

**BYLAWS OF
HUGO INSURANCE EXCHANGE**



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BYLAWS
OF
HUGO INSURANCE EXCHANGE

ARTICLE I.
INTRODUCTION

Section 1.1. Name. This organization is a reciprocal interinsurance exchange. It shall be known as Hugo Insurance Exchange (the “**Exchange**”).

Section 1.2. Purpose. The purpose of the Exchange is to provide insurance coverages for which the Exchange is licensed and authorized and to engage in other activities for the benefit of the members of the Exchange as shall be determined by the Attorney-in-Fact. Affiliates of the Attorney-in-Fact or the Exchange may be utilized, as authorized by the Attorney-in-Fact, in order to effect the purposes of the Exchange.

Section 1.3. Home Office. The statutory home office of the Exchange shall be located within the State of Mississippi. The initial principal administrative office of the Exchange shall be 225 Santa Monica Blvd., 10th Floor, Santa Monica, CA 90401, which may be changed from time to time by the Attorney-in-Fact.

ARTICLE II.
SUBSCRIBERS

Section 2.1. Definition. The members of the Exchange who shall exchange contracts of indemnity with one another are the “Subscribers” as contemplated by Chapter 33 of the Mississippi Insurance Code (the “**Code**”).

Section 2.2. Subscriber’s Agreement and Power of Attorney and Policy Terms. Each Subscriber’s interest in the Exchange shall exist because of, and be authorized by and to the extent of, the “Subscriber’s Agreement and Power of Attorney” executed by such Subscriber and the policy or policies issued to such Subscriber by the Exchange through Hugo Insurance Services LLC or any successor entity (the “**Attorney-in-Fact**”). Each Subscriber’s status shall exist concurrently and be coterminous with the term of any policy or policies issued to the Subscriber.

Section 2.3. Subscribers’ Advisory Committee. The Subscribers’ Advisory Committee (the “**Committee**”) of the Exchange is an advisory committee established pursuant to the Subscriber’s Agreement to serve on behalf of the Subscribers for the purposes set forth in this Section 2.3. This Section 2.3 sets forth the terms and conditions upon which the Committee shall operate.

Section 2.4. Powers. The Committee shall be authorized to:

- (a) Supervise the finances of the Exchange;

(b) Supervise the operations of the Exchange to the extent necessary to ensure conformity with the Subscriber's Agreement;

(c) Procure the audit of the accounts and records of the Exchange, at the expense of the Exchange, and review the results of any such audit;

(d) Act on behalf of the Subscribers with respect to any action the Attorney-in-Fact, in its discretion, may request them to take; and

(e) Remove the Attorney-in-Fact as attorney-in-fact of the Exchange and appoint a new attorney-in-fact of the Exchange.

The Committee shall have no power or authority to bind the Exchange to any insurance policy, to enter into any other contractual obligation on behalf of the Exchange or the Attorney-in-Fact, or to otherwise conduct business on behalf of or in the name of the Exchange or the Attorney-in-Fact.

The Committee shall adopt standing rules ("**Standing Rules**") for its internal governance and operation as the Committee determines to be necessary or advisable, provided such Standing Rules shall be consistent with the Subscriber's Agreement and the Powers of the Subscribers' Advisory Committee.

Section 2.5. Membership and Terms.

(a) The number of members of the Committee shall be selected under such rules as the members of the Committee adopt, but in no event shall the Committee be comprised of fewer than three (3) members or greater than twelve (12) members.

(b) Committee members shall serve for staggered terms of three (3) years each. A Committee member may serve for an unlimited number of terms so long as the member remains eligible under this Section 2.5 and the Standing Rules.

(c) The initial Committee will be composed of three (3) members, one of whom shall be the Chief Executive Officer of the Attorney-in-Fact ("**Chief Executive**") or other person designated by the Chief Executive (the "**Attorney-in-Fact Representative**"), and the remaining two (2) of whom shall be appointed by the Chief Executive. Thereafter, the Committee will be composed of the Attorney-in-Fact Representative(s) and other members elected to hold such position pursuant to paragraphs (d) and (f) below. The initial Committee members and any members that are newly appointed to fill vacancies or as a result of an increase in the number of members shall be apportioned by the Committee Chair and the Attorney-in-Fact Representative into different classes to assure as nearly an equal number of members are elected each year. If the Committee Chair and the Attorney-in-Fact Representative are the same person, such apportionment shall be performed by the Committee Chair and a Subscriber Member (as defined in paragraph (g) below) appointed by the Committee Chair.

