and the Agent.

ARTICLE 9. MISCELLANEOUS.

Section 9.1. Amendments and Waivers. No amendment or waiver of any provision of this Agreement or the Revolving Notes nor consent to any departure by the Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Agent, the Borrower and the Required Banks, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. Notwithstanding the foregoing, the written consent of all Banks shall be required for any amendment or waiver having the effect of (i) extending the Revolving Loan Termination Date (except as expressly provided for herein), extending the time of payment of principal, interest or fees on any Revolving Loans or reducing or forgiving the principal amount thereof (other than by repayment), decreasing the interest rate borne by any Revolving Loans, increasing the amount of any Bank's Commitment over the amount then in effect (it being understood that a waiver of any Default or Event of Default or a mandatory reduction in the Commitment shall not constitute an increase in any Commitment of any Bank), or postponing or reducing any scheduled reduction of the Commitment (except as set forth herein), (ii) reducing the percentage specified in the definition of Required Banks, (iii) amending or waiving any provision of this Section 9.1 or (iv) consenting to the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement or the Revolving Notes. No failure on the part of Agent or any Bank to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof or preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

Section 9.2. Usury. Anything herein to the contrary notwithstanding, the Obligations of the Borrower with respect to this Agreement and the Revolving Notes shall be subject to the limitation that payments of interest shall not be required to the extent that receipt thereof would be contrary to provisions of law applicable to the Banks limiting rates of interest which may be charged or collected by the Banks.

Section 9.3. Expenses; Indemnities.

(a) The Borrower shall reimburse the Agent for all reasonable out-of-pocket costs, expenses and charges (including without limitation, reasonable fees and charges of Day, Berry & Howard LLP) incurred by the Agent in connection with the preparation of this Agreement and the Revolving Notes.

(b) Unless otherwise agreed in writing by all Banks, the Borrower shall reimburse the Agent and the Banks on demand for all reasonable out-of-pocket costs, expenses and charges (including without limitation, reasonable fees and charges of counsel for the Agent and the Banks) incurred by the Agent and the Banks in connection with any amendment or modification of this Agreement and the Revolving Notes. The Borrower further agrees to pay on demand all reasonable costs and expenses (including reasonable counsel fees and expenses), if any, in connection with the enforcement, including without limitation, the enforcement of judgments (whether through negotiations, legal proceedings or otherwise) of this Agreement or the Revolving Notes or any other document to be delivered under this Agreement and all audits, all insurance costs, and all other reasonable costs and expenses which the Agent or any Bank has or shall have paid by reason of the Borrower's failure or refusal to do so as and when required hereunder. The Borrower agrees to indemnify and hold harmless the Agent and the Banks from and against any and all liabilities with respect to or resulting from any delay in paying or omission to pay such costs, expenses, charges and fees, except to the extent caused by the Agent's or such Bank's negligence or willful misconduct or breach of this Agreement; provided, however, that this agreement to indemnify shall apply to such Bank's or the Agent's direct loss or damage only and not to indirect, consequential or other damages. Until paid, the amount of any cost, expense or charge shall constitute, together with all accrued interest thereon, part of the Obligations, and shall accrue interest from the date five days after demand at the Base Rate.

(c) The Borrower agrees to indemnify the Agent and the Banks, and their directors, officers, employees, agents and Affiliates from, and hold each of them harmless against, any and all claims, damages, liabilities, losses, costs and expenses (including without limitation, reasonable fees and disbursements of counsel) arising as a consequence of (i) any failure by the Borrower to pay the Agent or any Bank, as required under this Agreement, punctually on the due date thereof, any amount payable by the Borrower to the Agent or any Bank or (ii) the acceleration, in accordance with the terms of this Agreement, of the time of payment of any of the Obligations of the Borrower, except to the extent caused by the Agent's or such Bank's negligence or willful misconduct or breach of this Agreement; provided, however, that this agreement to indemnify shall apply to such Bank's or the Agent's direct loss or damage only and not to indirect, consequential or other damages. Such losses, costs or expenses may include, without limitation, (i) any costs incurred by the Bank in carrying funds to cover any overdue principal, overdue interest, or any other overdue sums payable by the Borrower to such Bank or (ii) any losses

incurred or sustained by any Bank in liquidating or reemploying funds acquired by such Bank from third parties.

