



## **Board of Directors' Governance Principles**

***Role of the Board:*** The primary responsibility of the Board is to oversee the business and affairs of PMA Capital Corporation (the "Company") for the benefit of the Company and shareholders. Because the daily operations of the Company are the responsibility of management, the role of the Board is to oversee management's performance of on-going operations. Within this framework, the Board may also consider the interests of other constituents, including the Company's customers, employees and the communities in which it functions. Accordingly, the Board, directly or through one of its committees, shall, among other things:

- Ensure that the Board membership collectively has the appropriate skills to execute its responsibilities effectively;
- Appoint the Chief Executive Officer (CEO) and other senior corporate officers;
- Provide advice and counsel to the CEO;
- Evaluate the CEO's performance annually;
- Evaluate the Board's performance periodically;
- Participate with management in determining the Company's overall corporate strategy and evaluating management's implementation of the strategy;
- Review financial goals and performances;
- Review and approve the Company's capital plans;
- Oversee an effective management development and succession process;
- Create and support an ethical and legally compliant business environment, including adoption of and oversight of compliance with a Business Ethics and Practices Policy, Code of Conduct for Directors and a Code of Ethics for the CEO and Senior Financial Officers; and
- Approve changes in by-laws and proposals to be submitted to shareholders.

***Size and Composition of the Board:*** One class of the Company's Board of Directors is elected each year by the Company's shareholders at the annual meeting of shareholders. The Company's bylaws provide for a Board consisting of not less than 9 or more than 15 directors. The Board periodically reviews the appropriate size of the Board. In accordance with the Company's bylaws, the Board of Directors shall be divided into three (3) classes consisting of as nearly equal in number of directors as possible, and directors of each class shall be elected for a term of three (3) years and until their successors are elected and qualified or until their earlier death, resignation or removal. Upon the occurrence of any vacancy in the Board, the Nominating and Corporate Governance Committee recommends to the Board whether to fill such vacancy or to reduce the size of the Board, and the Board makes the final determination after considering such recommendation.

## **Board of Directors' Corporate Governance Principles**

Page 2

***Independence of the Board:*** The membership of the Board must be comprised of a majority of independent directors as defined by the rules and regulations of the NASDAQ Stock Market LLC ("NASDAQ"). Independent directors may not have, directly or indirectly, any substantial business transactions with the Company, such as would have to be disclosed in a proxy statement under the Securities and Exchange Act of 1934. No independent director should occupy a position as a director, officer or employee of any entity with which the Company directly and significantly competes, or with which it will directly and significantly compete in the foreseeable future. Directors may not simultaneously serve on more than three public company boards of directors without the approval of the Nominating and Corporate Governance Committee. The Board is led by a Non-Executive Chairman who is independent under the rules and regulations of the NASDAQ.

***Selection of Directors:*** The Board shall nominate qualified individuals for election by the shareholders, and in filling vacancies on the Board, shall also elect qualified individuals. These individuals should have outstanding records of achievement in their chosen career, the skills to perform the role of a director, the time and motivation to perform as a director and the ability to participate in the Board's deliberative process focused on advancing the Company's business objectives. The Nominating and Corporate Governance Committee, with the participation of the President and Chief Executive Officer ("CEO") and Non-Executive Chairman, identifies potential director candidates and recommends final candidates to the Board for election as a director.

***Orientation and Education:*** The Board and the Company provide orientation for new directors and, on an ongoing basis, directors participate in corporate governance and other educational programs.

***Frequency of Meetings, Director Attendance and Board Agendas:*** The Board sets the annual schedule of the Board and Committee meetings. Regularly scheduled meetings of the Board are held at least four (4) times a year. Directors are expected to attend all meetings of the shareholders, the Board and the Committees on which they serve and to have reviewed, prior to the meeting, all meeting materials distributed to them in advance. Generally, the Chairman of the Board and the CEO establish the agendas for the Board and Committee meetings, with input from Committee chairs and members of senior management, where applicable. Each director is free to suggest items for the agenda, and each director is free to raise at any Board meeting subjects that are not on the agenda for that meeting.

## **Board of Directors' Corporate Governance Principles**

Page 3

**Director Compensation:** Director compensation is intended to be competitive with the compensation of directors at peer companies. The Compensation Committee and Nominating and Governance Committee will jointly determine Director fees, and will, if they deem it appropriate, consult from time to time with an independent compensation consultant.

**Stock Ownership:** The Board has adopted share ownership requirements for the non-employee directors that require all non-employee directors to beneficially own shares of Class A common stock equal to 2.5 times the Board's annual retainer within a five-year period from their first election to the Board or for continuing directors from March 10, 2004.

**Individual Director Responsibilities:** In order to perform his or her role, each director should:

- Understand his or her fiduciary duties under Pennsylvania law;
- Understand his or her duties as directors under the federal securities laws;
- Be knowledgeable about the articles of incorporation and by-laws of the Company;
- Possess and develop an understanding of the property/casualty insurance industry;
- Thoroughly prepare for each Board or Committee meeting;
- Communicate ideas/concerns to the Non-Executive Chairman of the Board and/or CEO when such ideas/concerns arise;
- Make informed decisions;
- Contribute his or her expertise for the advancement of the Company's business at Board meetings;
- Attend shareholder, Board and applicable Committee meetings;
- Engage in constructive dialogue with other Board members relevant to the Company and the Board's activities; and
- Keep pace with developments in his or her specialized areas of knowledge.

