

[on Donegal Mutual letterhead]

_____, 2007

Peter Medley
Insurance Examiner Supervisor
Bureau of Financial Analysis and Examinations
State of Wisconsin
Office of the Commissioner of Insurance
125 South Webster Street
Madison, Wisconsin 53707

Re: Form A Filing

Dear Peter:

On December 29, 2006, Donegal Mutual Insurance Company ("Donegal Mutual") filed a Form A with the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI") requesting OCI's approval of the transactions contemplated by a Contribution Note Purchase Agreement (the "Agreement") between Sheboygan Falls Mutual Insurance Company ("SFMIC") and Donegal Mutual whereby Donegal Mutual would make a contribution note investment in SFMIC and Donegal Mutual designees would constitute six of the ten members of SFMIC's board of directors. One part of the contemplated transactions would be a retrocessional reinsurance agreement between Donegal Mutual and SFMIC.

In OCI's letter of February 16, 2007 with respect to the Form A filing, OCI asked whether Donegal Mutual would become a policyholder of SFMIC for the purposes of s. 611.76, Wis. Stat. by reason of the retrocessional reinsurance agreement, and further requested a statement from Donegal Mutual to the effect that Donegal Mutual would not have any rights as a policyholder under s. 611.76, Wis Stat., which deals with the conversion of a domestic mutual into a domestic stock corporation.

Donegal Mutual does not think it is appropriate for it to answer that legal question. However, as a practical matter, Donegal Mutual agrees that it will not assert any rights as a

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policyholder of SFMIC for the purposes of s. 611.76, Wis. Stat. as currently in effect by reason of entering into a retrocessional reinsurance agreement with SFMIC in substantially the form of Appendix F to the Contribution Note Purchase Agreement included as an exhibit to the Form A.

Sincerely,

Donald H. Nikolaus
President and Chief Executive Officer

cc: Frederick W. Dreher, Esq.
Anne E. Ross, Esq.