

Revised  
APRIL, 2014

## SAUCON MUTUAL INSURANCE COMPANY

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### BY-LAWS

#### I. POLICYHOLDER MEETINGS

Section 1. **Annual Meeting.** The annual meeting of the policyholders of the Company shall be held at its principal office or other place specified in the notice of meeting on the second Monday in April in each year for the purpose of electing Directors of the Company as hereinafter provided and for the transaction of such other business as may be submitted for the consideration of the policyholders.

Section 2. **Notice of Annual Meeting.** The Secretary shall give the policyholders notice of the time and place of the annual meeting by any means permitted by Pennsylvania law at least 30 days in advance.

Section 3. **Special Meetings.** The Board of Directors (hereinafter "**Board**") may, and at the written request of one-fourth of the policyholders it shall, call special meetings of the policyholders to be held at the principal office of the Company (or at such other place as the Board may specify) and fix the time (including the hour) and the purposes of such meeting.

Section 4. **Notice of Special Meeting.** The Secretary shall give policyholders notice of the time, place and purpose of any special meeting by any means permitted by Pennsylvania law at least 30 days in advance.

Section 5. **Quorum.** Five (5) policyholders, either by being present or represented by proxy, shall constitute a quorum at any annual or special meeting of the policyholders.

#### II. BOARD OF DIRECTORS

Section 1. **Number.** The Company shall be managed by a Board consisting of not less than seven members nor more than eleven members as may be fixed by the Board without policyholder approval.

Section 2. **Terms.**

A. The term of office of a Director shall be three years.

B. The Board shall be divided into three Classes. There shall be an equal number of Directors in each Class as much as possible. The terms of office of at least one Class shall expire each year, and the terms of office of the respective Classes shall expire in successive years.

C. A Director may be elected to a maximum of five terms of three years; provided, however, that Directors in office in April of 2001 still serving as of the adoption of Revised Bylaws in 2006 (namely, Phillip J. Bell and Susan Cooper Drabic) shall not be subject to a term limitation.

**Section 3. Qualifications.**

A. All Directors shall be policyholders of the Company and citizens of the Commonwealth of Pennsylvania.

B. Not less than one third ( $\frac{1}{3}$ ) of the Directors comprising the Board at any time shall be persons who are not officers or employees of the Company or of any entity controlling, controlled by or under common control with the Company and who are not beneficial owners of a controlling interest in the voting interests of the Company or of any entity controlling, controlled by or under common control of the Company, as those terms are defined in the Pennsylvania Insurance Holding Companies Act (each an “*Independent Director*”).

C. A Director shall retire as a Director at the end of such Director’s term coinciding with or following such Director’s 75<sup>th</sup> birthday.

**Section 4. Election of Directors.** All elections of Directors shall be by ballot, and each policyholder shall be entitled to one vote in person or by proxy. The election shall be conducted by three judges chosen by the existing Board for that purpose, who shall certify, under their hands, the result of such election to be filed with the papers of the Company.

**Section 5. Election of Officers.** The Board shall hold an organizational meeting at the first meeting following the annual meeting of the policyholders. At the organizational meeting, the Board shall elect a Chair and a Vice-Chair of the Board. The Board shall also elect a Chief Executive Officer, President, a Secretary, and a Treasurer of the Company.

**Section 6. Vacancies.** The Board may fill a vacancy in any Classes of Directors, no matter how created, except if created by expiration of a Director’s term. The term of a Director appointed to fill a vacancy in a particular Class will end on the day the term of that Class ends.

**Section 7. Powers and Duties.** Subject to the restrictions imposed by law, the Board may exercise all the powers of the Company. The Board may borrow money in the name of, and pledge the credit of, the Company for the purpose of paying losses, or for any other corporate purpose. The Board may, from time to time, fix the compensation to be paid to the officers, Directors, agents and employees of the Company. The Board shall have the power to authorize

the Company to accept and insure risks under any form of policy permitted by law.

Section 8. **Dividends.** Dividends upon the policies of the Company may be declared by the Board at any time. Dividends may be issued by the Board at its sole discretion in a form (cash or in-kind) and in any amount subject to any restrictions on dividends required by law.

