

RULES AND REGULATIONS

FARMERS INSURANCE EXCHANGE

ARTICLE I

NAME, LOCATION AND PURPOSE

SECTION 1. The name of this organization shall be:

FARMERS INSURANCE EXCHANGE

SECTION 2. The location of its Principal or Home Office shall be in the City of Los Angeles, County of Los Angeles, State of California. The street address of the Principal-Home Office shall be the address designated with the California Department of Insurance.

SECTION 3. The purpose for which the Exchange is formed is to insure and reinsure its members and others, including county mutual insurers, against loss, expense, and liability resulting from the ownership, maintenance, and use of any automobile or other vehicle, including insurance against loss, expense and liability to goods and merchandise owned or held in custody as cargo for transit in such automobiles or other vehicles; also, to insure and reinsure its members and others against loss suffered by accident and health; also, to insure and reinsure its members and others against loss resulting from liability for injury, fatal or non-fatal, suffered by any natural person, or property interests of others; also, to insure and reinsure its members and others against loss by reason of fire hazards, marine losses, including inland marine, plate glass, burglary, sprinkler and aircraft; also, to insure and reinsure its members and others against loss by liability imposed by law upon employers to compensate employees and their dependents for injury sustained by the employees arising out of and in the course of the employment, irrespective of negligence or of the fault of either party; also to insure and reinsure its members and others against loss of any and every kind and nature that may now or hereafter be permitted by law, under the interinsurance plan in accordance with the laws of the State of California providing for reciprocal or interinsurance exchanges.

ARTICLE II

MEMBERS

SECTION 1. All persons insured in the Exchange must be members thereof. Those eligible for membership in the Exchange are persons having their residence in the territory in which the Exchange is authorized to exchange contracts of insurance, except that nothing herein contained shall prevent the extension of such insurance as may be granted to members hereof to others as additional insureds. The attorney-in-fact shall have power to select from those eligible for membership any person deemed a desirable risk. For purposes of this section, a "person" includes a corporation, partnership, limited liability company or other legal entity as well as a natural person.

SECTION 2. Membership shall begin upon the taking effect of insurance, and shall end upon the cancellation or other termination of the same; ~~provided that a member whose insurance has been cancelled or terminated may be reinstated in accordance with the requirements of the Exchange.~~

SECTION 3. Each member shall be entitled to one vote per insurance policy held within the Exchange, either in person or by proxy, at all meetings of members. All proxies must be in writing and filed with the attorney-in-fact at the ~~Principal-Home~~ Office of the Exchange at least ten (10) days prior to the date of the meeting at which such proxy is to be voted. Any officer or member eligible to vote at any such meeting, or any officer of the attorney-in-fact corporation shall be entitled to vote such proxy if authorized in writing so to do.

SECTION 4. The record of the members, giving the names and addresses of all members, and any other personal or privileged information about a member collected or received by the Exchange in connection with an insurance transaction shall be kept at the Home Office, shall be deemed proprietary and confidential information and shall not be disclosed to any member. In the event that a member wishes to send materials to the other members, in lieu of providing the requesting member with access to the record of the members, the Exchange shall mail such materials that it deems proper and appropriate to all members upon (i) a determination by the Board of Governors of the Exchange (the "Board of Governors" and the members thereof, the "Governors") that such distribution of materials is for a proper purpose related to such requesting member's interest as a member and (ii) upon payment by the requesting member of the reasonably estimated cost of preparing and mailing such materials (including internal costs). The Secretary shall inform the requesting member of such reasonably estimated cost of preparing and mailing such materials (including internal costs) within ten (10) days after a determination by the Board of Governors that the purpose for such distribution of materials is proper.

