

PMA CAPITAL CORPORATION

Keefe, Bruyette & Woods  
Insurance Conference

September 9, 2009

PMA.  
COMPANIES

# Forward-looking Statements

This presentation and our discussion contain forward-looking information including, but not limited to, such matters as business strategies, market trends, future financial performance, and other matters. These statements involve risks and uncertainties that could cause actual results to differ from those projected or implied in the forward-looking statements. Please refer to the Company's SEC filings including its most recent Annual Report on Form 10-K for a discussion of risk factors which could cause actual performance to differ from these forward-looking statements. The Company does not undertake to update any forward-looking statements as a result of new information or future events or developments.



## Who Are We?

- PMA Capital is the holding company for PMA operating subsidiaries, which provide specialized risk management solutions to customers throughout the United States.
- The operating subsidiaries are marketed under PMA Companies and include:
  - The PMA Insurance Group
  - PMA Management Corp.
  - Midlands Management Corporation
  - PMA Management Corp. of New England



# Who Are We?

- Two Ongoing Operating Segments

- The PMA Insurance Group

- Solid presence in workers' compensation market
    - Disciplined underwriting standards
    - Superior long-term client relationships
    - Statutory capital of \$374 million

- Fee-based Business

- Includes combined operating results of PMA Management Corp., Midlands Management Corporation, and PMA Management Corp. of New England
    - Acquisition of Midlands in October 2007 provides expanded fee-based services and customer base
    - In June 2008, acquired a workers' compensation TPA in New England, a market where we previously had little penetration

