

Corporate Governance Policies of Medmarc Mutual Insurance Company  
**Approved September 21, 2007 at Board of Directors Meeting**  
**Chantilly, Virginia**

Criteria for Director Selection

- 1) **Personal Qualifications:** The Company selects persons to serve as corporate directors based on professional and business experience. Personal attributes used in director selection include integrity, accountability, financial literacy and maturity for contributing to business deliberations and judgments. Pursuant to the Company's licenses to conduct the business of property and casualty insurance, directors must be willing to submit to fingerprinting and consent to a personal background investigation from time to time.
- 2) **Age:** Directors must be no less than 18 years of age or greater than 70 years of age at the time of election. An exception may be granted by action of the Board allowing director service beyond age 70.
- 3) **Citizenship:** A majority of the Company's directors shall be citizens of and residents of the United States of America.
- 4) **Employment by a Member of the Company:** A majority of directors serving the Company must be employed by or duly authorized by the member as a representative of a Member.
- 5) **Retired from Full-Time Employment:** A person retired from full-time employment is eligible to serve as a director of the Company.
- 6) **Employee Directors:** A former employee of the Company is eligible to serve as a director. Also, a current employee is eligible to serve as a director. The chief executive officer is a director of the Company.

Composition of the Board

- 7) **Size of the Board:** The Board shall consist of no less than nine (9) or more than fifteen (15) directors. The actual number of directors within the minimum and maximum size shall be set periodically by vote of the Board.
- 8) **Rotation of Director Terms:** One third of the directors shall be elected at each Annual Meeting. The Company does not have a policy limiting the consecutive terms that may be served by a director.
- 9) **Term of Office:** Directors serve a standard term of three years. Periodically, a director may be elected or re-elected for a non-standard term of one or two years in order to maintain an apportionment of one-third in expiring director terms each

year. The Corporate Governance Committee selects the director nominees for consideration by the Board and then subsequent election by the Members.

- 10) **Resignation:** A director must submit a resignation under the following circumstances:
  - Retirement from full-time employment;
  - Leaving employment with a Member or Non-Member; or
  - Employer of the director ceases to be a Member of the Company.
- 11) **Director Compensation:** Directors are compensated through an annual retainer, committee chair and elected officer stipends and meeting attendance fees. The Corporate Governance Committee reviews the compensation schedule on a bi-annual basis and recommends any changes to the Board. Directors' compensation is set by a vote of the Board.
- 12) **New Director Orientation:** The Board and the chief executive officer employ a series of references and personal communications to educate and familiarize new directors with their initial duties and introduce them to fellow directors and the senior management group.
- 13) **Director Performance:** The Corporate Governance Committee assesses director performance on a periodic basis and makes recommendations to the Board about general or individual conduct, as deemed necessary.
- 14) **Board Performance:** The Corporate Governance Committee assesses the Board's performance on a periodic basis and makes recommendations to the Board about opportunities for improvement.
- 15) **Inside Director:** A director that is a member of senior management or was a member of senior management within the past three years.

#### Organization of the Board

- 16) **Officers Elected by the Board:** The two officers elected by the Board, annually, are a Chairman and a Vice Chairman. Any director may be elected to the office of Chairman. The office of Vice Chairman must be filled by a director currently employed by a Member of the Company. The Corporate Governance Committee selects nominees for these offices.
- 17) **Operating Officers of the Company:** The Corporate Governance Committee selects nominees for all employee officers of the Company including the chief executive officer. The Board appoints these officers after each election of directors and all such persons hold office at the pleasure of the Board.

18) **Committees:** The Board delegates certain duties to Committees of three or more directors that encompass: Audit & Investment Committee, Human Resources Management Committee and Corporate Governance Committee. The functions of each Committee are set forth in a charter approved, and periodically updated, by the Board.

The Chair of each Committee is proposed, annually, by a recommendation of the Chairman of the Board to the Corporate Governance Committee. The Corporate Governance Committee considers the proposal and forwards its recommendation to the Board for consideration and appointment by vote of the Board.

It is the sense of the Board that directors should serve on committees based on their specific areas of expertise and individual preferences. No maximum periods for tenure on a committee are mandated. The Board annually ratifies the membership of each committee.

Inside Directors will not have specific Committee assignments. Inside Directors may attend any Committee meeting, however, they do not have voting rights at Committee meetings.

19) **Frequency of Meetings:** The Board holds regularly scheduled meetings four times each year scheduled within each quarter of the year. Periodic meetings are held by telephone conference call, as deemed necessary.