ARTICLE III BOARD OF GOVERNORS, THEIR ELECTION, TERMS AND POWERS

SECTION 1. Up until the annual meeting in 2020, There shall be a Board of Governors consisting of not less than five (5) nor more than twelve (12) members ~~or agents of members~~, all of whom, during their respective terms, must and shall be members ~~or agents of members~~ of the Exchange, and upon ceasing to be members ~~or agents of members~~ of the Exchange, shall thereupon be required to resign as a Governor in accordance with the provisions of Section 3 of this Article; provided that such resignation shall be effective as of the time such Governor ceased to be a member ~~or agent of members~~ of the Exchange. Commencing with the annual meeting in 2020~~1~~, the size of the Board will reduce over time to not less than five (5) nor more than eight (8) members, as follows: a maximum of eleven (11) members shall serve on the Board in 2020~~1~~; a maximum of ten (10) members shall serve on the Board in 2021~~2~~; a maximum of nine (9) members shall serve on the Board in 2022~~3~~; and a maximum of eight (8) members shall serve on the Board in 2023~~4~~.

SECTION 1. All Governors shall be subject to both age and term limits as described herein. Regardless of an individual's age on the date of election, no person elected to the Board of Governors shall serve after the last day of the calendar year in which he or she attains age 76. ~~The number of Governors at any given time shall be fixed by the Board of Governors. All Governors first elected to serve on the Board following the 2019 annual meeting shall not serve more than four (4) full four-year terms. All current Governors and those elected at or prior to the 2019 annual meeting shall be grandfathered from the stated term limit.~~

SECTION 2. The Board of Governors shall be elected by the members at their annual meeting by a plurality vote of the members represented at said meeting, either in person or by proxy. All nominations for Governors must be filed in writing with the attorney-in-fact at the Principal Home Office of the Exchange at least ninety (90) days prior to the ~~first anniversary of the preceding year's annual meeting; provided that in the event that the annual meeting is changed to a date that is not within thirty (30) days before or after such anniversary date, the nomination to be timely must be filed no later than the close of business on the tenth (10th) day following the date on which such notice of the change of the date of the annual meeting was mailed.~~

To be in proper written form, a member's nomination must set forth (a) as to each person whom the member proposes to nominate for election as a Governor (i) the name, age, policy number(s), business address and residence address of the person, (ii) the principal occupation or employment of the person and (iii) any other information relating to the person concerning the person's qualifications to be a Governor; and (b) as to the member giving the notice (i) the name, record address and policy number(s) of such member, (ii) a description of all arrangements or understandings between such member and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such member, and (iii) a representation that such member intends to appear in person or by proxy at the meeting to nominate the persons named in its notice. Such notice must be accompanied by a written consent of each proposed nominee to being named as a nominee and to serve as a Governor if elected. If a member's nomination is not in the form prescribed by this paragraph, or is not filed in accordance with the procedures set forth in this Section 2 of Article III, the unanimous vote of the members present in person or by proxy shall be necessary to elect one not so nominated to the Board of Governors.

None of the Governors shall be current directors, officers, agents, employees or shareholders of ~~Farmers Group, Inc. the Exchanges~~, any attorney-in-fact of the Exchange, or any direct or indirect parent or subsidiary of, or any entity under common ownership with, ~~Farmers Group, Inc. the Exchange~~ or any attorney-in-fact of the Exchange.

The Governors shall be classified, with respect to the duration of the term for which they severally hold office, into four (4) classes as nearly equal in number as possible. Such classes shall consist of one class ("Class 1") who shall be elected for a term expiring upon the next following annual meeting of members and the election of their respective successors; a second class ("Class 2") who shall be elected for a term

expiring upon the second following annual meeting of members and the election of their respective successors; a third class (“Class 3”) who shall be elected for a term expiring on the third following annual meeting of members and the election of their respective successors; and a fourth class (“Class 4”) who shall be elected for a term expiring on the fourth following annual meeting of members and the election of their respective successors. The Board of Governors shall increase or decrease the number of Governors in one or more classes as may be appropriate whenever it increases or decreases the number of Governors pursuant to Section 1 of this Article III in order to ~~insure~~ ensure that the four (4) classes shall be as nearly equal in number as possible; provided that no increase in the number of Governors shall affect the then-current term of any Governor then in office. Furthermore, the Executive Committee shall be permitted to reassign Governors to a different class as appropriate and necessary to facilitate the gradual reduction in Board size commencing at the Annual meeting in 2020~~1~~. Such reduction in class size shall function as follows: there shall be a maximum of 2 seats available in Class 1-4 in 2021~~0~~; there shall be a maximum of 2 seats available in Class ~~1~~2 in 2022~~1~~; there shall be a maximum of 2 seats available in Class ~~2~~3 in 2023; and there shall be a maximum of 2 seats available in Class ~~3~~4 in 2023~~4~~. The ~~ChairmanChair and the Vice ChairmanChair~~ of the Board of Governors shall designate the initial members of each class. At each annual meeting of members, the successors of the class of Governors whose term expires at that meeting shall be elected for a term expiring upon the fourth following annual meeting of members and the election of their respective successors.