(d) There is hereby created a nominating subcommittee ("**Nominating Subcommittee**") of the Committee, which shall be composed of the Committee Chair and

the Attorney-in-Fact Representative. If the Committee Chair and the Attorney-in-Fact Representative are the same person, the Nominating Subcommittee shall be composed of the Committee Chair and a Subscriber Member (as defined in subparagraph g) appointed by the Committee Chair. Not later than the first anniversary of the commencement of the Exchange's operation, and annually thereafter, Committee members (other than the Attorney-in-Fact Representative) shall be elected or re-elected in accordance with paragraph (c) and procedures established by the Committee from a slate of candidates nominated by the Committee upon the recommendation of Nominating Subcommittee. In making its recommendations, the Nominating Subcommittee is expressly charged to seek diverse candidates who can bring different perspectives and experiences to the Committee.

(e) The Committee shall have the authority to remove and replace members of the Committee for cause, as determined by the Committee in consultation with the Attorney-in-Fact, provided the Attorney-in-Fact Representative may be removed and replaced only by Attorney-in-Fact in its sole discretion.

(f) Newly created Committee positions resulting from an increase in the number of Committee members, created in accordance with the Standing Rules, and any vacancies on the Committee resulting from death, resignation, removal or other cause, shall be filled by the affirmative vote of a majority of the remaining Committee members then serving from candidate(s) presented by the Nominating Subcommittee, provided the Attorney-in-Fact Representative is required for a quorum. Any Committee member elected pursuant to this Section 2.5(f) will hold office until the next annual election of Committee members or until removed, if earlier.

(g) In any event and at all times, not less than two-thirds of the membership of the Committee shall be Subscribers other than the Attorney-in-Fact or any person employed by, representing, or having a financial interest in the Attorney-in-Fact or any Affiliate of the Attorney-in-Fact (each such member, a "**Subscriber Member**"). Any such Committee member who ceases to be a Subscriber Member shall be automatically removed as a member of the Committee.

(h) Members of the Committee will be reimbursed by the Exchange for all reasonable expenses associated with attending meetings of the Committee. In addition, as consideration for the services provided to the Committee, each member (other than any employees of Attorney-in-Fact) may receive, at the expense of the Exchange, reasonable and customary fees, as determined by the Committee with the concurrence of the Attorney-in-Fact Representative. Nothing contained herein shall be construed to preclude any member from receiving compensation for services rendered to the Exchange or the Attorney-in-Fact in any other capacity, subject to the requirements set forth above.

Section 2.5.2. Role of the Committee.

(a) The Committee's role is advisory, and the Committee understands and agrees that the Attorney-in-Fact is responsible for the preparation of the Exchange's financial statements; that the independent auditors are responsible for auditing the financial statements; and that the Attorney-in-Fact is responsible for the hiring and retention of the

Attorney-in-Fact's management and employees and determining their respective compensation. In addition, the Committee understands and agrees that the Attorney-in-Fact's management has more time, more knowledge and more detailed information regarding the Exchange than does the Committee and that the management of the Attorney-in-Fact has more time and more knowledge for the evaluation of the Attorney-in-Fact's management and employees (or candidates to serve as such).

(b) In discharging its advisory role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Exchange or the Attorney-in-Fact. If a majority of the members of the Committee agree, with the consent of the Chief Executive, which consent shall not be unreasonably withheld, the Committee may retain outside counsel, auditors or other experts to advise the Committee as necessary for it to perform its duties as set forth in Article 1, at the expense of the Exchange.

(c) The Committee is also empowered to remove the Attorney-in-Fact as attorney-in-fact of the Exchange at any time, without cause, upon an affirmative vote of a majority of the members of the Committee. Upon removal of the Attorney-in-Fact, the Attorney-in-Fact shall cease to be the attorney-in-fact of the Exchange and no longer be vested with any of the rights, duties, responsibilities, liabilities and obligations of the attorney-in-fact enumerated in the Attorney-in-Fact Agreement between the Attorney-in-Fact and the Exchange, the Subscriber's Agreement and Power of Attorney, and these Bylaws.