Section 9. **Quorum.** A majority of the Board, including at least one Independent Director, shall constitute a quorum at any regular or special meeting for the transaction of business at any meeting of the Board.

Section 10. **Meetings.** The Board shall regularly meet not less than six times per year. The Chair of the Board shall be responsible for establishing a meeting schedule at the beginning of each year. Special meetings of the Board may be requested by the Chair or the Chief Executive Officer.

Section 11. **Personal Liability of Directors.** A Director of the Company shall not be personally liable for monetary damages for any action taken, or any failure to take any action, unless:

(1) The Director has breached or failed to perform the duties of their office pursuant to this fiduciary relation to the Company as set forth in 15 Pa.C.S. 1712; and

(2) The breach or failure to perform constitutes self-dealing, willful misconduct or recklessness.

The provisions of this Section shall not apply to (1) the responsibility or liability of a Director pursuant to any criminal statute or (2) the liability of any Director for the payment of taxes pursuant to local, state or federal law.

The immunity and other rights and privileges set forth herein shall be construed to grant the maximum protection allowed by the laws of the Commonwealth of Pennsylvania and shall in no way be construed to be a restriction or a limitation of any other right, privilege or immunity granted by the laws of the Commonwealth of Pennsylvania.

### **III. OFFICERS OF THE BOARD AND THEIR DUTIES**

Section 1. **Officers.** The officers of the Board shall be as follows:

A. **Chair of the Board.** It shall be the duty of the Chair to preside at all meetings of the Company and the Board and to perform such other duties as may be required by the Board.

B. **Vice Chair of the Board.** The Vice Chair shall perform the duties of the Chair

in the latter's absence, and shall have such other duties as may be assigned by the Board.

Section 2. **Election and Terms of Office.** All officers of the Board shall be elected annually by the Board, and each officer shall hold office for a term of one year and thereafter until a successor has been elected and qualified or until the officer's earlier death, resignation or removal.

#### IV. OFFICERS OF THE COMPANY AND THEIR DUTIES

Section 1. **Officers.** The officers of the Company shall be as follows:

A. **Chief Executive Officer** - The Chief Executive Officer (hereinafter "**CEO**") shall be the senior officer of the Company and shall have general and active management of the business of the Company. The CEO shall be responsible for carrying into effect the policies adopted or approved by the Board and such other duties as may be prescribed by the Board from time to time. The CEO may sign on behalf of the Company any documents or instruments which the Board has authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the Board or these By-Laws to some other officer or agent of the Company, or shall be required by law to be otherwise signed or executed.

B. **President.** The President shall be a Director of the Company and shall be a non-voting ex-officio member of all committees of the Board with the exception of the Audit Committee and the Nominating and Compensation Committee. The President shall sign all policies and endorsements of insurance of the Company as may be required by applicable law and may sign any documents or instruments on behalf of the Company which the Board has authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the Board or these By-Laws to some other officer or agent of the Company. The President shall have such other duties as may be assigned by the Board.

C. **Secretary.** The Secretary shall keep complete and accurate records of the Company. The Secretary shall attest to all policies and endorsements of insurance of the Company as may be required by applicable law. Such attestation may be in facsimile. The Secretary shall make a complete and accurate report of the year's business at each annual meeting of the Company and shall perform such other duties as the Board may assign.

D. **Treasurer.** The Treasurer, under the direction of the Board, shall have charge of all funds of the Company and direct that deposits, in the name of the Company, shall be placed in depositories designated by the Board. The Treasurer shall review documents and make a complete and accurate report of the finances of the Company at each annual meeting, thereof, or at any time upon request of the Board. The Treasurer may also be either the President or the Secretary of the Company.

Section 2. **Election and Terms of Office.** All officers of the Company shall be elected annually by the Board, and each officer shall hold office for a term of one year and

thereafter until a successor has been elected and qualified or until the officer's earlier death, resignation or removal. Each officer of the Company shall be a natural person of full age.

Section 3. **Removal of Officers.** Any officer of the Company may be removed at any time by vote of the Board.

