

SAUCON
HOLDING COMPANY

BY-LAWS

I. SHAREHOLDER MEETINGS

Section 1. **Annual Meeting.** The annual meeting of the shareholders of the Company shall be held at its principal office or other place specified in the notice of meeting at such time during the fiscal year of the Company that is selected by the Board of Directors 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 shareholders.

Section 2. **Notice of Annual Meeting.** The Secretary shall give the shareholders 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 or more shareholders who hold at least one tenth part in interest of the capital stock entitled to vote at such meeting it shall, call special meetings of the shareholders 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 shareholders 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.** The holders of a majority in interest of all stock issued, outstanding and entitled to vote at a meeting shall constitute a quorum at any annual or special meeting of the shareholders.

Section 6. **Voting and Proxies.** Shareholders shall have one vote for each share of stock entitled to vote held by them of record according to the records of the company and a proportionate vote for any fractional share so held by them. Shareholders may vote either in person or by written proxy dated not more than six months before the meeting named therein. Proxies shall be filed with the clerk of the meeting, or of any adjournment thereof, before being voted. A proxy with respect to stock held in the name of two or more persons shall be valid if executed by one of them unless at or prior to exercise of the proxy the Company receives a specific written notice to the contrary from any one of them. A proxy purporting to be executed by or on behalf of a shareholder shall be deemed valid unless challenged at or prior to its exercise and the burden of proving invalidity shall rest on the challenger.

Section 7. **Action at Meeting.** When a quorum is present, any matter before the meeting shall be decided by vote of the holders of a majority of the shares of stock present or

represented and voting on such matter, except where a larger vote is required by law, by the Articles of Incorporation of the Company (the "**Articles**") or by these by-laws. No ballot shall be required for any election unless requested by a shareholder present or represented at the meeting and entitled to vote in the election. The Company shall not directly or indirectly vote any share of its own stock.

Section 8. **Action Without Meeting.** Any action to be taken by shareholders may be taken without a meeting if the holders of record of a majority of the shares entitled to vote at the meeting, represented in person or by proxy, consent to the action by a writing filed with the records of the meeting of shareholders. Such consent shall be treated for all purposes as a vote at a meeting.

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 shareholder 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 individuals who were Directors of Saucon Mutual Insurance Company in office in April of 2001 and who are serving as Directors of the Company as of the adoption of these By-laws (namely, Phillip J. Bell and Susan Cooper Drabic) shall not be subject to a term limitation.

Section 3. **Qualifications.**

A. Not less than two thirds (2/3) of the Directors shall be citizens of the United States.

B. Not less than one third (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, other than Martin Gilchrist, shall retire as a Director at the end of such Director's term coinciding with or following the Director's 75th birthday. Martin Gilchrist, if a Director, shall retire as a Director at the end of his term coinciding with or following his 85th birthday.

Section 4. **Election of Directors.** All elections of Directors shall be by ballot. Cumulative voting shall not be applicable. 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 shareholders. At the organizational meeting, the Board shall elect a Chair and a Vice-Chair of the Board. The Board shall also elect a President, a Secretary, a Chief Executive Officer 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. **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 9. **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 10. **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. **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 all papers to which the seal of the Company is affixed. The President's signature to policies and endorsements may be in facsimile.~~

B. **Chief Executive Officer.** The CEO shall manage the overall operation of the Company, and perform such other duties as may be required by the Board. Subject to the provision and approval of the Board, the CEO shall have general charge of the affairs of the Company.

C. **Secretary.** The Secretary shall keep complete and accurate records of the Company. ~~The Secretary shall attest all 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 shareholders 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 two (2) 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 two (2) 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 shareholders, 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 shareholders 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 shareholders 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. STOCK

Section 1. **Certificates of Stock.** Every holder of stock in the Company shall be entitled to have a certificate signed in the name of the Company by the president or a vice president and by the treasurer or an assistant treasurer or the secretary or an assistant secretary of the Company, certifying the number of shares owned by such shareholder in the Company; provided however that where such certificate is signed (1) by a transfer agent or an assistant transfer agent or (2) by a transfer clerk acting on behalf of the Company and a registrar, the signature of the president, vice president, treasurer, assistant treasurer secretary or assistant secretary may be facsimile. In case any officer who has signed or whose facsimile signature has been placed on such certificate or certificates shall have ceased to be such officer before such certificate or certificates are issued, they may be issued by the Company with the same effect as if such officer had not ceased to be such at the time of their issue. Certificates of stock shall be in such form as shall, in conformity to law, be prescribed from time to time by the board of directors.

