

AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER (this "Agreement"), dated as of the 24th day of July, 2019, is by and between ATLANTIC STATES INSURANCE COMPANY ("Atlantic States") and SHEBOYGAN FALLS INSURANCE COMPANY ("Sheboygan Falls").

BACKGROUND

Atlantic States is a Pennsylvania casualty insurance company duly organized and existing under the laws of the Commonwealth of Pennsylvania, having been incorporated on September 26, 1986 and having authorized capital stock of 846,000 shares of common stock, par value \$5.00 per share, all of which shares are issued and outstanding and owned by Donegal Group Inc. ("DGI"), a Delaware corporation; and

Sheboygan Falls is a Wisconsin property/casualty insurance company duly organized and existing under the laws of the State of Wisconsin, having been incorporated on May 3, 1899 and having authorized capital stock of 3,532,171 shares of common stock, par value \$1.00 per share, of which 3,532,171 shares are issued and outstanding and owned by DGI; and

The respective Boards of Directors of each of Atlantic States and Sheboygan Falls deem it desirable and in the best interests of Atlantic States and Sheboygan Falls that Sheboygan Falls be merged with and into Atlantic States upon the terms and conditions hereinafter set forth, all in accordance with the applicable provisions of the laws of the Commonwealth of Pennsylvania and the State of Wisconsin; and

The respective Boards of Directors of each of Atlantic States and Sheboygan Falls have approved the merger of Sheboygan Falls with and into Atlantic States upon the terms and conditions hereinafter set forth, and in accordance with the requirements of the Wisconsin Business Corporation Law (the "WBCL"), the Wisconsin Insurance Code (the "Code"), the Pennsylvania Insurance Company Law (the "Law"), the Pennsylvania Business Corporation Law (the "BCL") and the Pennsylvania Entity Transactions Law (the "ETL");

NOW, THEREFORE, in consideration of the foregoing, and in further consideration of the promises and mutual covenants and agreements herein set forth, the parties hereto, intending to be legally bound hereby, covenant and agree as follows:

1. The Merger.

1.1 At the Effective Time (as defined in Section 2) and subject to and upon the terms and conditions of this Agreement and the BCL, the Law, the ETL, the Code and the WBCL, Sheboygan Falls shall be merged with and into Atlantic States (the "Merger"), the separate corporate existence of Sheboygan Falls shall cease and Atlantic States shall continue as the surviving insurance company. Atlantic States, as the surviving insurance company after the Merger, is sometimes hereinafter referred to as the "Surviving Corporation."

1.2 Promptly following the Effective Time, Atlantic States and Sheboygan Falls shall execute in the manner required by the BCL, the ETL, and the WBCL and deliver to the Department of State of the Commonwealth of Pennsylvania (the "Department") duly executed and verified Articles of

Merger and to the Secretary of State of the State of Wisconsin (the "Secretary") a duly executed and verified Certificate of Merger and the parties shall take such other and further actions as may be required by law to make the Merger effective.

2. Effective Time. The Merger shall be effective as of the later of the date the Articles of Merger are filed in the offices of the Department and the Certificate of Merger is filed in the offices of the Secretary, respectively, or the effective date set forth therein (the "Effective Time").

3. Effect of the Merger. The Merger shall have the effects set forth in Section 336 of the ETL, and Section 180.1106 of the WBCL. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time all the property, rights, privileges, powers and franchises of Sheboygan Falls shall vest in the Surviving Corporation, and all debts, liabilities and duties of Sheboygan Falls shall become the debts, liabilities and duties of the Surviving Corporation.

4. Articles of Incorporation; By-Laws; Directors and Officers.

4.1 At the Effective Time, the Articles of Incorporation of Atlantic States, as in effect immediately before the Effective Time, shall be the Articles of Incorporation of the Surviving Corporation until thereafter amended as provided by law and such Articles of Incorporation.

4.2 The By-laws of Atlantic States, as in effect immediately before the Effective Time, shall be the By-laws of the Surviving Corporation until thereafter amended as provided by law, the Articles of Incorporation of the Surviving Corporation and such By-laws.

4.3 The directors of Atlantic States in office immediately before the Effective Time shall be the directors of the Surviving Corporation, and the officers of Atlantic States in office immediately before the Effective Time shall be the officers of the Surviving Corporation, in each case until their successors are duly elected or appointed. If, at the Effective Time, a vacancy shall exist on the Board of Directors of Atlantic States or in any office of the Surviving Corporation, such vacancy may thereafter be filled in the manner provided by law and the By-laws of the Surviving Corporation.

5. Conversion of Securities. At the Effective Time, by virtue of the Merger and without any action on the part of Atlantic States, Sheboygan Falls or DGI as the holder of all of the outstanding capital stock of Sheboygan Falls and of Atlantic States:

5.1 Each share of common stock, par value \$1.00 per share, of Sheboygan Falls issued and outstanding immediately before the Effective Time, shall automatically be canceled and extinguished.

5.2 Each share of common stock, par value \$5.00 per share, of Atlantic States issued and outstanding immediately before the Effective Time, shall remain issued and outstanding and be unaffected by the Merger.