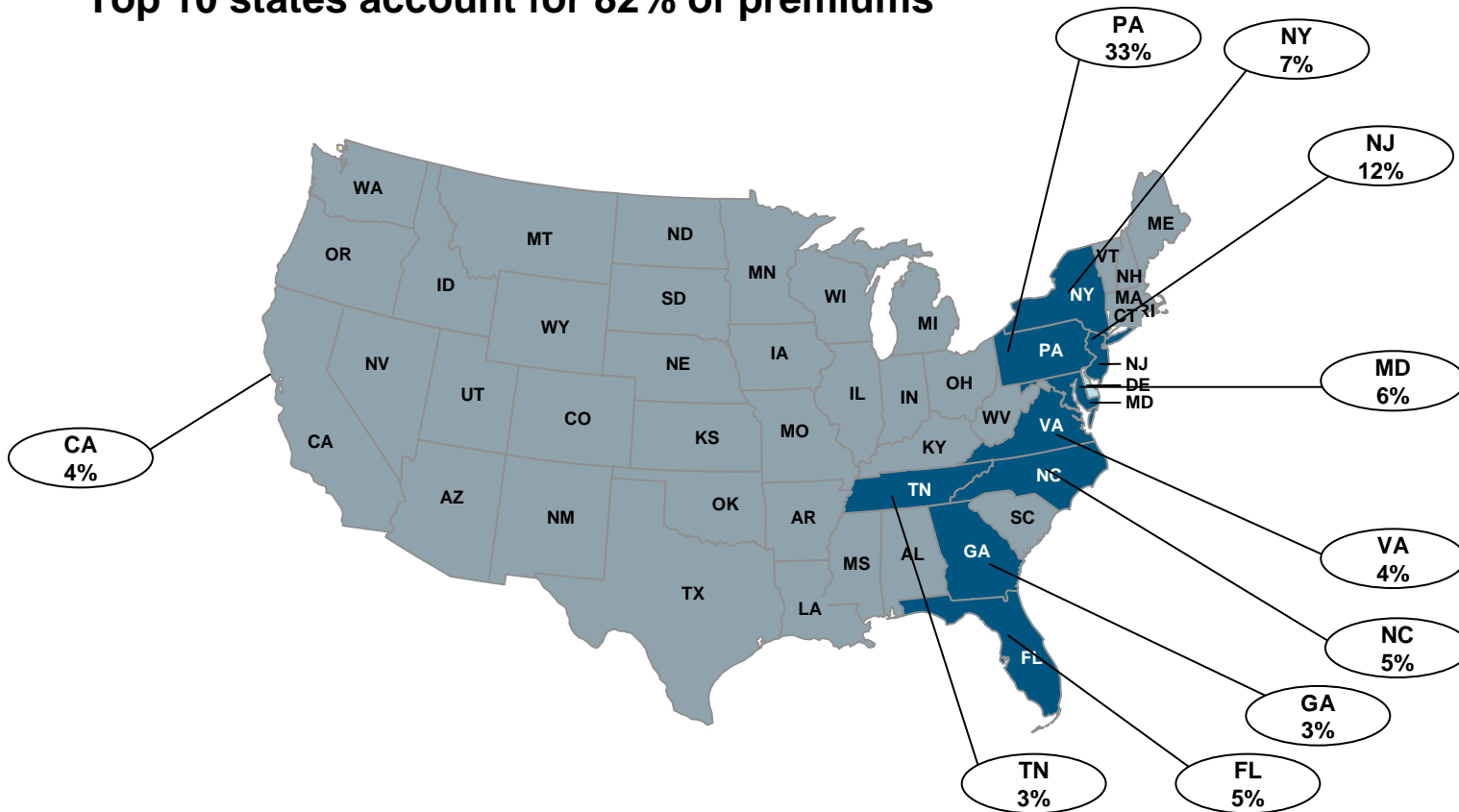




# Where We Write Insurance Business

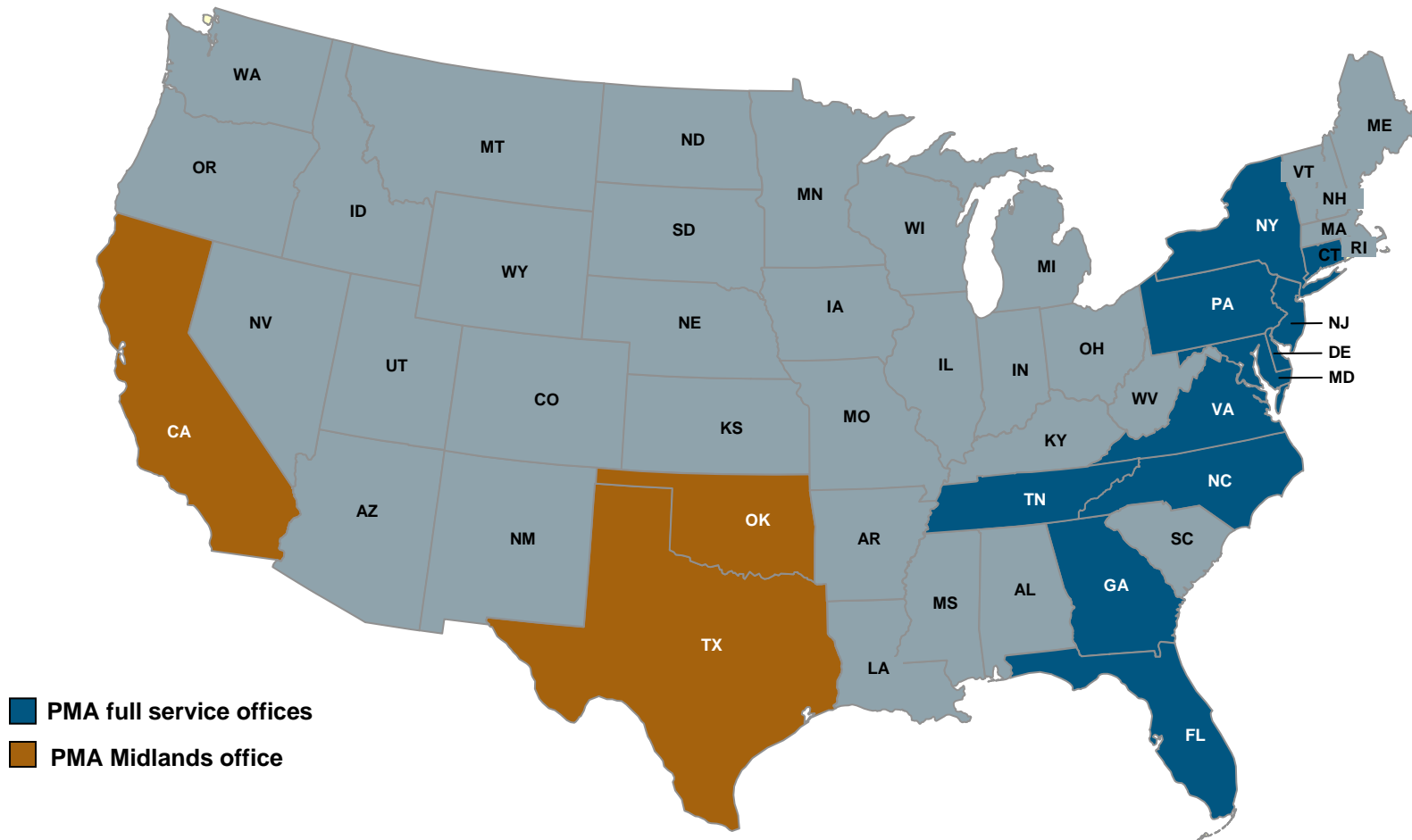
Top 5 states account for 63% of premiums\*