## V. COMMITTEES OF THE BOARD OF DIRECTORS.

Section 1. **Establishment of Committees.** The Board may establish one or more committees comprised solely of Directors, which, to the extent authorized by the Board, shall have and may exercise all power and authority of the Board, except that a committee shall not have the power or authority as to the following:

- (1) The submission to policyholders of any action requiring approval of shareholders under the Pennsylvania Business Corporation Law.
- (2) The creation or filling of vacancies in the Board.
- (3) The adoption, amendment or repeal of these bylaws.
- (4) The amendment or repeal of any resolution of the Board that by its terms is amendable or subject to appeal only by the Board.
- (5) Action on matters committed by a resolution of the Board to another committee of the Board.

With the exception of the Audit Committee and the Nominating and Compensation Committee, not less than one third ( $\frac{1}{3}$ ) of the members of each committee of the Board shall be Independent Directors, and at least one Independent Director shall be required to constitute a quorum for the transaction of business at any meeting of each committee of the Board.

Section 2. **Audit Committee.** The Board shall establish and appoint members to an Audit Committee, which shall consist of three (3) or more Directors to be appointed at the annual meeting of the Board, provided that all such Directors shall be Independent Directors. The Audit Committee shall recommend to the Board the selection, retention and/or termination of external financial auditors for the Company; review the Company's financial condition and the scope and results of the annual financial audit, including the external auditor's management letter and management's responses thereto; review the scope and results of internal audits and the response of the Company's management; and report all relevant matters to the Board on a timely basis.

Section 3. **Nominating and Compensation Committee.** The Board shall establish and appoint members to a Nominating and Compensation Committee. Such Committee shall consist of three (3) or more Directors to be appointed at the annual meeting of the Board, provided that all such Directors shall be Independent Directors. The Nominating and Compensation Committee shall nominate persons to serve as Directors for election by the policyholders, evaluate the performance of officers of the Company, and recommend to the Board

the selection and compensation of such officers.

## **VI. INDEMNIFICATION OF DIRECTORS AND OFFICERS.**

Section 1. **General Rule.** The Company shall indemnify each Indemnitee against all Liabilities to the fullest extent permitted by Pennsylvania law.

A.. **Advance Payment of Expenses.** The right to indemnification provided in this Article VI shall include the right to have expenses (including attorneys' fees and disbursements) incurred by the Indemnitee in defending any Proceeding paid by the Company in advance of the final disposition of the Proceeding to the fullest extent permitted by Pennsylvania law; provided that, if Pennsylvania law continues so to require, the payment of such expenses incurred by the Indemnitee in advance of the final disposition of a Proceeding shall be made only upon receipt by the Company of an undertaking, by or on behalf of the Indemnitee, to repay all amounts so advanced without interest if it shall ultimately be determined that the Indemnitee is not entitled to be indemnified by the Company under this Section or otherwise.

B. **Continuing Right to Indemnification.** Indemnification pursuant to this Article VI shall continue as to an Indemnitee who has ceased to be either a Director or officer or a representative of the Company and shall inure to the benefit of his or her heirs and personal representatives.

C. **Definitions.** For purposes of this Article VI, (A) "**Indemnitee**" shall mean each person who was or is a party to, or is threatened to be made a party to, or is otherwise involved in, any Proceeding, by reason of the fact that he or she is or was a Director or officer of the Company or is or was serving at the request or for the benefit of the Company as a representative of another domestic or foreign corporation for profit or not-for-profit, partnership, joint venture, trust, or other enterprise; (B) "**Liability**" or "**Liabilities**" shall mean all expenses (including attorneys' fees and disbursements), judgments, fines, losses, penalties and amounts paid or payable in settlement and incurred by an Indemnitee in connection with a Proceeding; and (C) "**Proceeding**" shall mean any threatened, pending or completed action, appeal or other proceeding of any nature, whether civil, criminal, administrative, investigative or through arbitration in which an Indemnitee is a party, a witness or otherwise involved.

Section 2. **Indemnification of Representatives.** The Company may, by action of the Board, and to the extent provided in such action, indemnify against Liabilities, as though such person is an Indemnitee, any person by reason of the fact that such person is or was a representative of the Company or was serving at the request of the Company as a representative of another entity.