(d) Upon removal of the Attorney-in-Fact, the Committee shall appoint a new attorney-in-fact of the Exchange, provided the appointment is ratified by an affirmative vote of not less than a majority of the members of the Committee and the new attorney-in-fact meets the requirements of sections 83-33-3 and 83-33-11 of the Mississippi Insurance Code. Upon its appointment, the new attorney-in-fact shall enter into an Attorney-in-Fact Agreement with the Exchange, and the Subscriber's Agreement and Power of Attorney and these Bylaws shall be amended accordingly. In addition, the new attorney-in-fact shall be vested with all of the rights, duties, responsibilities, liabilities and obligations of the attorney-in-fact enumerated in the Attorney-in-Fact Agreement between the new attorney-in-fact and the Exchange, the Subscriber's Agreement and Power of Attorney, and these Bylaws; provided, however, such new attorney-in-fact shall not be liable for any liabilities or obligations arising or accruing prior to the date such new attorney-in-fact is appointed as attorney-in-fact of the Exchange except to the extent it expressly consents to the same in writing.

Section 2.5.3. Meetings of the Committee.

(a) Meetings of the Committee shall be presided over by a Chair with minutes recorded by a Secretary (the "**Committee Secretary**"). The Chair and Committee Secretary of the Committee shall be selected in the manner set forth in the Standing Rules. The Committee shall create no further position or offices for the Exchange without prior amendment of these Bylaws.

(b) The Committee shall meet semi-annually during each calendar year to review the financial statements of the Exchange for the preceding calendar quarters and such other matters as the Committee shall determine. During the first semi-annual meeting of each calendar year, the Committee shall also review the performance of the Attorney-in-Fact and make recommendations concerning the Attorney-in-Fact's management of the Exchange and the selection of its independent auditors. The Chief Executive or Secretary of the Attorney-in-Fact ("**AIF Secretary**") shall provide at least ten (10) days' notice of the meetings to each member of the Committee by telephone, e-mail or otherwise in writing. Special meetings of the Committee may be called by the Chief Executive or AIF Secretary on one (1) days' notice to each member, either by telephone, e-mail or otherwise in writing. Special meetings shall be called by the Chief Executive or AIF Secretary in like manner and on like notice upon the written request of a majority of the members of the Committee. The senior management of the Attorney-in-Fact, in its sole discretion, may designate employees of the Attorney-in-Fact to attend the meetings of the Committee. A majority of the total number of Committee members in which not less than two-thirds are Subscriber Members shall constitute a quorum for the conduct of a meeting and the transaction of any business, except for meetings at which the attendance of the Attorney-in-Fact Representative is required for a quorum, in which case a majority in which not less than two-thirds are Subscriber Members and the attendance of the Attorney-in-Fact Representative shall constitute a quorum. The vote of a majority of the Committee members present at a meeting at which a quorum is present shall be an act of the Committee.

(c) Meetings of the Committee shall be held at such times and places within or without the State of Mississippi as the Committee may from time to time determine or as may be designated in the notice of the meeting. One or more members of the Committee may participate in any meeting of the Committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear one another. Participation in a meeting by such means shall constitute presence in person at the meeting.

(d) Any action required or permitted to be taken at a meeting of the Committee may be taken without a meeting if, prior or subsequent to the action, consent thereto is signed by all of the members and is filed with the AIF Secretary.

Section 2.5.4. Indemnification of Committee Members.

(a) The Exchange shall indemnify any member of the Committee 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 the Exchange, by reason of the fact that the member is or was a member of the Committee. This indemnification shall include expenses, including attorneys' fees, judgments, 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.

(b) The Exchange shall pay expenses incurred by a Committee 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 the Exchange.

(c) The indemnification and advancement of expenses provided or granted herein 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, vote of the board of the Attorney-in-Fact or otherwise, both as to action in any Committee member's official capacity and as to action in another capacity while holding such office.

(d) The indemnification and advancement of expenses provided or granted herein shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a member of the Committee and shall inure to the benefit of the heirs, executors and administrators of such person.

(e) The Exchange or the Attorney-in-Fact, as applicable, shall maintain directors and officers liability insurance from a highly-rated insurance company that provides coverage for all Committee members at limits that are deemed appropriate by the Committee and consistent with limits carried by comparable insurance companies.

Section 2.5.5. Amendments. These Bylaws may be amended, modified or repealed by the Committee upon receiving the concurrence of the Attorney-in-Fact, provided that the provisions of Section 2.5.4 may be reduced only prospectively.

ARTICLE III. ATTORNEY-IN-FACT

Section 3.1. Name. The Attorney-in-Fact of the Exchange is Hugo Insurance Services LLC or any successor entity qualified under Chapter 942 of the Code as may be hereafter selected and ratified by vote of the Committee, as provided herein.

