



# Subscribers' Advisory Committee Governance Rules

The Subscriber's Advisory Committee ("SAC") plays an important role in the overall governance of Privilege Underwriters Reciprocal Exchange ("PURE"). The Subscriber's Agreement and Power of Attorney ("Subscriber's Agreement") is the charter for the SAC. The Subscriber's Agreement recognizes the Powers of the Subscriber's Advisory Committee (the "Powers") and these rules.

PURE Risk Management, LLC ("PRM"), pursuant to the attorney-in-fact agreement between PURE and PRM (the "AIF Agreement") is responsible for the overall business and affairs of PURE. The AIF Agreement also makes PRM responsible for the day to day management and operations of PURE. The SAC's role and PRM's role are intentionally different and distinct. PRM alone is responsible for managing the business and affairs of PURE. The SAC, on the other hand, is responsible for exercising the rights of all subscribers as the contractual counterparty to PRM. These Governance Rules set forth the rules under which the SAC is to operate.

- 1 **The Composition of the SAC.** The SAC shall be made up of qualifying persons who can effectively carry out the stated responsibilities. The SAC shall consist of no less than three (3) and no more than twelve (12) PURE members, ideally reflecting the diverse backgrounds, skillsets and geographic spread of the PURE membership. Not less than one member of the SAC shall be appointed by PRM (the "AIF Representative(s)"). At least two-thirds of the SAC shall be independent from and have no financial interest in PRM.
- 2 **Leadership.** The SAC shall include a Chairperson and a Secretary. Leadership shall be elected by the members of the SAC from among the members of the SAC. The SAC shall develop a leadership rotation plan that encourages the Chairperson to have served in another capacity on the SAC to help train for the position of Chairperson.
- 3 **Terms.** With the exception of the AIF Representative(s), SAC members shall serve one-year terms, without limit. Each SAC member may choose to stand for renewal each year. It is recommended that SAC members agree to serve no less than two terms. A SAC leader shall not hold the same leadership position for more than three (3) consecutive years.
- 4 **Compensation.** With the exception of the AIF Representative(s), each SAC member shall be paid \$23,000 per annum for their service. Each SAC member shall also be paid a meeting fee of \$1,750 per meeting attended in person (and not by telecommunications or written consent); and reimbursed for reasonable related expenses, including travel, consistent with the SAC Expense policy. The Chairperson shall be paid an additional fee of \$10,000 per annum. The members of the Audit Committee shall be paid an additional annual fee of \$2,000. Compensation shall be benchmarked against the NAMIC Directors Compensation survey from time to time.
- 5 **Nomination and Selection.** With the exception of the AIF Representative(s), who shall be appointed by PRM, the Chairperson shall be accountable for recommending nominees for all other elected SAC members, including their annual renewal. Each elected SAC member (newly elected and renewed), with the exception of the AIF Representative(s), who shall be appointed by PRM, shall be subject to annual election by the subscribers. The guidelines for new elected SAC member recruitment include:
  - (a) The SAC shall identify needs for new SAC members due to a resignation, geographic expansion or another reason.
  - (b) Any SAC member, including the AIF Representative, can nominate qualifying candidates.
  - (c) The Chairperson and the Senior AIF Representative shall meet personally with any candidate recommended for SAC membership. SAC members may ask the Chairperson to grant introductory meetings or phone calls with prospective SAC members..
  - (d) When due diligence has been completed (background check, evaluation of potential conflicts, interviews, and any other review deemed reasonable), the SAC shall vote on the nomination of SAC members for election.
  - (e) The SAC shall attempt to approve or disapprove nomination for SAC membership within a period of no more than 90 days before the annual election by subscribers.
- 6 **Vacancies, Resignation and Removal.** Any elected SAC member may resign at any time upon delivery of his/her resignation in writing to the Chairperson of the SAC. Such resignation shall be effective at the date set forth in the notice of resignation, and if there is none, then upon receipt. With the exception of the AIF Representative(s), who shall be removed only by PRM at any time with or without cause, SAC members may be removed at any time for cause by a 2/3 super-majority vote of the total number of SAC members. With the exception of the AIF Representative(s), who shall be appointed by PRM for the unexpired term of the vacancy, vacancies among the elected SAC members shall be filled by the Chairperson in consultation with the Senior AIF Representative for the unexpired term of the vacancy.