SECTION 3. Any or all of the Governors may be removed from ~~office~~ the Board at any time, but only for cause, and only by the affirmative vote of either (i) two-thirds of the outstanding members, or (ii) two-thirds of the Governors of the Exchange upon recommendation by the Executive Committee.

The Executive Committee shall have the authority to suspend any Governor from the Board at any time, subject to the Board of Governors’ ratification at the next Board of Governors’ meeting.

SECTION 4. A Governor who has been suspended shall not attend meetings, receive compensation or otherwise participate in Board activities during the period of suspension. A suspended Governor may be removed from suspension by the affirmative vote of two-thirds of the Governors of the Exchange upon recommendation by the Executive Committee.

SECTION 5. Vacancies in the Board of Governors shall be filled by the remaining members of the Board of Governors. The election to fill a vacancy on the Board of Governors shall be by a majority vote of the remaining Governors and a Governor so elected shall hold office for a term expiring upon the annual meeting of members at which the term of office of the class to which they have been elected expires and the election of their respective successors.

~~SECTION 3.~~ SECTION 6. Any Governor may resign at any time upon notice given in writing or by electronic transmission to the Board of Governors, the ~~ChairmanChair~~ of the Board of Governors or the Secretary of the Exchange. Such

resignation shall take effect at the time specified in such notice or, if the time be not specified, upon receipt thereof by the Board of Governors, the ~~Chairman~~Chair of the Board of Governors or the Secretary of the Exchange, as the case may be. Unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

~~SECTION 4. SECTION 7.~~ The Board of Governors shall have general supervision over the finances of the Exchange and of its operations to the extent that said operations shall conform to or be consistent with the subscribers' agreement and power of attorney. ~~Said~~The Board of Governors shall have the power to create and maintain a surplus free from any claim or demand by any or all policyholders, members, or subscribers, individually or collectively, and shall have power to set aside from premium deposits or premiums or other income such sums as it shall elect for the creation, maintenance and increase of said free or general surplus. Any such sums so set aside and allocated to such free or general surplus may be retained by the Exchange free from any claim or demand by any policyholder, member, or subscriber but shall be applied, after providing for the payment of all liabilities of the Exchange, only to such purposes as may be deemed by the Board of Governors to be proper and advantageous to policyholders. In the event of the termination of the business of the Exchange by liquidation, or otherwise, any surplus remaining after the payment of all its liabilities, shall be distributed only to those members and policyholders who have policies in force in the Exchange at the date of such termination. ~~The Board of Governors shall have power to make and amend these Rules and Regulations and take all action necessary or desirable for the proper transaction and conduct of the business and affairs of the Exchange, not inconsistent with the powers granted to the attorney in fact by the subscribers' application and power of attorney, and such additional powers as are necessary and proper to enable the attorney in fact to carry out its functions.~~

~~SECTION 5. SECTION 8.~~ The ~~Chairman~~Chair of the Board of Governors shall preside at all meetings of the members and the Board of Governors, and shall perform the usual duties incident to that office. In the absence or disability of the ~~Chairman~~Chair, the Vice ~~Chairman~~Chair shall preside and have all the powers of the ~~Chairman~~Chair. No Governor shall be elected as the ~~Chairman~~Chair or Vice ~~Chairman~~Chair if he or she has reached the age of 72. The process to nominate and elect the ~~Chairman~~Chair and Vice ~~Chairman~~Chair, as well as the term of service as ~~Chairman~~Chair and Vice ~~Chairman~~Chair, shall be determined from time to time by the Board of Governors.

~~SECTION 6. SECTION 9.~~ Governors attending any duly constituted meeting of the Board of Governors, ~~Committee of the Board of Governors, or recognized Board of Governors event~~ shall be reimbursed for their actual expense incurred while attending and traveling to and from the place of meeting and their place of residence, transportation expense not to exceed the cost of the most direct route.