(d) The Borrower agrees to indemnify the Agent and the Banks, and their directors, officers, employees, agents and Affiliates from, and hold each of them harmless against, any and all claims, damages, liabilities, losses, costs and expenses (including without limitation, reasonable fees and disbursements of counsel) arising out of or by reason of any investigation or litigation or other proceedings (including any threatened investigation or litigation or other proceedings), relating to any actions or omissions of the Borrower or any of its agents or any of their respective directors, officers, employees or agents in connection with this Agreement, or any actual or proposed use by the Borrower of the proceeds of the Revolving Loans, including without limitation, the reasonable fees and disbursements of counsel incurred in connection with any such investigation or litigation or other proceedings (but excluding any such losses, liabilities, claims, damages or expenses incurred by reason of the gross negligence or willful misconduct of the Person to be indemnified), provided, however, that this agreement to indemnify shall apply to such Bank's or the Agent's direct loss or damage only and not to indirect, consequential or other damages.

(e) The Borrower agrees to indemnify the Agent and the Banks, and their directors, officers, employees, agents and Affiliates from, and hold each of them harmless against, any and all claims, damages, liabilities, losses, costs and expenses (including without limitation, reasonable fees and disbursements of counsel) which may be incurred by or asserted against the Agent and the Banks or any such party in connection with their acting as Agent or as lenders under this Agreement, arising out of or relating to (i) any natural resource damages, governmental fines or penalties or other amounts mandated by any governmental authority, court order, demand or decree in connection with the disposal by the Borrower, its Subsidiaries or their agents (including leakage or seepage from any such site including third party treatment facilities) of pollutants, contaminants or hazardous wastes and (ii) any personal injury or property damage to third parties resulting from the pollutants, contaminants or hazardous wastes so disposed by the Borrower, its Subsidiaries or their agents.

Section 9.4. Term; Survival. This Agreement shall continue in full force and effect as long as any Obligations are owing by the Borrower to the Agent or any Bank. No termination of this Agreement shall in any way affect or impair the rights and obligations of the parties hereto relating to any transactions or events prior to such termination date, and all warranties and representations of the Borrower shall survive such termination. All representations and warranties made hereunder and in any document, certificate, or statement delivered pursuant hereto or in connection herewith shall survive the execution and delivery of this Agreement and the Revolving Notes. The obligations of the Borrower under Section 9.3 shall survive the repayment of the Revolving Loans and the termination of the Commitment.

Section 9.5. Assignment; Participations.

(a) With the written consent of the Agent and the Borrower (which consent shall not be unreasonably withheld), each Bank may assign to one or more commercial banks or financial institutions all or a portion of its rights and obligations under this Agreement (including without limitation, all or a portion of its Commitment and the amounts under the Revolving Loans owing to it); provided, however, that (i) each such assignment shall be of a constant, and not a varying, percentage of all of the assigning Bank's rights and obligations under this Agreement, (ii) the amount of the Commitment of the assigning Bank being assigned pursuant to each such assignment (determined as of the date of the Assignment and Acceptance) with respect to such assignment shall in no event be less than $5,000,000 and shall be an integral multiple of $500,000 (or in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Bank's rights and obligations under this Agreement, any lesser increment), and (iii) the parties to each such assignment shall execute and deliver to the Agent, for its acceptance and recording in the Register (as defined in (c) below), an Assignment and Acceptance and a $3,500 non-refundable processing fee from the assigning Bank. Notwithstanding the foregoing, no written consent of the Borrower shall be required in connection with any assignment by a Bank to an Affiliate of such Bank of all or a portion of its rights and obligations under this Agreement. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, (x) the assignee thereunder shall be a Bank party hereto and, to the extent that rights and obligations (including any portion of any Commitment) hereunder have been assigned to it pursuant to such Assignment and Acceptance, shall have the rights and obligations of a Bank hereunder and (y) the Bank assignor thereunder shall, to the extent that rights and obligations (including any portion of any Commitment) hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights (other than its rights to indemnification under Section 9.3) and be released from its obligations under this Agreement arising after the date of assignment (and, in the case of an assignment covering all or the remaining portion of an assigning Bank's rights and obligations under this Agreement, such Bank shall cease to be a party hereto.)