**Directors' Term of Office and Retirement Policy:** Directors will serve for a term of office of three (3) years or until a successor has been elected and qualified. Pursuant to the Company's Director Qualifications and Nominations Policy, except as approved by the Nominating and Corporate Governance Committee, no director may stand for re-election after his or her 72<sup>nd</sup> birthday. A director when first elected should be able to serve two (2) full terms. The Nominating and Corporate Governance Committee shall be responsible for recommending to the Board whether or not a director should be nominated for re-election at the end of a three (3) year term.

**Change in Circumstances:** Directors who retire or change their primary job responsibilities will promptly tender their resignation to the Board, who will refer it to the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee will review the appropriateness of the director's continuing service on the Board under the circumstances. The recommendation of the Nominating and Corporate Governance Committee will be presented to the Board for its consideration in determining whether the resignation will be accepted or rejected. Directors who are also employees of the Company will resign from the Board at the time they leave the employment of the Company.

Each director shall notify the Nominating and Corporate Governance Committee (a) prior to accepting a directorship or other position of responsibility with another organization, or (b) prior to or promptly following a significant change in personal circumstances. The Nominating and

## **Board of Directors' Corporate Governance Principles**

Page 4

Corporate Governance Committee will review and evaluate the circumstances and will determine whether the director's continued service on the Board would be appropriate under those circumstances. If the Nominating and Corporate Governance Committee determines that the director's continued service on the Board would not be appropriate under the circumstances, the director shall offer his or her resignation.

***Executive Compensation:*** Compensation of the CEO shall be determined by the Compensation Committee, which is comprised solely of independent directors. The Committee is advised by independent compensation consultants. The Compensation Committee, acting upon the recommendation and advice of the CEO and independent compensation consultants, determines the compensation of the Company's other senior officers.

***Recoupment Policy:*** The Board will require an executive officer to reimburse the Company for any annual cash or stock incentive payment or long-term incentive payment awarded after December 2009 where (i) the payment was made based upon the achievement of financial results that were subsequently the subject of a restatement of the Company's financial statements filed with the Securities and Exchange Commission, (ii) the Board determines the executive officer engaged in fraud or intentional misconduct that caused or substantially caused the need for such restatement, and (iii) a lesser payment would have been made to the executive based upon the restated financial results. In each instance where reimbursement is required, the Board will, to the extent permitted by applicable law, seek to recover from the executive officer the cash amount or number of shares by which the incentive payments for the relevant period received by an individual executive officer exceeded the lesser payment that the executive officer would have received based upon the restated financial results.

Any recoupment under this recoupment policy shall be in addition to, and not in substitution of, any other legal or equitable remedies that are available to the Company.

For the purposes of this recoupment policy, the term "executive officer" means any officer of the Company that the Board determines to be a reporting person under Section 16 of the Securities Exchange Act of 1934.

***Non-Member Meeting Attendees:*** The Board requires regular attendance of the Company's senior officers during prescribed portions of Board and Committee meetings in order for them to report on key activities.

***Executive Sessions:*** The Board shall have the opportunity to meet in executive session without employee directors present after each regular Board meeting. Independent directors meet in executive session at least twice each year.

***Committees of the Board:*** The committees of the Board include the Strategy and Operations, Audit, Nominating and Corporate Governance and Compensation committees. The role of the committees is to oversee, where permitted by applicable legal and regulatory requirements, specific key functions on behalf of the Board. Membership on committees must comply with applicable regulatory requirements. The Board of Directors shall retain full authority over those responsibilities not delegated or assigned to a committee. The charters of each committee are available on the Company's website.

## **Board of Directors' Corporate Governance Principles**

Page 5

***Confidentiality:*** The Board believes it is imperative that each member maintain confidentiality of non-public information and deliberations of the Board and committees. With respect to shareholder voting, it is the Company's policy that all proxy, ballot and voting materials that identify the vote of a specific shareholder on any matter submitted for a vote of shareholders shall not be disclosed to directors and officers of the Company, except (1) when disclosure is required by applicable law or regulation, (2) when a shareholder expressly requests such disclosure, or (3) in a contested proxy solicitation. If a shareholder is an employee of the Company or a participant in a retirement plan that holds the Company's stock, the information will not be disclosed to management unless clause (1) or (2) applies.

***Ethics and Conflicts of Interest:*** All members of the Board are expected to act ethically at all times and acknowledge their adherence to all applicable Company policies, including but not limited to the Business Ethics and Practices Policy, the Code of Ethics for Directors and the Insider Trading Policy. Directors are expected to avoid any action, position or interest that conflicts with an interest of the Company, or creates the appearance of a conflict. The Company annually solicits information from its Directors in order to monitor potential conflicts of interest. If an actual or potential conflict of interest arises for a director, the director shall promptly inform the Chairman of the Board or the Chair of the Audit Committee. All directors will recuse themselves from any discussion or decision affecting their personal, business or professional interests.

***Periodic Assessment of Board Performance:*** The Nominating and Corporate Governance Committee periodically conducts a self-assessment process of the Board's effectiveness and makes a report to the Board.

***Review and Interpretation of Corporate Governance Principles:*** Periodically, the Nominating and Corporate Governance Committee will review these principles and recommend any appropriate changes to the Board. The Nominating and Corporate Governance Committee will also provide guidance on the interpretation of these principles and a Director's compliance with them.

***Publication of Governance Principles:*** These principles shall be published on the Company's website so that they are available to the public.

*Last Revised: March 4, 2010*