

BY-LAWS

PENN NATIONAL SECURITY INSURANCE COMPANY

(As Amended Through September 1, 1998)

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ARTICLE I

Section 1. PURPOSE. The general objects of this Company are to make insurance on the Joint Stock Principle against loss as provided in Subdivision (b), Paragraphs 1 through 3 inclusive and Subdivision (c), Paragraphs 1 through 14 inclusive, Section 202 of the Act of May 17, 1921, P.L. 682, as amended, relating to the writing of multi-line property and casualty insurance coverages in accordance with the provisions of its Charter, as amended, and to exercise all the rights and powers conferred on such insurance companies by the laws of the Commonwealth of Pennsylvania.

ARTICLE II

Section 1. PRINCIPAL OFFICE. The Principal office of the Corporation shall be in the City of Harrisburg, County of Dauphin, and Commonwealth of Pennsylvania.

ARTICLE III

Section 1. ANNUAL MEETING OF STOCKHOLDERS. The annual meeting of Stockholders of the Company, for the purpose of electing Directors and the transaction of general business, shall be held in the City of Harrisburg, Pennsylvania, on or before the first day of May of each and every year, the exact day and time to be set by the Board of Directors. The Secretary shall give notice to the time and place of said meeting to all of the Stockholders of record of the Company not less than thirty (30) days prior to the date of said annual meeting of Stockholders.

Section 2. NOMINATIONS OF DIRECTORS – PROXIES. In order for an individual to be nominated as a candidate for membership on the Board of Directors, the nomination of such individual shall be in writing and delivered to the Secretary of the Company at least forty-five (45) days prior to the annual meeting for election at said annual meeting of the Stockholders of the Company. No person not so nominated shall be eligible for election as a member of the Board of Directors at said annual meeting or any adjournment thereof.

All proxies to be valid in any meeting of the Company shall be filed with the Secretary at least fifteen (15) days previous to the date of the meeting at which they are to be voted.

Section 3. SPECIAL MEETINGS. Special meetings of the Stockholders of the Company may be called at any time by the President or Secretary at the request in writing of a majority of the Board of Directors, provided the request specifies the purpose of the proposed meeting. The Secretary shall give at least thirty (30) days previous notice of the time, place, and purpose of all such special meetings in the same manner as in the case of the annual meeting. At such meetings, no business shall be transacted other than that mentioned in the call.

Section 4. QUORUM. The Holders, present in person or represented by proxy, of a majority of the issued and outstanding shares entitled to vote, shall be necessary to constitute a quorum at all meetings of the Shareholders for the transaction of business, except as otherwise provided by statute or by the Articles of Incorporation or by these By-laws. If, however, any meeting of Shareholders cannot be organized because a quorum has not attended, the Shareholders entitled to vote thereat, present in person or by proxy, shall have power, except as otherwise provided by statute, to adjourn the meeting to such time and place as they may determine, but in the case of any meeting called for the election of Directors, such meeting may be adjourned only from day to day or for such longer periods not exceeding fifteen (15) days

each as the Holders of a majority of the shares present in person or by proxy shall direct, and those who attended or participate at the second or such adjourned meetings, although less than a quorum, shall nevertheless constitute a quorum for the purpose of electing Directors. At any adjourned meeting at which a quorum shall be present or represented any business may be transacted which might have been transacted at the meeting as originally noticed.

When a quorum is present or represented at any meeting, the vote of the Holders of a majority of the stock having voting powers, present in person or represented by proxy, shall decide any question brought before the Shareholders at such meeting, unless the question is one for which, by express provision of statute or of the Articles of Incorporation or of these By-laws, a different vote is required, in which case such express provision shall govern and control the decision of such question.

Section 5. VOTING. Except as otherwise provided by statute or the Articles of Incorporation, at every Shareholders' meeting every Shareholder entitled to vote shall have the right to one vote for every share having voting power standing in his name on the books of the Corporation.

Every Shareholder entitled to vote at a meeting of Shareholders or to express consent or dissent to Corporate actions in writing without a meeting may authorize another person or persons to act for him by proxy. Every proxy shall be executed in writing by the Shareholder, or by his duly authorized attorney-in-fact, and filed with the Secretary of the Corporation. A proxy, unless coupled with an interest, shall be revocable at will, notwithstanding any other agreement or any provision in the proxy to the contrary, but the revocation of a proxy shall not be effective until notice thereof has been given to the Secretary of the Corporation. No unrevoked proxy shall be valid after eleven months from the date of its execution, unless a longer time is expressly

provided therein, but in no event shall a proxy, unless coupled with an interest, be voted on after three years from the date of its execution. A proxy shall not be revoked by the death or incapacity of the maker unless before the vote is counted or the authority has been exercised written notice of such death or incapacity is given to the Secretary of the Corporation.