(b) By executing and delivering an Assignment and Acceptance, the Bank assignor thereun der and the assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than as provided in such Assignment and Acceptance, such assigning Bank makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other instrument or document furnished pursuant hereto; (ii) such assigning Bank makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower or the performance or observance by the Borrower of any of its

obligations under this Agreement or any other instrument or document furnished pursuant hereto; (iii) such assignee confirms that it has received a copy of this Agreement, together with copies of the most recent financial statements referred to in Section 5.8 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such assignee will, independently and without reliance upon the Agent, such assigning Bank or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (v) such assignee appoints and authorizes the Agent to take such action as Agent on its behalf and to exercise such powers under this Agreement as are delegated to the Agent by the terms hereof, together with such powers as are reasonably incidental thereto; (vi) such assignee agrees that it will perform in accordance with the terms all of the obligations which by the terms of this Agreement are required to be performed by it as a Bank; and (vii) such assignee represents that such assignment will not result in any Prohibited Transaction.

(c) The Agent shall maintain at its address set forth on the signature pages hereto a copy of each Assignment and Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of the Banks and the Commitment of, and principal amount of the Revolving Loans owing to, each Bank from time to time (the "Register"). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and the Borrower, the Agent and the Banks may treat each Person whose name is recorded in the Register as a Bank hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrower or any Bank at any reasonable time and from time to time upon reasonable prior notice.

(d) Upon its receipt of an Assignment and Acceptance executed by an assigning Bank and its assignee, the Agent shall, if such Assignment and Acceptance has been completed and is in substantially the form of Exhibit E, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Borrower.

(e) Each Bank may sell participations to one or more banks or other entities in or to all or a portion of its rights and obligations under this Agreement (including without limitation, all or a portion of its Commitment and the amounts under the Revolving Loans owing to it); provided, however, that (i) such Bank's obligations under this Agreement (including without limitation, its Commitment to the Borrower hereunder) shall remain unchanged, (ii) such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Borrower, the Agent and the other Banks shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement; provided, that no Bank shall transfer or grant any participation under which the participant shall have the right

to approve any amendment to or waiver of this Agreement or any Revolving Note, except with respect to an extension of the final maturity of the Revolving Loans or a reduction of the principal amount of or the rate of interest payable on the Revolving Loans or any fees related thereto.

(f) Any Bank may, in connection with any assignment or participation or proposed assign ment or participation pursuant to this Section 9.5, disclose to the assignee or participant or proposed assignee or participant any information relating to the Borrower furnished to such Bank by or on behalf of the Borrower; provided that, prior to any such disclosure, the assignee or participant or proposed assignee or participant shall agree in writing to preserve the confidentiality of any confidential information relating to the Borrower received by it from such Bank.

(g) Nothing herein shall prohibit any Bank from pledging or assigning any Revolving Note to any Federal Reserve Bank in accordance with applicable law.

Section 9.6. Notices. All notices, requests, demands and other communications provided for herein shall be in writing and shall be (i) hand delivered; (ii) sent by certified, registered or express United States mail, return receipt requested, or reputable next-day courier service; (iii) with respect to notices given under Article 2 only, given by telex, telecopy, telegraph or similar means of electronic communication followed by mail or hand delivery thereof, or (iv) with respect to the service of any and all process on the Borrower by any Bank or the Agent, sent to the attention of the President of the Borrower by certified, registered or express United States mail, return receipt requested, or reputable next-day courier service. All such communications shall be effective upon the receipt thereof. Notices shall be addressed to the Borrower, the Agent and the Banks at their respective addresses set forth on the signature pages of or (in the case of the Banks) Schedule 1.1. to this Agreement, or to such other address as the Borrower, the Agent or the Banks shall theretofore have transmitted to the other party in writing by any of the means specified in this Section.

