

A.M. Best Affirms Ratings of the Donegal Insurance Group and the Peninsula Insurance Group

by Business-Wire

OLDWICK, N.J.--(BUSINESS WIRE)--June 15, 2006--A.M. Best Co. has affirmed the financial strength ratings (FSR) of A (Excellent) and the issuer credit ratings (ICR) of "a" for the Donegal Insurance Group (Group) (Marietta, PA) and its pooling members.

Concurrently, A.M. Best affirmed the FSR of A (Excellent) and the ICRs of "a" of Peninsula Insurance Group (Peninsula) (Salisbury, MD) and its members.

A.M. Best has also affirmed the ICR of "bbb" of Donegal Group Inc. (Donegal) (Pennsylvania) (NASDAQ: DGICA and DGICB). The outlook for all ratings is stable. (See below for a detailed list of the ratings.)

The ratings of the Group reflect its excellent risk-adjusted capitalization, improved operating performance and conservative business strategies, as well as its solid regional presence and well-established agency relationships. The affirmations also acknowledge the Group's diversified investment portfolio and prudent catastrophe management program.

In addition, Donegal's rating recognizes Donegal's disciplined underwriting culture and a multi-faceted growth strategy, which incorporates organic growth as well as growth by acquisitions as evidenced by its purchase of renewal rights from the Shelby Insurance Company in 2005. Donegal remains committed to finding acquisition opportunities that fit within its desired profile and regional growth strategy.

Donegal's rating affirmation further acknowledges the Group's rate adequacy, claim servicing capabilities, extensive technology platform and agency partnering, which has strengthened agency loyalty and increased business persistency.

Despite these attributes, Donegal's earnings are exposed to volatility from weather-related events as experienced in prior years, as well as changes in the regulatory, legal and competitive market environment due to its geographic concentration in the Mid-Atlantic region.

Peninsula maintains favorable risk-adjusted capitalization, improved underwriting trends and the financial flexibility derived from its parent, Donegal. Its strengths are further supported by long-term independent agency relationships and local market expertise. In recent years, management has taken positive steps to improve Peninsula's business profile through increased efficiencies in its underwriting and claims handling functions, as well as its geographic expansion into Pennsylvania.

A.M. Best anticipates continuation of Donegal's favorable operating trends in the near term, despite evidence that rates may soften modestly in 2006 and barring the occurrence of greater than normal catastrophe losses.

The FSR of A (Excellent) and the ICRs of "a" were affirmed for the Donegal Insurance Group and its following pooling members:

- Atlantic States Insurance Company
- Donegal Mutual Insurance Company
- Southern Insurance Company of Virginia
- Le Mars Insurance Company

The FSR of A (Excellent) and the ICRs of "a" were affirmed for the Peninsula Insurance Group and its following members:

- Peninsula Insurance Company
- Peninsula Indemnity Company

The ICR of "bbb" has been affirmed for Donegal Group Inc.

A.M. Best Co., established in 1899, is the world's oldest and most authoritative insurance rating and information source. For more information, visit A.M. Best's Web site at www.ambest.com.

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