The Officer or agent having charge of the transfer books for shares of the Corporation shall make, at least five days before each meeting of Shareholders, a complete list of the Shareholders entitled to vote at the meeting, with the address of and the number and classes of shares held by each, which list or duplicate thereof shall be kept on file at the registered office of the Corporation or at the office of its transfer agent and shall be subject to inspection by any Shareholder to the extend required by law.

In advance of any meeting of Shareholders, the Board of Directors may appoint judges of election, who need not be Shareholders, to act at such meeting or any adjournment thereof. If judges of election are not so appointed, the chairman of any such meeting may, and on the request of any Shareholder or his proxy shall, make such appointment at the meeting. The number of judges shall be three. No person who is a candidate for office shall act as a judge. The judges of election shall do all such acts as may be proper to conduct the election or vote with fairness to all Shareholders, and shall make a written report of any matter determined by them and execute a certificate of any fact found by them, if requested by the chairman of the meeting or any Shareholder or his proxy. The decision, act or certificate of a majority shall be effective in all respects as the decision, act or certificate of all. If any judge of election shall not be present at a meeting, the vacancy shall be filled by the chairman of the meeting.

ARTICLE IV

BOARD OF DIRECTORS

Section 1. ELECTION-CLASSES-TERMS. The Board of Directors shall consist of not less than seven (7) nor more than fifteen (15) Members. The Directors shall be classified with respect to the time for which they shall severally hold office by dividing them into three classes each consisting of not less than two (2) nor more than five (5) Directors, and all Directors of the Corporation shall hold office until their successors are elected and qualified. At each Annual Meeting of the Stockholders, not less than two nor more than five Directors shall be elected for a three year term to serve until their successors are elected and qualified.

Section 2. ACCEPTANCE OF TRUST BY DIRECTORS. The Directors, before they are qualified to act, shall file with the Secretary of the Company a written acceptance of the trust.

Section 3. POWERS. The Directors or a majority of them shall have the right to exercise all the powers vested in them by law in conducting the business of the Company.

Section 4. VACANCIES. A vacancy in the Board of Directors may be filled by a majority vote of the remaining Members of the Board of Directors for the unexpired term of such vacancy.

Section 5. REGULAR MEETINGS. The Board of Directors shall hold regular stated meetings at a designated place, in the days, and at the hours fixed by the said Board.

Section 6. SPECIAL MEETINGS. Special meetings of the Board of Directors may be called at any time by the President, and shall be called by the President or Secretary upon written request of a majority of the Directors, on five days' written notice to each Director stating the time, place, and object of such meeting.

Section 7. QUORUM. The majority of the Board of Directors shall constitute a quorum to transact business at any meeting.

Section 8. COMPENSATION. Directors, other than those who are also Officers of the Company, shall be entitled to such compensation for their services as Directors and as members of committees as shall be determined from time to time by the Board.

Section 9. ORDER OF BUSINESS. At all meetings of the Board of Directors, business shall be transacted in such order as, from time to time, the Board may determine.

ARTICLE V

OFFICERS – ELECTED AND APPOINTED

Section 1. EXECUTIVE OFFICERS. The Directors shall annually choose by ballot a President, a Secretary and a Treasurer. Except in the case of the President, any person may hold more than one of the foregoing offices. The Board may also elect one of its Members as Chairman. Such Officers to serve for the term of one year and until their successors are duly elected and qualified. The Directors may also elect one or more Vice Presidents, as they deem necessary and appropriate.

Section 2. POWERS. Each Officer shall have the authority customarily attributed to his office, and the authority permitted or required by the law of each jurisdiction in which the Company does business, to the end that he may fully and efficiently perform his office according to the law and under the direction of the Board and of the President.

Section 3. COMPENSATION. The compensation of the above Executive Officers shall be fixed by the Board.

Section 4. OTHER OFFICERS. As authorized by the Board, the President may appoint and employ such other Officers as may, from time to time be deemed necessary for the

proper conduct of the business and affairs of the Company and fix and prescribe their salary and their duties. They shall serve at the pleasure of the Board.