Section 9.7. Setoff. The Borrower agrees that, in addition to (and without limitation of) any right of setoff, banker's lien or counterclaim each Bank may otherwise have, each Bank shall be entitled, at its option, to offset balances (general or special, time or demand, provisional or final, and regardless of whether such balances are then due to the Borrower) held by it for the account of the Borrower at any of such Bank's offices, in Dollars or in any other currency, against any amount payable by the Borrower under this Agreement or any Revolving Note that is not paid when due, taking into account any applicable grace period, in which case it shall promptly notify the Borrower and the Agent thereof; provided that such Bank's failure to give such notice shall not affect the validity thereof.

Section 9.8. Jurisdiction; Immunities.

(a) The Borrower hereby irrevocably submits to the jurisdiction of any Connecticut State or United States Federal court sitting in Connecticut over any action or proceeding arising out of or relating to this Agreement or the Revolving Notes, and the Borrower hereby irrevocably agrees that all claims in respect of such action or proceeding may be heard and determined in such Connecticut State or Federal court. The Borrower irrevocably consents to the service of any and all process in any such action or proceeding by the mailing of copies of such process to the Borrower at its address specified in Section 9.6. The Borrower agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. The Borrower further waives any objection to venue in such State and any objection to an action or proceeding in such State on the basis of forum non conveniens. The Borrower further agrees that any action or proceeding brought against the Bank shall be brought only in Connecticut State or United States Federal courts sitting in Connecticut.

(b) Nothing in this Section shall affect the right of each Bank to serve legal process in any other manner permitted by law or affect the right of each Bank to bring any action or proceeding against the Borrower or its Property in the courts of any other jurisdictions.

Section 9.9. Table of Contents; Headings. Any table of contents and the headings and captions hereunder are for convenience only and shall not affect the interpretation or construction of this Agreement.

Section 9.10. Severability. The provisions of this Agreement are intended to be severable. If for any reason any provision of this Agreement shall be held invalid or unenforceable in whole or in part in any jurisdiction, such provision shall, as to such jurisdiction, be ineffective to the extent of such invalidity or unenforceability without in any manner affecting the validity or enforceability thereof in any other jurisdiction or the remaining provisions hereof in any jurisdiction, unless the ineffectiveness of such provision would (a) result in such a material change to the performance of this Agreement as to be unreasonable or (b) materially and adversely frustrate the objectives of the parties as expressed in this Agreement as originally written, in which event, the parties agree to negotiate in good faith an amendment to this Agreement to achieve its intended purpose.

Section 9.11. Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and any party hereto may execute this Agreement by signing any such counterpart.

Section 9.12. Integration. This Agreement and the Revolving Notes set forth the entire agreement between the parties hereto relating to the transactions contemplated hereby and

thereby and supersede any prior oral or written statements or agreements with respect to such transactions.

Section 9.13. Governing Law. This Agreement shall be governed by, and interpreted and construed in accordance with, the laws of the State of Connecticut.

Section 9.14. Confidentiality. Subject to the following sentence, the Agent, each Bank and any assignee of such Bank becoming a party to this Agreement agrees to use its best efforts, consistent with its normal operating procedures, to retain in confidence in accordance with each Bank's customary procedures and not disclose without the prior written consent of the Borrower any written information about the Borrower and its Subsidiaries obtained pursuant to the requirements of this Agreement and identified in writing by the Borrower as "non-public," except as permitted under Section 9.5 of this Agreement. Notwithstanding the foregoing, the Agent or any Bank (a) may disclose or otherwise use such information to the extent that such information is required in any application, report, statement or testimony submitted to any governmental agency having or claiming to have jurisdiction over the Agent or such Bank, (b) may disclose or otherwise use such information to the extent that such information is required in response to any summons or subpoena or in connection with any litigation affecting the Agent or such Bank or to preserve the Agent's or such Bank's rights, remedies or enforcement hereunder, (c) may disclose or otherwise use such information to the extent that such information is reasonably believed by the Agent or such Bank (after notification to the Borrower, unless such notification is prohibited by law or any disclosure is requested or demanded by any bank regulatory body) to be required in order to comply with any law, order, regulation, or ruling applicable to the Agent or such Bank, (d) may disclose or otherwise use such information to the extent that such information becomes publicly available and (e) may disclose or otherwise use such information to the extent such information is or becomes available on a non-confidential basis from a source other than the Borrower, provided such source is not bound by a confidentiality agreement known to the Banks, after due inquiry, with the Borrower.