- 7 **Regular and Special Meetings.** The SAC shall plan to meet regularly, at least quarterly, with at least two (2) in person meetings held each year. In person meetings shall be held at locations designated by the SAC in consultation with the Senior AIF Representative. Meetings by telecommunications where all SAC members can hear and be heard shall be considered meetings. The SAC may also act by written consent signed by all SAC members in lieu of a meeting on any matter requiring a meeting and such written consent shall be filed with the minutes of the SAC. SAC members may be asked to participate in calls or to review materials from time to time between formal meetings or at special meeting. The SAC shall review the quarterly financial statements of PURE and such other matters as the members of the SAC shall determine. At least annually, the SAC shall meet to review the performance of PRM and make recommendations concerning PRM's management of PURE and select PURE's independent auditors. The Senior AIF Representative shall provide at least 10 days' notice of the meetings to each SAC member by telephone or in writing. Special meetings of the SAC may be called by the Senior AIF Representative on one days' notice to each SAC member, either by telephone, facsimile, by e-mail or otherwise in writing. Special meetings upon the written request of a majority of the members of the SAC shall be called by the Senior AIF Representative or the Secretary of PRM in like manner and notice. SAC members attending a meeting in person or by teleconference shall be deemed to have waived any defect in notice of that meeting. The Senior AIF Representative, in his or her sole discretion, may designate employees of PRM to attend the meetings of the SAC.
- 8 **Action by the SAC and Quorum.** Except as otherwise specifically provided in these Governance Rules, all action taken by the SAC shall be by a majority vote of the SAC at a meeting of the SAC. A majority of the total number of SAC members shall constitute a quorum for the conduct of a meeting and the transaction of all business. The vote of a majority of (or, where required, a super-majority of) the SAC members present at a meeting at which a quorum is present shall be the act of the SAC.
- 9 **Attendance.** Any SAC member who misses three consecutive regular meetings of the SAC without excuse approved by the SAC shall be deemed to have vacated his or her SAC membership and the vacancy shall be filled as set forth in these Governance Rules.
- 10 **Amendments.** The SAC may, after consultation with the Senior AIF Representative, make, amend or repeal these Subscribers' Advisory Committee Governance Rules at any regular or special meeting of the SAC.
- 11 **Indemnification & Insurance.** Members of the SAC shall be indemnified and enjoy expense advancement and insurance protection. PURE shall indemnify any member of the SAC who was or is a party to, or is threatened to be made a party to, or who is called as a witness in connection with, any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, including an action by or in the right of PURE, by reason of the fact that the member is or was a member of the SAC. This indemnification shall include expenses, including attorneys' fees, judgment, fines and amounts paid in settlement, actually and reasonably incurred by the member in connection with some action, suit or proceeding unless the act or failure to act giving rise to the claim for indemnification is determined by a court to have constituted willful misconduct or recklessness. PURE shall pay expenses incurred by a SAC member in defending an action or proceeding referred to herein in advance of the final disposition of such action or proceeding upon receipt of an undertaking by or on behalf of such person to repay such amount if it shall ultimately be determined that he or she is not entitled to be indemnified by PURE. The indemnification and advancement of expenses provided by, or granted pursuant to, this agreement shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any agreement, contract or otherwise. The indemnification and advancement of expenses provided by, or granted pursuant to this agreement, shall unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a SAC member and shall inure to the benefit of the heirs, executors and administrators of such person. PURE shall maintain or cause to be maintained Directors & Officers insurance from a highly-rated insurance company at limits that are deemed appropriate by the SAC and consistent with limits carried by comparable insurance companies. It is intended that the rights of indemnification and expense advancement provided to members of the SAC shall be as broad as allowed under applicable law and that when the law permits indemnification and/or expense advancement; PURE shall be required to provide indemnification and/or expense advancement.