

## **PMA CAPITAL CORPORATION**

### **AUDIT COMMITTEE OF THE BOARD OF DIRECTORS AMENDED AND RESTATED CHARTER (as amended and restated February 9, 2005)**

#### **I. PURPOSE**

The primary function of the Audit Committee is to assist the Board of Directors (the "Board") in fulfilling its oversight responsibilities by:

- Overseeing audits of the Corporation's financial statements.
- Overseeing the Corporation's accounting policies and financial reporting process and design and operation of internal controls regarding accounting and financial reporting.
- Overseeing the independence and performance of the Corporation's independent auditors and internal auditor.
- Overseeing the Corporation's compliance with laws and regulations that may have a material impact on the Corporation.
- Serving as a means of open communication among the independent auditors, financial and senior management, the internal auditor and the Board concerning the Corporation's financial position and affairs.
- Periodically reporting upon the Committee's activities, findings and recommendations to the Board.

#### **II. COMPOSITION**

The Audit Committee shall be comprised of at least three directors appointed annually by the Board. Each member shall meet the independence and experience requirements of the Nasdaq Stock Market, Inc. ("Nasdaq") and the Securities Exchange Act of 1934, as amended including the regulations promulgated thereunder (the "Exchange Act"). The Committee will endeavor to, at all times, have at least one member who is an audit committee financial expert as defined under the Exchange Act. Unless a Chair is elected by the full Board, the members of the Committee may designate a Chair by majority vote of the full Committee membership.

### **III. MEETINGS**

The Audit Committee shall meet as often as it determines, but not less frequently than quarterly. The Audit Committee shall meet periodically with management, the internal auditors and the independent auditors in separate executive sessions.

### **IV. RESPONSIBILITIES AND DUTIES**

The Audit Committee's responsibility is oversight, and it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Corporation's financial statements are complete and accurate and are in accordance with generally accepted accounting principles, which is the responsibility of management. Additionally, the Audit Committee recognizes that management (including internal audit), as well as the independent auditors, have more detailed knowledge and information about the Corporation than do the members of the Audit Committee; consequently, in carrying out its oversight responsibilities, the Audit Committee is not providing any expert or special assurance as to the Corporation's financial statements or any professional certification as to the independent auditors' work.

The following functions shall be the recurring activities of the Audit Committee in carrying out its oversight responsibility. These functions are set forth as a guide with the understanding that the Committee may diverge from this guide as appropriate given the circumstances.

#### **Review Procedures**

1. Review and assess this Charter at least annually and recommend any proposed changes to the Board for approval.
2. Review with management and the independent auditors the Corporation's annual audited financial statements and quarterly financial statements prior to the earlier of the filing of financial statements with the Securities and Exchange Commission ("SEC") or public distribution of such financial statements. Review should include a discussion with management and the independent auditors of major issues regarding the audit and accounting principles, practices and judgments, and a discussion with the independent auditors of the matters required to be discussed by Statement on Auditing Standards ("SAS") No. 61 in the case of the annual financial statements and SAS No. 71 in the case of quarterly financial statements. The Chair of the Audit Committee may represent the entire Audit Committee for purposes of the review of quarterly financial statements.
3. To review with management and the independent auditors, as appropriate, earnings press releases, including the use of "pro forma" or "non-GAAP" financial information as well as earnings guidance provided on a confidential basis to analysts and rating agencies.

4. In consultation with the independent auditors, management and the internal auditor, review the integrity of the Corporation's financial reporting processes, both internal and external, as well as the adequacy of internal controls with respect to such processes. Review significant findings, if any, prepared by the independent auditors and/or the internal auditor together with management's response.
5. Review any significant changes to the Corporation's selection or application of accounting principles and practices.
6. Review and discuss quarterly reports from the independent auditors on:
  - (a) All critical accounting policies and practices to be used.
  - (b) All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor.
  - (c) Other material written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences.
7. Review the impact of any off-balance sheet arrangements on the Corporation's financial statements.
8. Review disclosures made to the Audit Committee by the Corporation's CEO and CFO during their certification process for the Report on Form 10-K and Form 10-Q about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Corporation's internal controls.
9. Following completion of the annual audit, review separately with each of the internal auditor and independent auditors any significant issues encountered during the course of the audit, including any restrictions on the scope of work or access to required information.
10. Periodically report to the Board of Directors on the activities of the Audit Committee through the distribution of the Audit Committee's minutes of meetings and an annual oral report to the Board of Directors.
11. Review with management and the independent auditors the effect of regulatory and accounting initiatives.