20) **Agenda Preparation for Board Meetings:** The chief executive officer prepares a draft agenda in advance of each board meeting, circulates it to the Chairman of the Board and, finally, to the Chair of each Committee for suggestion and comment. The final meeting agenda and supporting materials are provided to directors one week before the meeting date.

21) **Executive Sessions:** The Board holds executive sessions during each regularly scheduled meeting. Employees of the Company are excused during the executive session, as necessary. Minutes of the executive session are prepared by the Vice Chairman (or a designated director) and submitted to the Secretary for the corporate record.

#### Regular and Periodic Governance Duties of the Board

22) **Bylaws Amendments:** The Board conducts periodic reviews of the Bylaws and makes changes deemed necessary to strengthen corporate governance, address state insurance regulatory developments, comply with any corporate law changes in the Company's state of domicile and add specificity to existing language where desirable. The Bylaws also may be amended by the Members at any Annual or Special Meeting.

- 23) **Mission Statement:** The Board consults with senior management to periodically review and modify, as appropriate, the Company's mission statement to clearly reflect core business objectives and values for communication to policyholders and Members.
- 24) **Conflicts of Interest:** Directors make an annual certification, by affidavit, addressing the absence of any known conflicts of interest with the business affairs of the Company in discharging their duties. Directors are expected to recuse themselves from any matter brought before the Board if an actual or a potential conflict of interest is identifiable.
- 25) **Independent Counsel:** The Board may hire the services of independent counsel in a material circumstance where the interests of the Company should be separated or insulated from the personal interests of management or the professional interests of current advisors.
- 26) **Review of Material Transactions:** Material transactions not in the usual course of business must be reviewed by and approved by the Board. Judging the materiality of a transaction is the sole prerogative of the Board.
- 27) **Access to Senior Management:** Directors are free to contact senior management. Members of senior management attend and participate in meetings of the Board of Directors by invitation as requested from meeting to meeting. However, directors should bear in mind that board decisions and the direction of senior management are the responsibility of the entire Board and not the province of individual directors.
- 28) **Annual Performance Review of the Chief Executive Officer:** The Board requires an annual performance review of the chief executive officer. The performance review is prepared by the Human Resource Management Committee and forwarded, with a recommendation, to all directors for consideration and action at a designated meeting of the Board.
- 29) **Chief Executive Officer Succession Planning:** The Board charges the Human Resources Management Committee with design of a succession plan for the replacement of the chief executive officer under customary circumstances, such as retirement. The succession plan and its implementation will be considered and approved by the full Board of Directors.
- 30) **Development of Strategic Plan:** The Board strongly embraces the development and execution of a strategic plan for the Company. Senior management is responsible for plan design and will develop the plan in concert with the Board.
- 31) **Hiring and Promotion within Senior Management:** The Human Resources Management Committee has lead responsibility to approve the hiring of new officers for the Company (other than the CEO). Before an offer of employment is

extended, the Committee will circulate its recommendation to all other directors for their comments or questions. Promotion within senior management is recommended by the CEO to the Human Resources Management Committee through a written justification. Promotion recommendations by the Committee are referred to the full Board for approval.

- 32) **Outside Board Memberships within Senior Management:** The Board exercises a prerogative to approve or disapprove the candidacy of the CEO or other members of senior management if asked to serve on the board of directors of a business corporation or a trade or professional association.
- 33) **Customary Matters for Review and Approval by the Board of Directors:** As a broad but not exclusive fabric of governance policy, the Board has identified the following matters for customary review and approval, including requirements that flow from state regulation of the Company's insurance business.
- a. Approve the annual, independent financial audit as presented by the Audit & Investment Committee.
  - b. Approve statutory financial examination reports and any corrective actions from state insurance regulators as recommended by the Audit & Investment Committee.
  - c. Approve market conduct examination reports and any corrective actions from state insurance regulators as recommended by the Audit & Investment Committee.
  - d. Elect directors and appoint officers for subsidiary corporations.
  - e. Approve business continuity plans developed by management.
  - f. Approve executive and employee incentive compensation programs pursuant to recommendations of the Human Resources Management Committee.
  - g. Approve executive severance agreements, as necessary, when developed by the Human Resources Management Committee.
  - h. Approve standards for data security when periodically presented by the Audit & Investment Committee.
  - i. Recommend the appointment or reappointment of independent financial auditors on an annual basis for submission to a vote of the Members at the Annual Meeting.
  - j. Review and approve the Company's annual financial objectives, plans and actions, including material capital allocations.
  - k. Review and approve acquisitions, divestitures and new programs.
  - l. Approve, review and monitor the Company's long-range business strategy.
  - m. Review and approve meaningful business opportunities presented by management.