Section 2. **Replacement of Certificates.** In case of the alleged loss, destruction or mutilation of a certificate of stock, a duplicate certificate may be issued in place thereof, upon such terms as the board of directors may prescribe.

Section 3. **Transfer of Shares of Stock.** Subject to the restrictions, if any, imposed by the Articles, title to a certificate of stock and to the shares represented thereby shall be transferred only by delivery of the certificate properly endorsed, or by delivery of the certificate accompanied by a written assignment of the same, or a written power of attorney to sell, assign, or transfer the same or the shares represented thereby, properly executed; but the person

registered on the books of the Company as the owner of shares shall have the exclusive right to receive dividends thereon and to vote thereon as such owner, shall be held liable for such calls and assessments, if any, as may lawfully be made thereon, and except only as may be required by law may in all respects be treated by the Company and its transfer agents and registrars, if any, as the exclusive owner thereof. It shall be the duty of each shareholder to notify the Company of the shareholder's post office address.

Section 4. **Transfer Books.** The board of directors shall have the power to close the stock transfer books of the Company for a period not exceeding sixty days preceding the date of any meeting of shareholders or the date for payments of any dividend or the date for the allotment of rights or the date when any change or conversion or exchange of capital stock shall go into effect or the date for obtaining the consent of shareholders for any purpose; provided, however, that in lieu of closing the stock transfer books as aforesaid, the board of directors may fix in advance a date not exceeding fifty days preceding the date of any meeting of the shareholders, or the date of any other of the above-mentioned events, as a record date from the determination of the shareholders entitled to notice of, and to vote at, any such meeting, or entitled to receive payment of any such dividend, or to any such allotment of rights or to exercise the rights in respect of any such change, conversion or exchange of capital stock or to give such consent, and in such case such shareholders and only such shareholders as shall be shareholders of record on the date so fixed shall be entitled to such notice of, and to vote at, such meeting, or to receive payment of such dividend, or to receive such allotment of rights, or to exercise such rights or to give such consent, as the case may be, notwithstanding any transfer of any stock on the books of the Company after such record date fixed as aforesaid.

Section 5. **Issuance of Stock.** Unless otherwise voted by the shareholders, the whole or any part of any unissued balance of the authorized capital stock of the Company, may be issued pursuant to vote of the board of directors to such persons, for such consideration, whether cash, property, goodwill, services or expenses, or as a stock dividend, and on such terms as the board of directors may determine from time to time and without first offering the same for subscription to shareholders of the Company.

~~VIII. — 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. ~~IX.~~ MISCELLANEOUS PROVISIONS.

Section 1. **Dividends.** Subject to any applicable provisions of law and the Articles, dividends upon the capital stock of the Company may be declared by the board of directors at any regular or special meeting. Dividends may be paid in cash, in property, or in shares of the capital stock.

Section 2. **Seal.** The corporate seal of the Company shall, subject to alteration by the board of directors, consist of a flat-faced circular die with the word "Pennsylvania", together with the name of the Company and the year of its organization cut or engraved thereon. The corporate seal of the Company may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

Section 3. **Evidence of Authority.** A certificate of the secretary or assistant secretary or a temporary secretary as to any action taken by the shareholders, directors or any officer or representative of the Company shall, as to all persons who rely thereon in good faith, be conclusive evidence of such action. The exercise of any power which by law, by the Articles or by these by-laws, or under any vote of the shareholders or the board of directors, may be exercised by an officer of the Company only in the event of absence of another officer or any other contingency, shall bind the company in favor of anyone relying thereon in good faith, whether or not such absence or contingency existed.

Section 4. **Fiscal Year.** The fiscal year of the Company shall be the calendar year.

Section 5. **Voting of Securities.** Powers of attorney, proxies, waivers of notice of meeting, consents and other instruments relating to securities owned by the Company may be executed in the name of and on behalf of the Company by the chairman of the board, if any, the president, the treasurer or the secretary, and any such officer may, in the name of and on behalf of the Company, take all such action as any such officer may deem advisable to vote in person or by proxy at any meeting of security holders of any corporation in which the Company may own securities and at any such meeting shall possess and may exercise any and all rights and powers incident to the ownership of such securities and which, as the owner thereof, the Company might have exercised and possessed if present. The board of directors may, by resolution, from time to time confer like powers upon any other person or persons.

Section 6. **Amendments.** These bylaws may be altered or amended by the affirmative vote of a majority of the votes cast by the shareholders at a regular or special meeting called for that purpose 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 shareholders 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.