~~SECTION 7. SECTION 10.~~ Governors shall be duly compensated for serving on the Board of Governors ~~and attending meetings. The Chair and the Vice Chair shall receive additional compensation for serving in this capacity.~~ The amount of compensation received by Governors ~~and the Chair of the Board of Governors~~ shall be

~~set forth in a schedule of compensation approved by (i) the affirmative vote of at least two-thirds of the total number of Governors at any regular or special meeting and or (ii) the affirmative vote of at least two thirds of the Governors represented at such meeting, either in person or by proxy. Such schedule shall be filed with the minutes of the proceedings of the Board of Governors.~~

~~In addition, in recognition of the necessity of travel imposed on Governors in conjunction with attendance at meetings, Travel/Accident Insurance shall be provided to Governors with a face amount of \$100,000.00 which would include Life and Accidental Death and Dismemberment Coverage for travel to and from Board and Committee meetings, as well as travel to and from recognized Board of Governors events.~~

~~Furthermore, Governors' spouses shall be separately covered under the Travel/Accident Insurance provided to Governors, if the Exchange requests that the spouse join the Governor at a meeting of the Board of Governors or Exchange sponsored function recognized Board of Governors events.~~

~~SECTION 8. Members of any Committee of the Board of Governors attending any duly constituted meeting of such Committee, shall be reimbursed for their actual expense incurred on the same basis as the Governors as set forth in Section 6 of this Article. Members of the Executive Committee and any other Committee of the Board of Governors shall be duly compensated for serving on a Committee and attending meetings. The amount of compensation received by Committee Members shall be set forth in a schedule of compensation approved by (i) the affirmative vote of at least two-thirds of the total number of Governors at any regular or special meeting or (ii) the affirmative vote of at least two thirds of the Governors represented at such meeting, either in person or by proxy. Such schedule shall be filed with the minutes of the proceedings of the Board of Governors.~~

~~SECTION 9. SECTION 11.~~ No other expense or compensation shall be allowed any Governor, except by two-thirds vote of the quorum present at a duly constituted meeting of the Board of Governors.

ARTICLE IV COMMITTEES

~~SECTION 1. The Board of Governors shall name an Executive Committee and an Audit Committee, each such committee to consist of one or more Governors. The Executive and Audit Committees may be Joint Committees as defined in Section 2 of this Article IV. may, by resolution, designate one or more committees, including but not limited to an Executive Committee and an Audit Committee, each such committee to consist of one or more Governors. The Board of Governors may designate one or more Governors as alternate members of any committee to replace any absent or disqualified member at any meeting of the committee. Any such committee shall have the powers and authority granted to such committee in the committee's charter, which charter shall be approved by the Board of Governors. All committees of the Board of Governors shall~~

~~keep minutes of their meetings and shall report their proceedings to the Board of Governors at least annually and when requested or required by the Board of Governors. Any committee of the Board of Governors may adopt such rules and regulations not inconsistent with the provisions of law or these Rules and Regulations for the conduct of its meetings as such committee may deem proper.~~

SECTION 2. The Board of Governors may, ~~by resolution,~~ designate one or more Governors to serve on one or more joint committees (the "Joint Committees") with governors of Truck Insurance Exchange and Fire Insurance Exchange. ~~The Board of Governors may designate one or more Governors as alternate members of the Joint Committee to replace any absent or disqualified Governor at any meeting of the Joint Committee.~~ Any such Joint Committee shall have the powers and authority granted to such committee in the committee's charter, which charter shall be approved by each of the Board of Governors and the Boards of Governors of Truck Insurance Exchange and Fire Insurance Exchange. All Joint Committees shall keep minutes of their meetings and shall report their proceedings to the Board of Governors as required by the charter for such Joint Committee. ~~Any Joint Committee may adopt such rules and regulations not inconsistent with the provisions of law or these Rules and Regulations for the conduct of its meetings as such Joint Committee may deem proper.~~

