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April 27, 2007

BY HAND DELIVERY AND E-MAIL

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 Mr. Medley:

The purpose of this letter is to respond, on behalf of Donegal Mutual Insurance Company ("Donegal Mutual"), to the comments contained in your April 20, 2007 e-mail to Anne Ross on behalf of the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI").

For convenience of reference, we have included each of the comments in your e-mail followed by Donegal Mutual's responses to your comment. Capitalized terms used in this letter but not defined herein shall have the meanings assigned to them in the Form A filed by Donegal Mutual regarding its acquisition of control of Sheboygan Falls Mutual Insurance Company ("SFMIC") dated December 28, 2006.

Donegal Mutual's specific responses are as follows:

1. *Regarding the Contribution Note, we agree that Donegal should edit the form of the Note as in item #34. We will accept the remainder of the Note as drafted.*

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Donegal Mutual is pleased to make this change. Attached for your review is a revised draft of the Contribution Note as well as a copy of the revised draft marked to indicate the changes from the original draft.

2. *In item #39, Donegal appears to say that of Donegal's officers, Mr. Nikolaus would likely become an officer of SFMIC. #39 further states that some additional officers of Donegal would also become officers of SFMIC, but none of these persons or offices are named. #60 says there will be no new SFMIC officers at the time of the affiliation except for Mr. Nikolaus. Can Donegal provide more specific information on this topic?*

Donegal Mutual apologizes for any confusion created by its responses to items #39 and #60. The statement in the first paragraph of item #39 that Donald H. Nikolaus may become Chairman of the Board of SFMIC following approval of the affiliation is correct. The statement in the second paragraph of item #39 that upon the consummation of a potential demutualization (emphasis supplied), the current SFMIC officers would remain but that those officers would then report to their functional counterparts at Donegal Mutual some of whom would also become officers of SFMIC is also correct. For example, Jeff Miller is the Chief Financial Officer of Donegal Mutual. Upon consummation of the affiliation, Mr. Miller would not become an officer of SFMIC. However, if and when the demutualization of SFMIC occurs, it is likely that Mr. Miller would become the Chief Financial Officer of SFMIC as well as of Donegal Mutual. The other Donegal Mutual officers likely to become officers of SFMIC after a demutualization would be Dan Wagner, Treasurer; Cy Greenya, Senior Vice President – Underwriting and Bob Shenk, Senior Vice President – Claims.

3. *Regarding the arbitration paragraphs discussed in #43 and #52, my preference would be for those to be deleted. As Donegal stated in its response to #43, Donegal has not had occasion to use an arbitration process with its many affiliates in over 27 years, which appears to support my observation that it is very unlikely that an arbitration would occur while Donegal is in control of SFMIC.*

Donegal Mutual is pleased to delete the arbitration provisions from the services agreement and the retrocessional reinsurance agreement. Attached for your review are revised drafts of both agreements as well as copies of the revised drafts marked to show the changes from the original drafts.

Anne has advised us that the hearing will be held on May 18, 2007. For that reason, SFMIC and Donegal Mutual intend to execute an amendment to the Contribution Note Purchase Agreement for the purpose of changing the termination date in Section 7.1(b) from April 30, 2007 to May 31, 2007. Attached for your review is a draft of the amendment.

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Finally, we officially enclose clean and marked copies of the proposed revised By-laws of SFMIC. No changes have been made from the drafts previously furnished to you on March 27, 2007.

In addition, Donegal Mutual hereby waives any right to a 10-day advance notice of the hearing pursuant to Section 227.44(1) of the Wisconsin Statutes.

We look forward to hearing from you.

Sincerely,



Frederick W. Dreher

cc: Guenther Ruch
Roger Peterson
Donald H. Nikolaus
Lee F. Wilcox
Jeffrey D. Miller
Connie L. O'Connell, Esq.
Anne E. Ross, Esq.
Richard L. Cohen, Esq.
Marissa A. Savastana, Esq.