Top 10 states account for 82% of premiums\*



\*Based on 2008 direct premiums written, excluding fronting premiums.

# Strong, Growing Operating Presence



**PMA has 50 state writing and servicing capabilities**



PMA Capital Corporation

## 2009 Focus

- Continue to execute the fundamentals and profitably grow our primary insurance and fee-based businesses
    - We expect to improve our operating results in 2009
    - Insurance – expect modest premium production growth with continued emphasis on managing loss costs and controllable expenses
    - Fee-based – expect continued organic growth at all operations and full year results from prior year acquisition
  - Continue to improve operating return on equity for our ongoing businesses
  - Maintain a conservative investment management approach
    - Look for opportunities to reduce sector concentration while improving risk adjusted returns
  - Complete disposition of our Run-off Operations
-

## Consolidated June Year-to-Date Results

(\$ in millions, except per share)	2009	2008
Direct premiums written	\$271.0	\$239.5
Net premiums earned	211.9	188.5
Fee-based revenues	38.1	31.8
Operating income from continuing operations	11.9	11.6
Loss from discontinued operations	(1.3)	(2.6)
After tax realized investment gains	0.2	1.9
Net income	\$10.8	\$10.9
Earnings per share from continuing operations	\$.38	\$.42
Loss per share from discontinued operations	(.04)	(.08)
Earnings per share	\$.34	\$.34



## Consolidated June Year-to-Date 2009 Results

- Improved underwriting results at The PMA Insurance Group compared to June year-to-date 2008
  - Combined ratio 96.5% vs. 97.2% in 2008
  - Net premiums earned increased \$23.4 million to \$211.9 million
- Pre-tax operating income increased by 10% at The PMA Insurance Group, compared to 2008 (excluding 2008 real estate gain)
- Revenues from Fee-based Business increased 20% to \$39.2 million due to organic growth and acquisition of PMA Management Corp. of New England
- Executed plan to reduce investment portfolio exposure to CMBS