ARTICLE V OFFICERS, THEIR ELECTION, TERMS AND POWERS

SECTION 1. The officers of the Exchange shall consist of a Secretary and such ~~other officers~~officers or named executives as the Board of Governors may from time to time determine, ~~each of whom shall be elected by the Board of Governors~~ and shall have such authority, functions or duties as set forth in these Rules and Regulations or as determined by the Board of Governors. Each officer or named executive shall be chosen by the Board of Governors and shall hold office for such term as may be prescribed by the Board of Governors and until such person's successor shall have been duly chosen and qualified, or until such person's earlier death, disqualification, resignation or removal. ~~Officers may but need not be Governors.~~

SECTION 2. Any officer or named executive of the Exchange may be removed, with or without cause, by the Board of Governors, without prejudice to the rights, if any, of such officer or named executive under any contract to which it is a party. Any officer or named executive may resign at any time upon written notice to the Exchange, without prejudice to the rights, if any, of the Exchange under any contract to which such officer is a party. If any vacancy occurs in any office of the Exchange, the Board of Governors may elect a successor to fill such vacancy for the remainder of the unexpired term and until a successor shall have been duly chosen and qualified.

SECTION 3. The Secretary shall keep accurate minutes of all meetings of the members, all meetings of the Board of Governors and all meetings of committees of the Board of Governors, including any Joint Committee; provided that if the Secretary is not present at any such meeting, the Board of Governors, or, in the case of a meeting of a committee of the Board of Governors (including any Joint Committee), the members of

such committee, may designate any individual present at such meeting to keep accurate minutes of such meeting. The Secretary shall give notice of all meetings requiring notice, and shall perform all other duties incident to this office.

ARTICLE VI ANNUAL AND SPECIAL MEETING OF MEMBERS

SECTION 1. The annual meeting in each year shall be held on the first Monday following the 15th day of March, at the Home Office ~~of the attorney in fact~~ at the hour of 2:00 P.M. unless the Board of Governors shall elect to change the time and place of meeting, in which case, but not otherwise, due notice shall be mailed to each member as in the case of special meetings.

SECTION 2. Special meetings of the members may be called by the ~~Chairman~~Chair of the Board of Governors, and must be ~~so called by him~~ upon either (i) the written request of one-third of the total number of Governors and ten percent (10%) of the outstanding members or (ii) the written request of two-thirds of the total number of Governors.

In order for any member to request a special meeting, one or more written requests for a special meeting, signed by ten percent (10%) or more of the outstanding members (the "Special Meeting Request") shall be delivered to the Secretary. In addition, the Special Meeting Request shall set forth the purpose of the meeting and the matters proposed to be acted on at the meeting, shall bear the date of signature of each member ~~(or proxy or other agent)~~ signing the Special Meeting Request, shall set forth the name, address and policy number(s) of each member signing such request, as they appear of record in the ~~office of the attorney in fact on his application~~Home Office, and a current name and address, if different, (or on whose behalf the Special Meeting Request is signed) and shall be sent to the Secretary by registered mail, return receipt requested. Any requesting member may revoke his request for a special meeting at any time by written revocation delivered to the Secretary.

The Secretary shall inform the requesting members of the reasonably estimated cost of preparing and mailing the notice of the special meeting (including internal costs) within ten (10) days after receiving such request. The ~~Chairman~~Chair of the Board of Governors shall not be required to call a special meeting upon member request and such meeting shall not be held unless, in addition to satisfying the requirements with respect to a Special Meeting Request, the Secretary receives (i) payment of such reasonably estimated cost prior to the mailing of any notice of the meeting and (ii) a written request of 1/3 of the Governors to hold the special meeting contemplated by the Special Meeting Request (collectively, the "Procedural Requirements").

Except as provided in the next sentence, any special meeting shall be held at such place, date and time as may be designated by the ~~Chairman~~Chair of the Board of Governors, the Vice ~~Chairman~~Chair of the Board of Governors, the Secretary, or Board of Governors. In the case of any special meeting called upon the request of members (a

“Member Requested Meeting”), such meeting shall be held at such place, date and time as may be designated by the ~~Chairman~~Chair of the Board of Governors, the Vice ~~Chairman~~Chair of the Board of Governors, the Secretary or Board of Governors; provided that the date of any Member Requested Meeting shall be not less than thirty-five (35) days nor more than sixty (60) days after the members have fully complied with the Procedural Requirements. In setting a date for any special meeting, the ~~Chairman~~Chair of the Board of Governors, the Vice ~~Chairman~~Chair, the Secretary, or Board of Governors may consider such factors as he, she or it deems relevant within the good faith exercise of business judgment, including, without limitation, the nature of the matters to be considered, the facts and circumstances surrounding any request for a meeting and any plan of the Board of Governors to call an annual meeting or a special meeting.