Section 3.2. Rights, Duties, Obligations of Attorney-in-Fact. The rights, duties, and obligations of the Attorney-in-Fact are governed by the terms of the Attorney-in-Fact Agreement between the Attorney-in-Fact and the Exchange, the Subscriber's Agreement and Power of Attorney, and these Bylaws.

Section 3.3. Successor Attorney-in-Fact. Hugo Insurance Services LLC shall continue to serve in the capacity of Attorney-in-Fact for the Exchange until its Attorney-in-Fact Agreement is terminated in accordance with the Subscriber's Agreement and Power of Attorney and the Attorney-in-Fact Agreement. In the event Hugo Insurance Services LLC and its Attorney-in-Fact Agreement are terminated, Hugo Insurance Services LLC shall continue to operate as the Attorney-in-Fact until a successor Attorney-in-Fact is selected and ratified by the Committee.

ARTICLE IV. DISTRIBUTIONS

Section 4.1. Authority. The Attorney-in-Fact, in its sole discretion, but only as authorized and permitted by the Subscriber's Agreement and Power of Attorney and the Code, may declare dividends payable to all Subscribers having the status of a Subscriber not in default under, or in breach of, an insurance policy or the Subscribers' Agreement and Power of Attorney and/or allocate net profits to subscriber savings accounts ("SSAs"). The Attorney-in-Fact has sole authority to determine, in its discretion, the amount of net profits, if any, available for payment to Subscribers as dividends or to be allocated to SSAs and may take into account loss experience of individual Subscribers or length of time they have been Subscribers. The Attorney-in-Fact shall establish rules and procedures for distributions from SSAs prior to allocating any profits to SSAs.

Section 4.2. Net Profits. The Attorney-in-Fact may declare dividends or allocate profits to SSAs only out of net profits available for distribution at the end of each fiscal year. The net profits available for distribution shall be deemed to be funds on hand after:

- (a) provision for unearned premium reserves;
- (b) payment of losses and loss adjustment expenses and provision for loss reserves;
- (c) payment of state or Federal taxes or other charges made by any governmental agency or on account of any statute or regulation applicable to the Exchange;
- (d) provision for reserves;
- (e) payment of reinsurance premiums;
- (f) payment of fees due under the Attorney-in-Fact Agreement;
- (g) payment of expenses of operation of the Exchange of every kind and nature not expressly assumed by the Attorney-in-Fact in the Attorney-in-Fact Agreement;
- (h) the minimum surplus required statutorily or such greater amount as the Attorney-in-Fact may determine; and
- (i) payment on the scheduled payment date of interest and principal on any loan or advance made to the Exchange, including surplus notes (irrespective, in the case of surplus notes, whether the conditions for payment have been satisfied).

ARTICLE V. GENERAL PROVISIONS

Section 5.1. Attorney-in-Fact Office. The Attorney-in-Fact may have an office at the Home Office of the Exchange or in such other places, either within or without the State of Mississippi, as the Attorney-in-Fact may desire.

Section 5.2. Fiscal Year. The fiscal year of the Exchange shall be the calendar year.

Section 5.3. Amount. The free surplus of the Exchange shall be maintained at all times in accordance with the Code and the rules of the Mississippi Department of Insurance and any other applicable insurance regulator.

Section 5.4. Delivery. Notices to Subscribers shall be in writing and delivered personally or mailed to their addresses appearing on the books of the Exchange. Notice by mail shall be deemed to be given when mailed.

Section 5.5. Waiver in Writing. Whenever any notice is required to be given to any Subscriber, a waiver thereof in writing signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be equivalent to the giving of such notice.

Section 5.6. Affiliate. As used in these Bylaws, “Affiliate” means, with respect to any person or entity (a “**Person**”), any Person that directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Person in question. For purposes of the foregoing, “control,” including the terms “controlling,” “controlled by” and “under common control with,” means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

Section 5.7. Severability. If a court or administrative body of competent jurisdiction determines that any provision or clause of these Bylaws or any amendment hereto is void, illegal, unreasonable, unenforceable or in conflict with a change in a mandatory provision of the Code or other applicable law, then the other provisions and clauses shall remain in full force and effect, and any provision or clause so decreed to be void, illegal, unreasonable, unenforceable or in conflict shall, to the extent permissible by law, be limited so that it is enforceable or deemed amended to comply with a mandatory requirement of the Code or other applicable law, and shall remain in effect to the greatest extent permissible.

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