### **Independent Auditors**

12. The Audit Committee shall have sole authority to select, evaluate and, where appropriate, replace the independent auditors and shall determine funding for the independent auditors and approve the audit plan of the independent auditors.
13. The independent auditors shall report directly to the Audit Committee.
14. On an annual basis, the Audit Committee should ensure receipt of, and review with the independent auditors, a written statement required by Independence Standards Board Standard No. 1, as may be modified or supplemented, and discuss with the auditors their independence. The Audit Committee will discuss with the independent auditors any disclosed relationships or services that may impact the objectivity and independence of the independent auditors, and will, if necessary, recommend that the Board take appropriate actions to oversee the independence of the independent auditors. The Committee will consider the compatibility of the independence of the independent auditors with their provision of non-audit services.
15. Pre-approve all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed by the independent auditors in accordance with Section 10A(i) of the Exchange Act, subject to, if also permitted under Nasdaq's rules, the de minimus exceptions for non-audit services described in Section 10A(i) of the Exchange Act which are approved by the Audit Committee prior to completion of the audit. The Audit Committee may delegate the authority to approve permitted non-audit services (including the fee and terms thereof) to one or more members of the Committee.
16. Obtain and review a report from the independent auditors at least annually regarding (a) the independent auditors' internal quality-control procedures, (b) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm, (c) any steps taken to deal with any such issues, and (d) all relationships between the independent auditors and the Corporation. Review the experience and qualifications of the senior members of the independent auditors' team.
17. Ensure the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law.
18. Set policies for the hiring of employees or former employees of the Corporation's independent auditor.

### **Internal Audit**

19. Review the appointment and replacement of the senior internal auditing executive.
20. Review the significant reports to management prepared by the internal audit department and management's responses.
21. Discuss with the independent auditors and management the internal audit department responsibilities, budget and staffing and any recommended changes in the planned scope of the internal audit.

### **Corporate Compliance**

22. Review and approve transactions between the Corporation and/or its subsidiaries and any officer, director or affiliate (including any 10% shareholder) that would require reporting pursuant to Item 404 of Regulation S-K.
23. Review with the Corporation's General Counsel legal and regulatory matters that may have a material impact on the Corporation's consolidated financial statements, related compliance policies and programs and reports received from regulators. If appropriate, the Audit Committee will discuss such matters with the independent auditors.
24. Perform any other activities consistent with this Charter, the Corporation's Bylaws and governing law, as the Audit Committee or the Board deems necessary or appropriate.
25. Establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
26. Review with the Corporation's General Counsel the establishment of an effective compliance and ethics program that complies with the U.S. Federal Sentencing Guidelines, as amended, monitor the implementation of such program and periodically assess the effectiveness of such program.

### **Other Matters**

27. The Audit Committee has the authority to conduct any investigation it deems necessary to carry out its responsibilities, and it has direct access to the independent auditors as well as anyone in the Corporation. Further, the Audit Committee has the ability to retain, at the Corporation's expense, legal, accounting, or other consultants or experts it deems necessary to carry out its responsibilities

28. The Corporation shall provide for appropriate funding, as determined by the Audit Committee for compensation to the independent auditors for the purpose of rendering or issuing an audit report and to any advisors or consultants employed by the Audit Committee.
29. The Audit Committee will annually prepare the Audit Committee report required by the SEC for inclusion in the annual proxy statement.

## **Process for Handling Complaints about Accounting Matters**

The Audit Committee has established the following procedures for (i) the receipt, retention, and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and (ii) the confidential, anonymous submission by Corporation employees of concerns regarding questionable accounting or auditing matters.

- a. The Corporation will establish and publish on its website a special mail address and a toll-free telephone number for receiving complaints or concerns regarding accounting, internal accounting controls, or auditing matters and for providing appropriate means for the confidential, anonymous submission of such concerns by employees.
- b. Copies of all such complaints or concerns will be sent initially and exclusively to members of the Audit Committee.
- c. The Audit Committee will direct how complaints or concerns it receives shall be investigated and otherwise handled. Unless the Audit Committee decides otherwise, all complaints or concerns will be handled by the Corporation's finance, audit and legal staffs in the normal manner.
- d. The Audit Committee may request special treatment, including the retention of outside counsel or other advisors, for any complaint or concern addressed to it.
- e. The status of the complaints or concerns referred to staff or outside counsel or other advisors will be reported on a quarterly basis to the Audit Committee and, if the Audit Committee so directs, to the full board.

The retaliation against or taking of any adverse action against any employee arising from an employee's submission or handling of such a complaint or concern is expressly prohibited, and anyone found taking such action will be subject to disciplinary action, up to and including, termination from employment.