If at any time as a result of written revocations of requests for a special meeting by members, the number of members seeking to call a special meeting becomes less than ten percent (10%) of the outstanding members, the Secretary may refrain from mailing the notice of the meeting or, if the notice of the meeting has been mailed, the Secretary may revoke the notice of the meeting at any time before ten (10) days prior to the meeting if the Secretary has first sent to all other requesting members written notice of such revocation and of the intention to revoke the notice of the meeting. Any request for a special meeting received after a revocation by the Secretary of a notice of a meeting shall be considered a request for a new special meeting.

Notice of special meetings, stating the time, place and purpose thereof, shall be mailed to each member at ~~his~~the post office address ~~as the same appears~~ of record in the ~~office of the attorney in fact on his application~~Home Office at least ten (10) days prior to the date of meeting, and no business shall be transacted at such meeting except such as is stated in the notice thereof.

SECTION 3. Seventy-five (75) members represented in person or by proxy shall constitute a quorum for the transaction of business at any meeting of members, but a lesser number may adjourn to another time. A majority vote of the quorum present in person or by proxy shall govern any proceeding not herein or by law requiring a different vote.

Any proxy or other distribution to the members of the Exchange prepared by any attorney-in-fact of the Exchange shall be approved by the Board of Governors prior to distribution to such members.

ARTICLE VII REGULAR AND SPECIAL MEETINGS OF THE BOARD OF GOVERNORS

SECTION 1. *Annual Meetings.* The annual meeting of the Board of Governors shall be held at the Home Office ~~of the attorney in fact~~ immediately following the adjournment of the annual meeting of the members of the Exchange. Regular meetings shall be held at the same place and at such times as maybe fixed by the Board of Governors. No notice of the regular meetings of the Board of Governors need be given to the members thereof.

SECTION 2. *Special Meetings.* Special meetings of the Board of Governors may be called by the ~~Chairman~~Chair, the Secretary or, ~~and must be called by him upon at~~ the written request of any three (3) Governors. Notice of each such meeting shall be given to each Governor, if by mail, addressed to such Governor as his or her residence or usual place of business, at least three days before the day on which such meeting is to be held, or shall be sent to such Governor at such place by telecopy, telegraph, electronic transmission or other form of recorded communication, or be delivered personally or by telephone, in each case at least 24 hours prior to the time set for such meeting. A notice, or waiver of notice, need not specify the purpose of any special meeting of the Board of Governors. Notice of a meeting need not be given to any Governor who signs a waiver of notice or consent to holding the meeting or an approval of the minutes thereof, whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such Governor. All such waivers, consents and approvals shall be filed with the records of the Exchange or made part of the minutes of the meeting.

SECTION 3. *Telephonic Meetings; Quorum.* Governors may participate in a meeting through use of conference telephone or similar communications equipment, so long as all Governors participating in such meeting can hear one another. Participation in this manner constitutes presence in person at such meeting. A majority of the total number of Governors in office shall constitute a quorum, but a lesser number may adjourn to another time. The vote of a majority of the Governors present at a meeting at which a quorum is present shall be regarded as the act of the Board of Governors, except as otherwise required by these Rules and Regulations.

SECTION 4. *Action Without A Meeting.* Any action proper to be taken by the Board of Governors ~~of the Exchange~~ may be taken without a meeting if all Governors shall individually or collectively consent to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board of Governors. Such action by written consent shall have the same force and effect as a unanimous vote of such Governors.

ARTICLE VIII CONTINGENT LIABILITY

SECTION 1. No member insured nor any former member shall be liable under any circumstances whatsoever for losses, expenses, or any other liability of the Exchange in excess of the available assets in the possession of the Exchange, except as provided in his application and policy.