Section 5. VACANCIES. In case of a vacancy in any of the offices hereinbefore provided for in Section 1 of this Article, the Board of Directors, by affirmative vote of a majority thereof, shall elect a successor to hold office for the unexpired portion of the term, and until the election of his successor.

Section 6. EXECUTION OF OBLIGATIONS. The policies, contracts, documents, instruments, and other writings which the Company is authorized to make and which require such execution shall be executed, with or without seal, by such Officers or employees as may be designated by the Board, and in accordance with the law applicable thereto.

ARTICLE VI

Section 1. EXECUTIVE COMMITTEE. The Executive Committee shall be a standing committee of the Board of Directors and shall be comprised of the Executive Officers of the Company in addition to such other Directors as may be appointed by the President and approved by the Board. The Executive Committee shall hold regular stated meetings on the days and the hours fixed by the President or by the Board of Directors. The Executive Committee shall have the same powers as the Board of Directors and shall act in their behalf between regular meetings of the Board. All actions of the Executive Committee shall be reported to the Board of Directors.

ARTICLE VII

INDEMNIFICATION OF DIRECTORS, OFFICERS AND OTHER PERSONS

Section 1. The Company shall indemnify any Director and any Officer, and may in the sole discretion of the Board of Directors indemnify any other person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Company) by reason of the fact that he is or was a Director, Officer, employee or agent of the Company or any of its subsidiaries, or is or was serving at the request of the Company or any of its subsidiaries as a Director, Officer, employee or agent of another company, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to, the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or 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 he reasonably believed to be in, or not opposed to, the best interests of the Company, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

Section 2. The Company shall indemnify any Director and any Officer, and may in the sole discretion of the Board of Directors indemnify any other person, who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Company to procure a judgment in its favor by reason of the fact that he is or was a Director, Officer, employee or agent of the Company or any of its subsidiaries, or is or was serving at the request of the Company or any of its subsidiaries as a Director, Officer, employee

or agent of another company, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Company and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of his duty to the Company unless and only to the extent that the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the court shall deem proper.

Section 3. To the extent that a Director, Officer, employee or agent of a Company has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 1 and 2, or in defense of any claim, issue or matter therein, he shall be indemnified by the Company against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

Section 4. Any indemnification under Sections 1 and 2 (unless ordered by a court) shall be made by the Company only as authorized in the specific case upon a determination that indemnification of the Director, Officer, employee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in Sections 1 and 2. Such determination shall be made (1) by the Board of Directors by a majority vote of a quorum consisting of Directors who were not parties to such action, suit or proceeding, or (2) if such a quorum is not obtainable, or, even if obtainable a quorum of disinterested Directors so directs, by

independent legal counsel in a written opinion, or (3) if a quorum of disinterested Directors so directs, by the Stockholders or members of the Company.

Section 5. Expenses incurred in defending a civil or criminal action, suit or proceeding may be paid by the Company in advance of the final disposition of such action, suit or proceeding as authorized in the manner provided in Section 4 upon receipt of an undertaking by or on behalf of the Director, Officer, employee or agent to repay such amount unless it shall ultimately be determined that he is entitled to be indemnified by the Company as authorized in this section.

Section 6. The indemnification provided in these By-laws shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any law, agreement, vote of Stockholders or members or disinterested Directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and such indemnification shall be applicable to all actions, suits or proceedings commenced after the adoption of these provisions, whether such arise out of acts or omissions which occurred prior or subsequent to such adoption and shall continue as to a person who has ceased to be a Director, Officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 7. The Company may purchase and maintain insurance on behalf of any person who is or was a Director, Officer, employee or agent of the Company or any of its subsidiaries, or is or was serving at the request of the Company as a director, officer, employee or agent of another company, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such,

whether or not the Company would have the power to indemnify him against such liability under the laws of the Commonwealth of Pennsylvania.

ARTICLE VIII

Section 1. AMENDMENTS. These By-laws may be altered or amended at any regular meeting of the Board of Directors, or at a special meeting of the Board of Directors, or at a special meeting called for that purpose, by a majority vote of the Directors present. Any such proposed change or amendment to the By-laws shall be filed with the Secretary at least thirty (30) days in advance of the date of the meeting and due notice shall be given to the Directors, unless the Directors present, by unanimous consent, shall waive the requirements of prior notice.

ARTICLE IX

PERSONAL LIABILITY OF DIRECTORS

Section 1. A Director of the Corporation 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 his office pursuant to this fiduciary relation to the corporation as set forth in Title 42 Pa. C.S. Section 8363;
- (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 any 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.