6. Representations and Warranties of Sheboygan Falls. Sheboygan Falls hereby represents and warrants to Atlantic States as follows:

6.1 Organization and Qualification; Insurance Licenses. Sheboygan Falls: (i) is a property/casualty insurance company duly organized, validly existing and in good standing under the laws of the State of Wisconsin; (ii) has made all required filings under statutes applicable to property/casualty insurance companies; (iii) has all other necessary authorizations, approvals, orders, consents, certificates,

permits, registrations or qualifications of and from the Insurance Department of the State of Wisconsin (the "Wisconsin Department") and any other applicable insurance regulatory authorities (the "Sheboygan Falls Insurance Licenses") to conduct its business as currently conducted and all Sheboygan Falls Insurance Licenses are valid and in full force and effect; and (iv) has the requisite corporate power and authority and any necessary governmental approvals to own, operate or lease the properties that it purports to own, operate or lease and to carry on its business as it is now being conducted, and is duly admitted to conduct its insurance business, and is in good standing, in each jurisdiction where the character of its properties owned, operated or leased or the nature of its activities makes such admission necessary, except for such failure which, when taken together with all other such failures, would not have a Sheboygan Falls Material Adverse Effect. The term "Sheboygan Falls Material Adverse Effect" as used herein means, except as otherwise contemplated by this Agreement, any change in or effect on the business of Sheboygan Falls that is or could reasonably be expected to be materially adverse to the business, operations, properties (including intangible properties), the Sheboygan Falls Insurance Licenses, condition (financial or otherwise), results of operations, assets, liabilities, regulatory status or prospects of Sheboygan Falls taken as a whole or the ability of Sheboygan Falls taken as a whole to consummate any transactions contemplated by this Agreement or to perform its obligations under this Agreement.

6.2 Capitalization. The authorized capital stock of Sheboygan Falls consists of 3,532,171 shares of common stock. As of July 22, 2019, 3,532,171 shares of Sheboygan Falls common stock were issued and outstanding. All of the issued and outstanding shares of Sheboygan Falls common stock are duly authorized, validly issued, fully paid and nonassessable.

6.3 Authority Relative to this Agreement. Sheboygan Falls has the necessary corporate power and authority to enter into this Agreement and, subject to obtaining any necessary stockholder approval of the Merger and the approval by the Wisconsin Department, to carry out its obligations hereunder. The execution and delivery of this Agreement by Sheboygan Falls and the consummation by Sheboygan Falls of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Sheboygan Falls, subject to the approval of the Merger by Sheboygan Falls' sole stockholder in accordance with the WBCL and the approval by the Wisconsin Department. This Agreement has been duly executed and delivered by Sheboygan Falls and, assuming due and valid authorization, execution and delivery hereof by Atlantic States, constitutes the legal, valid and binding obligation of Sheboygan Falls, enforceable against it in accordance with its terms.

6.4 No Conflict; Required Filings and Consents. Subject to approval of the Merger by the Wisconsin Department:

(a) The execution and delivery of this Agreement by Sheboygan Falls do not, and the performance of this Agreement by Sheboygan Falls will not: (i) conflict with or violate any law, order, writ, injunction, decree, statute, rule or regulation, court order or judgment applicable to Sheboygan Falls or by which Sheboygan Falls or any of its properties or assets may be bound or affected; (ii) violate or conflict with the Certificate of Incorporation or By-laws of Sheboygan Falls; or (iii) result in a violation or breach of or constitute a default under, with or without due notice or lapse of time or both, or give to others any rights of termination or cancellation of, or result in the creation of a lien or encumbrance on any part of the properties or assets of Sheboygan Falls pursuant to, any contract, instrument, permit, license or franchise to which Sheboygan Falls is a party or by which Sheboygan Falls or any of its properties is bound or affected, excluding from the foregoing clauses (i) and (iii) such violations, breaches or defaults which, in the aggregate, would not have a Sheboygan Falls Material Adverse Effect.

(b) Except for applicable filings and approvals of the insurance regulatory authorities (the “Insurance Regulatory Authorities”) of the State of Wisconsin and the Commonwealth of Pennsylvania (the “Insurance Regulatory Approvals”) and the filing and recordation of appropriate merger or other documents as required by the WBCL, the Code, the Law, the ETL, and the BCL and such Insurance Regulatory Authorities, Sheboygan Falls: (i) is not required to submit any notice, report, permit, authorization or other filing with any other regulatory authority or agency, domestic or foreign (a “Governmental Authority”), in connection with the execution or delivery or performance of this Agreement; and (ii) no waiver, consent, approval or authorization of any Governmental Authority is required to be obtained or made by Sheboygan Falls in connection with its execution or delivery or performance of this Agreement.