ARTICLE IX INDEMNIFICATION

SECTION 1. *Definitions.* For the purpose of this Article, “agent” means any person who is or was a Governor, officer, employee or other agent of the Exchange, or is or was serving at the request of the Exchange as a director, officer, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust or other

enterprise; “proceeding” means any threatened, pending or completed action or proceeding, whether civil, criminal, administrative or investigative; and “expenses” includes without limitation attorneys’ fees and any expenses of establishing a right to indemnification under Section 4 or 5 of this Article.

SECTION 2. *Indemnification in Actions by Third Parties.* The Exchange shall indemnify any person who was or is a party or is threatened to be made a party to any proceeding (other than an action by or in the right of the Exchange to procure a judgment in its favor) by reason of the fact that such person is or was an agent of the Exchange, against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred in connection with such proceeding if such person acted in good faith and in a manner such person reasonably believed to be in the best interests of the Exchange and, in the case of a criminal proceeding, had no reasonable cause to believe the conduct of such person was unlawful. The termination of any proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent shall not, of itself create a presumption that the person did not act in good faith and in a manner which the person reasonably believed to be in the best interests of the Exchange or that the person had reasonable cause to believe that the person’s conduct was unlawful.

SECTION 3. *Indemnification in Actions by or in the Right of the Exchange.* The Exchange shall have the power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action by or in the right of the Exchange to procure a judgment in its favor by reason of the fact that such person is or was an agent of the Exchange, against expenses actually and reasonably incurred by such person in connection with the defense or settlement of such action if such person acted in good faith, in a manner such person believed to be in the best interests of the Exchange. No indemnification shall be made under this Section 3 in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Exchange in the performance of such person’s duty to the Exchange, unless and only to the extent that the court in which such proceeding is or was pending shall determine upon application that, in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for the expenses which such court shall determine.

SECTION 4. *Indemnification Against Expenses.* To the extent that an agent of the Exchange has been successful on the merits in defense of any proceeding referred to in Section 2 or 3 of this Article or in defense of any claim, issue or matter therein, the agent shall be indemnified against expenses actually and reasonably incurred by the agent in connection therewith.

SECTION 5. *Required Determinations.* Except as provided in Section 4 of this Article any indemnification under this Article shall be made by the Exchange only if authorized in the specific case, upon a determination that indemnification of the agent is proper in the circumstances because the agent has met the applicable standard of conduct set forth in Section 2 or 3 of this Article, by

(a) a majority vote of a quorum consisting of Governors who are not parties to such proceeding; or

(b) approval of the members of the Exchange, with the members to be indemnified not being entitled to vote thereon; or

(c) the court in which such proceeding is or was pending upon application made by the Exchange or the agent or the attorney or other person rendering services in connection with the defense, whether or not such application by the agent, attorney or other person is opposed by the Exchange.

SECTION 6. *Advancement of Expenses.* Expenses incurred in defending any proceeding shall be advanced by the Exchange prior to the final disposition of such proceeding upon receipt of an undertaking by or on behalf of the agent to repay such amount if it shall be determined ultimately that the agent is not entitled to be indemnified as authorized in this Article.

SECTION 7. *Other Indemnification; Indemnity Agreements.* Nothing contained in this Article shall affect any right to indemnification to which persons other than such Governors and officers may be entitled by contract or otherwise. The Board of Governors is authorized to enter into a contract with any Governor of the Exchange providing for indemnification rights equivalent to or, if the Board of Governors so determines and to the extent permitted by applicable law, greater than, those provided for in this Article IX.

SECTION 8. *Forms of Indemnification Not Permitted.* No indemnification or advance shall be made under this Article, except as provided in Sections 4 and 5, in any circumstances where it appears:

(a) that it would be inconsistent with a provision of the Rules and Regulations, a resolution of the members or an agreement in effect at the time of the accrual of the alleged cause of action asserted in the proceeding in which the expenses were incurred or other amounts were paid, which prohibits or otherwise limits indemnification; or

(b) that it would be inconsistent with any condition expressly imposed by a court in approving a settlement.