Section 3. **Mandatory Indemnification.** To the extent that a representative of the Company has been successful on the merits or otherwise in defense of any Proceeding or otherwise in defense of any claim, issue or matter therein, the Company shall indemnify such person against any Liability incurred by such person in connection with the Proceeding.

Section 4. **Non-Exclusivity of Rights.** The rights to indemnification and to the advancement of expenses provided in this Article VI shall not be exclusive of any other rights that any person may have or hereafter acquire under any statute, provision of the articles or bylaws, agreement, vote of policyholders or Directors, or otherwise.

Section 5. **Insurance.** The Company shall purchase and maintain insurance, at its expense, for the benefit of any person on behalf of whom insurance is permitted to be purchased by Pennsylvania law against any Liability, whether or not the Company would have the power to indemnify such person under Pennsylvania or other law. The Company may also purchase and maintain insurance to insure its indemnification obligations whether arising hereunder or otherwise.

Section 6. **Fund for Payment of Expenses.** The Company may create a fund of any nature, which may, but need not be, under the control of a trustee, or otherwise may secure in any manner its indemnification obligations, whether arising hereunder or otherwise.

Section 7. **Amendment.** The provisions of this Article VI relating to indemnification and to the advancement of expenses shall constitute a contract between the Company and each Indemnitee that may be modified as to any Indemnitee only with that person's consent or as specifically provided in this Section. Notwithstanding any other provision of these bylaws relating to their amendment generally, any repeal or amendment of this Article VI that is adverse to any Indemnitee shall apply to such Indemnitee only on a prospective basis, and shall not reduce any limitation on the personal liability of a Director of the Company, or limit the rights of an Indemnitee to indemnification or to the advancement of expenses with respect to any action or failure to act occurring prior to the time of such repeal or amendment. Notwithstanding any other provision of these bylaws, no repeal or amendment of these bylaws shall affect any or all of this Article VI so as either to reduce the limitation of Directors' liability or limit indemnification or the advancement of expenses in any manner unless adopted by the unanimous vote of the Directors of the Company then serving, provided that no such amendment shall have retroactive effect inconsistent with the preceding sentence.

Section 8. **Changes in Pennsylvania Law.** References in this Article VI to Pennsylvania law or to any provision thereof shall be to such law as it existed on the date this Article VI was adopted or as such law thereafter may be changed; provided that (a) in the case of any change that expands the liability of Directors or limits the indemnification rights or the rights to advancement of expenses that the Company may provide, the rights to limited liability, to indemnification and to the advancement of expenses provided in this Article VI shall continue as theretofore to the extent permitted by law; and (b) if such change permits the Company without the requirement of any further action by Directors or policyholders to limit further the liability of Directors (or limit the liability of officers) or to provide broader indemnification rights or rights to the advancement of expenses than the Company was permitted to provide prior to such change, then liability thereupon shall be so limited and the rights to indemnification and the advancement of expenses shall be so broadened to the extent permitted by law.

## **VII. POLICIES AND POLICYHOLDERS.**

Section 1. **Membership.** The membership of the Company shall consist of policyholders having insurance therein.

Section 2. **Voting.** Each member in good standing shall be entitled to one (1) vote at any regular or special meeting of policyholders.

Section 3. **Proxy.** Policyholders are permitted to vote by proxy at any special or annual meeting.

Section 4. **Audit.** The books and accounts of the Company are to be audited by a Certified Public Accountant once each year. The Auditor will be selected by the Board, based on the recommendations of the Audit Committee. The annual report of the Company will be filed with the Insurance Department of the Commonwealth of Pennsylvania as required by law.

### **VIII. AMENDMENTS.**

These bylaws may be altered or amended by the affirmative vote of a majority of the voting policyholders at an annual meeting or by an affirmative vote of a majority of the Board from time to time as may be necessary in their judgment for the prudent and efficient government of the affairs of the Company. Any alterations or amendments by the Board shall be subject to ratification by the policyholders of the Company at the next Annual or Special Meeting called for that purpose, provided the notice of such meeting shall set out the amendment or alteration proposed to be adopted.