Section 9.15. Authorization of Third Parties to Deliver Opinions, Etc. The Borrower hereby authorizes and directs each Person whose preparation or delivery to the Agent or any Bank of any opinion, report or other information is a condition or covenant under this Agreement to so prepare or deliver such opinion, report or other information for the benefit of the Agent and the Banks. The Borrower agrees to confirm such authorizations and directions provided for in this Section 9.15 from time to time as may be requested by the Agent or the Banks.

Section 9.16. Borrower's Waivers. THE BORROWER ACKNOWLEDGES THAT IT HAS BEEN ADVISED BY COUNSEL OF ITS CHOICE WITH RESPECT TO THIS TRANSACTION AND THIS AGREEMENT AND THAT IT MAKES THE FOLLOWING WAIVER KNOWINGLY, VOLUNTARILY AND INTELLIGENTLY:

THE BORROWER IRREVOCABLY WAIVES TRIAL BY JURY IN ANY COURT AND IN ANY SUIT, ACTION OR PROCEEDING OR ANY MATTER ARISING IN CONNECTION WITH OR IN ANY WAY RELATED TO THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT, THE REVOLVING NOTES OR ANY OF THE BORROWER'S DOCUMENTS RELATED THERETO AND THE ENFORCEMENT OF ANY OF THE AGENT'S OR ANY BANK'S RIGHTS AND REMEDIES.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

DONEGAL GROUP INC.

By

Name: Ralph G. Spontak
Title: Senior Vice President and CFO

Address for Notices:

1195 River Road
P.O. Box 302
Marietta, PA 17547-0302
Attn: Senior Vice President and CFO
Telecopier No.: (717) 426-7009

With a copy to:

Frederick W. Dreher, Esq.
Duane, Morris & Heckscher LLP
4200 One Liberty Place
Philadelphia, PA 19103
Telecopier No.: (215) 979-1213

FLEET NATIONAL BANK, as Agent

By

Name:
Title:

Address for Notices:
Financial Institutions Group
777 Main Street, MSN 250
Hartford, CT 06115
Telecopier No.: (860) 240-1264

With a copy to:

Richard C. MacKenzie, Esq.
Day, Berry & Howard LLP
CityPlace I
Hartford, CT 06103-3499
Telecopier No.: (860) 275-0343

BANKS:

FLEET NATIONAL BANK

By

   Name:
   Title:

CREDIT LYONNAIS NEW YORK BRANCH

By

   Name:
   Title:

EXHIBIT 10(Z)

FOR IMMEDIATE RELEASE

DONEGAL GROUP COMPLETES ACQUISITION OF SOUTHERN HERITAGE INSURANCE COMPANY

Marietta, Pennsylvania. November 17, 1998. Donegal Group Inc. (Nasdaq symbol DGIC) today announced that it had completed the previously announced acquisition of Southern Heritage Insurance Company, which is headquartered in the Atlanta, Georgia metropolitan area. Southern Heritage Insurance Company offers primarily personal lines of insurance in 11 southeastern states.

Donald H. Nikolaus, President of Donegal Group, stated that the completion of the Southern Heritage acquisition was an important step forward in implementing Donegal Group's strategy of expanding its operations through the acquisition of property-casualty insurance companies at reasonable valuations.

At October 31, 1998, Southern Heritage had a GAAP net worth of approximately $20 million. For the 10 months ended October 31, 1998, the direct written premiums of Southern Heritage approximated $25 million.

Donegal Group Inc. is a property-casualty insurance holding company doing business through its subsidiaries in Pennsylvania, Delaware, Maryland, Ohio and Virginia.