7. Representations and Warranties of Atlantic States. Atlantic States hereby represents and warrants to Sheboygan Falls as follows:

7.1 Organization and Qualification; Insurance Licenses. Atlantic States: (i) is a property/casualty insurance company duly organized, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania; (ii) has made all required filings under statutes applicable to casualty insurance companies; (iii) has all other necessary authorizations, approvals, orders, consents, certificates, permits, registrations or qualifications of and from the Insurance Department of the Commonwealth of Pennsylvania (the “Pennsylvania Department”) and any other applicable insurance regulatory authorities (the “Atlantic States Insurance Licenses”) to conduct its business as currently conducted and all Atlantic States Insurance Licenses are valid and in full force and effect; and (iv) has the requisite corporate power and authority and any necessary governmental approvals to own, operate or lease the properties that it purports to own, operate or lease and to carry on its business as it is now being conducted, and is duly admitted to conduct its insurance business, and is in good standing, in each jurisdiction where the character of its properties owned, operated or leased or the nature of its activities makes such admission necessary, except for such failure which, when taken together with all other such failures, would not have an Atlantic States Material Adverse Effect. The term “Atlantic States Material Adverse Effect” as used herein means, except as otherwise contemplated by this Agreement, any change in or effect on the business of Atlantic States that is or could reasonably be expected to be materially adverse to the business, operations, properties (including intangible properties), the Atlantic States Insurance Licenses, condition (financial or otherwise), results of operations, assets, liabilities, regulatory status or prospects of Atlantic States taken as a whole or the ability of Atlantic States taken as a whole to consummate any transactions contemplated by this Agreement or to perform its obligations under this Agreement.

7.2 Capitalization. The authorized capital stock of Atlantic States consists of 846,000 shares of common stock. As of July 22, 2019, 846,000 shares of Atlantic States common stock were issued and outstanding. All of the issued and outstanding shares of Atlantic States common stock are duly authorized, validly issued, fully paid and nonassessable.

7.3 Authority Relative to this Agreement. Atlantic States has the necessary corporate power and authority to enter into this Agreement and, subject to obtaining any necessary stockholder approval of the Merger and the approval of the Pennsylvania Department, to carry out its obligations hereunder. The execution and delivery of this Agreement by Atlantic States and the consummation by Atlantic States of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Atlantic States, subject to the approval of the Merger by Atlantic States’ sole stockholder in accordance with the BCL, the ETL, and the approval of the Pennsylvania Department. This Agreement has been duly executed and delivered by Atlantic States and, assuming due and valid

authorization, execution and delivery hereof by Sheboygan Falls, constitutes the legal, valid and binding obligation of Atlantic States, enforceable against it in accordance with its terms.

7.4 No Conflict; Required Filings and Consents. Subject to approval of the Merger by the Pennsylvania Department:

(a) The execution and delivery of this Agreement by Atlantic States do not, and the performance of this Agreement by Atlantic States will not: (i) conflict with or violate any law, order, writ, injunction, decree, statute, rule or regulation, court order or judgment applicable to Atlantic States or by which Atlantic States or any of its properties or assets may be bound or affected; (ii) violate or conflict with the Articles of Incorporation or By-laws of Atlantic States; or (iii) result in a violation or breach of or constitute a default under, with or without due notice or lapse of time or both, or give to others any rights of termination or cancellation of, or result in the creation of a lien or encumbrance on any of the properties or assets of Atlantic States pursuant to, any contract, instrument, permit, license or franchise to which Atlantic States is a party or by which Atlantic States or any of its properties is bound or affected, excluding from the foregoing clauses (i) and (iii) such violations, breaches or defaults which, in the aggregate, would not have an Atlantic States Material Adverse Effect.

(b) Except for applicable filings and approvals of the Insurance Regulatory Authorities and the filing and recordation of appropriate merger or other documents as required by the BCL, the ETL, the Law, the Code, the WBCL and the Insurance Regulatory Authorities, Atlantic States: (i) is not required to submit any notice, report, permit, authorization or other filing with any court, arbitrable tribunal, administrative agency or commission or other governmental or other regulatory authority or agency, domestic or foreign (a "Governmental Authority"), in connection with the execution or delivery or performance of this Agreement; and (ii) no waiver, consent, approval or authorization of any Governmental Authority is required to be obtained or made by Atlantic States in connection with its execution or delivery or performance of this Agreement.

8. Conditions of the Merger. The respective obligations of Atlantic States and Sheboygan Falls to effect the Merger shall be subject to the following conditions:

8.1 The Merger and this Agreement shall have been approved and adopted by the sole stockholder of Atlantic States and the sole stockholder of Sheboygan Falls.


8.2 The Insurance Regulatory Approvals shall have been obtained and remain in full force and effect without any material conditions other than conditions under applicable statutes and regulations having been imposed in connection therewith.

8.3 In the case of Atlantic States, there shall not have occurred a Sheboygan Falls Material Adverse Effect.


8.4 In the case of Sheboygan Falls, there shall not have occurred an Atlantic States Material Adverse Effect.

IN WITNESS WHEREOF, each of the parties has caused this Agreement to be executed on its behalf by its officers thereunto duly authorized all as of the day and year first above written.


ATTEST:

By: 
Sheri O. Smith, Secretary


ATLANTIC STATES INSURANCE COMPANY

By: 
Kevin G. Burke, President and
Chief Executive Officer

ATTEST:

By: 
Sheri O. Smith, Secretary

SHEBOYGAN FALLS INSURANCE COMPANY

By: 
Kevin G. Burke, President and
Chief Executive Officer