SECTION 9. *Insurance.* The Exchange shall have power to purchase and maintain insurance on behalf of any agent of the Exchange against any liability asserted against or incurred by the agent in such capacity or arising out of the agent's status as such whether or not the Exchange would have the power to indemnify the agent against such liability under the provisions of this Article.

SECTION 10. *Nonapplicability to Fiduciaries of Employee Benefit Plans.* This Article does not apply to any proceeding against any trustee, investment manager or other fiduciary of an employee benefit plan in such person's capacity as such, even though such person may also be an agent of the Exchange as defined in Section 1 of this Article.

The Exchange shall have power to indemnify such trustee, investment manager or other fiduciary to the extent permitted by subdivision (f) of Section 207 of the California General Corporation Law.

SECTION 11. *Nature of Rights.* The rights conferred upon indemnitees in this Article IX shall be contract rights that shall vest at the time an individual becomes a Governor, officer, employee or other agent of the Exchange and such rights shall continue as to an indemnitee who has ceased to be a Governor, officer, employee or other agent of the Exchange and shall inure to the benefit of the indemnitee's heirs, executors and administrators. Any amendment, alteration or repeal of this Article IX that adversely affects any right of an indemnitee or its successors shall be prospective only and shall not limit or eliminate any such right with respect to any proceeding involving any occurrence or alleged occurrence of any action or omission to act that took place prior to such amendment, alteration or repeal.

SECTION 12. *Subrogation.* In the event of payment under this Article IX, the Exchange shall be subrogated to the extent of such payment to all of the rights of recovery of the indemnitee, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Exchange effectively to bring suit to enforce such rights.

SECTION 13. *Severability.* If any provision or provisions of this Article IX shall be held to be invalid, illegal or unenforceable for any reason whatsoever, (a) the validity, legality and enforceability of the remaining provisions of this Article IX (including, without limitation, all portions of any paragraph of this Article IX containing any such provision held to be invalid, illegal or unenforceable, that are not by themselves invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby, and (b) to the fullest extent possible, the provisions of this Article IX (including, without limitation, all portions of any paragraph of this Article IX containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall be construed so as to give effect to the intent of the parties that the Exchange provide protection to the indemnitee to the fullest enforceable extent.

ARTICLE X ATTORNEY-IN-FACT

SECTION 1. The attorney-in-fact designated by the subscribers in the ~~application for insurance and membership and in the power of attorney attached thereto,~~ Subscription Agreement shall ~~have charge and supervision over the affairs of the Exchange~~ provide administrative and management services to the Exchange, be responsible for and the exchanging of contracts between the members thereof, and shall act as general underwriters for the Exchange and its members in accordance with the terms of said ~~applications and powers of attorney~~ Subscription Agreement. The Board of Governors shall have general supervision over the operations of the attorney-in-fact to the extent that said operations shall be in conformity with the ~~subscribers'~~ Subscription ~~a~~ Agreement and power of attorney therein.

SECTION 2. The attorney-in-fact shall keep the books of account of the Exchange, including those showing the individual account of all members, as set forth in the contracts of indemnity; shall collect and have charge of all funds coming into said Exchange, and shall disburse the same in the payment of losses and expenses properly chargeable against the funds of the Exchange, subject only to the general supervision and control of the Board of Governors as herein set forth.

ARTICLE XI RULES OF ORDER

SECTION 1. The Board of Governors shall adopt appropriate meeting rules of order and decorum that shall govern all parliamentary matters of the Exchange not otherwise provided for in these Rules and Regulations.

ARTICLE XII AMENDMENTS

SECTION 1. These Rules and Regulations may be amended as necessary or desirable to facilitate the business and affairs of the Exchange, not inconsistent with the provisions or law or the powers granted to the Exchange or its attorney-in-fact.

~~SECTION 1.~~ SECTION 2. These Rules and Regulations may be amended pursuant to Section 1 by the Board of Governors at any regular or special meeting ~~thereof~~ by upon the affirmative vote of a two-thirds ~~vote~~ of the total number of Governors present, or ~~and may also be amended~~ at a meeting of the members upon the affirmative vote by a majority of the members present, pursuant to Article VI, Section 3 ~~of two-thirds of the members represented at such meeting, either in person or by proxy.~~