# Insurance Segment



PMA Insurance Group

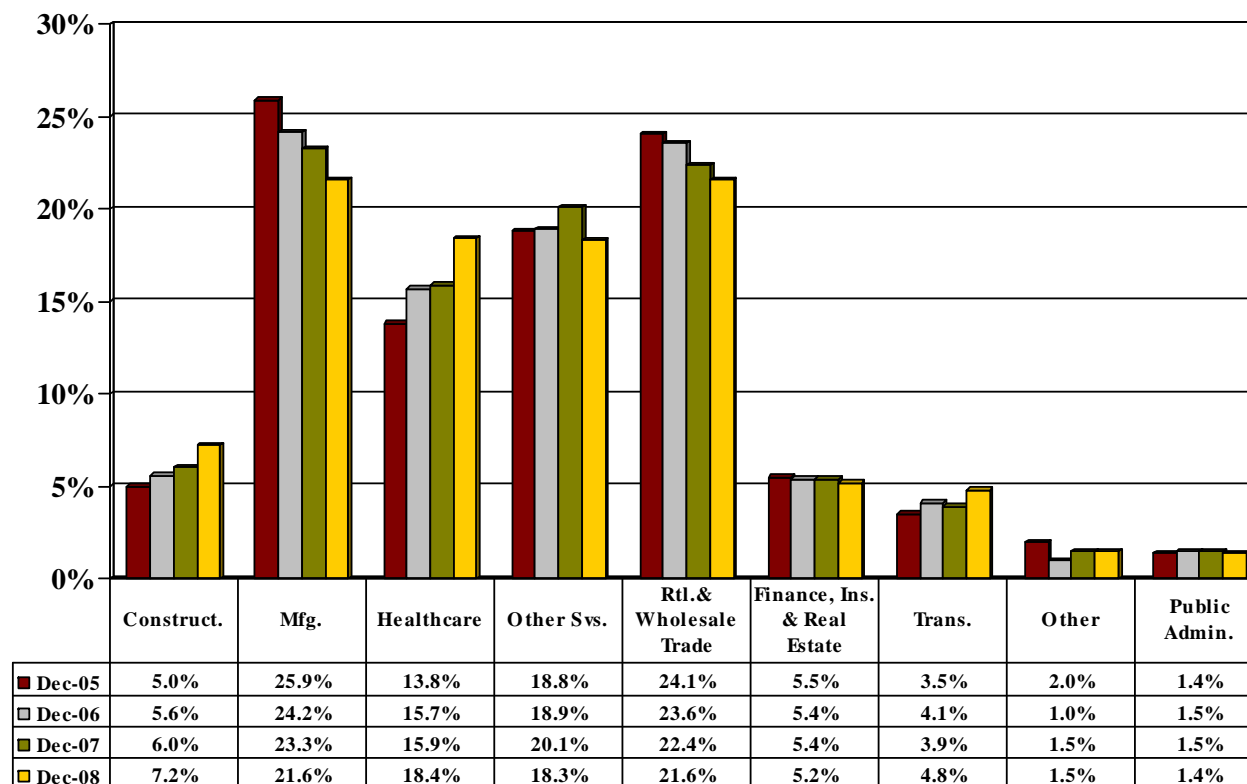


PMA Capital Corporation

# Insurance Segment - Business Overview

- Premier provider of workers' compensation and other commercial lines of property and casualty insurance
- Focus on mid-size to large accounts
  - Commercial Markets
  - Risk Management Services
  - Specialty Markets
- Reputation for excellent customer service and execution
  - 96% client satisfaction levels as measured by independent research firm in 2009

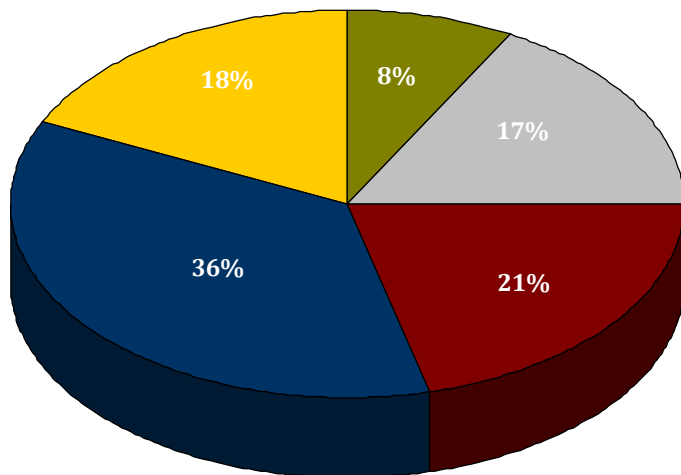
# Premium Distribution by Class – All Lines Combined\*



\* Excluding fronted business

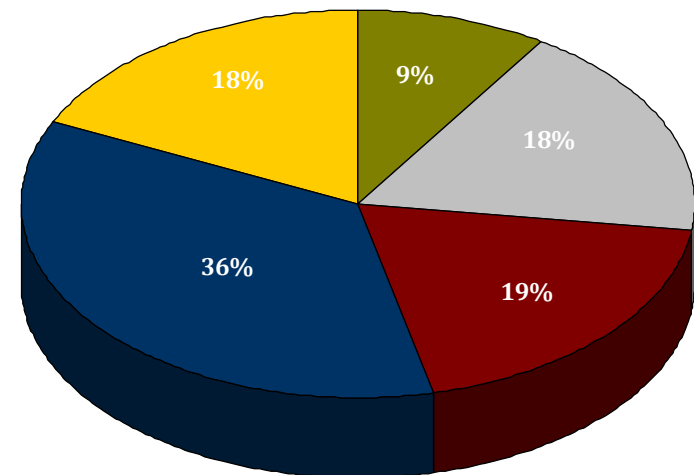
# Diversified Distribution Channels Premium Profile by Source\*

**Full Year 2008**



Direct
  National Brokers
  Regional Brokers  
 Local Brokers
  Bank Owned & Other

**Year-to-date  
June 2009**

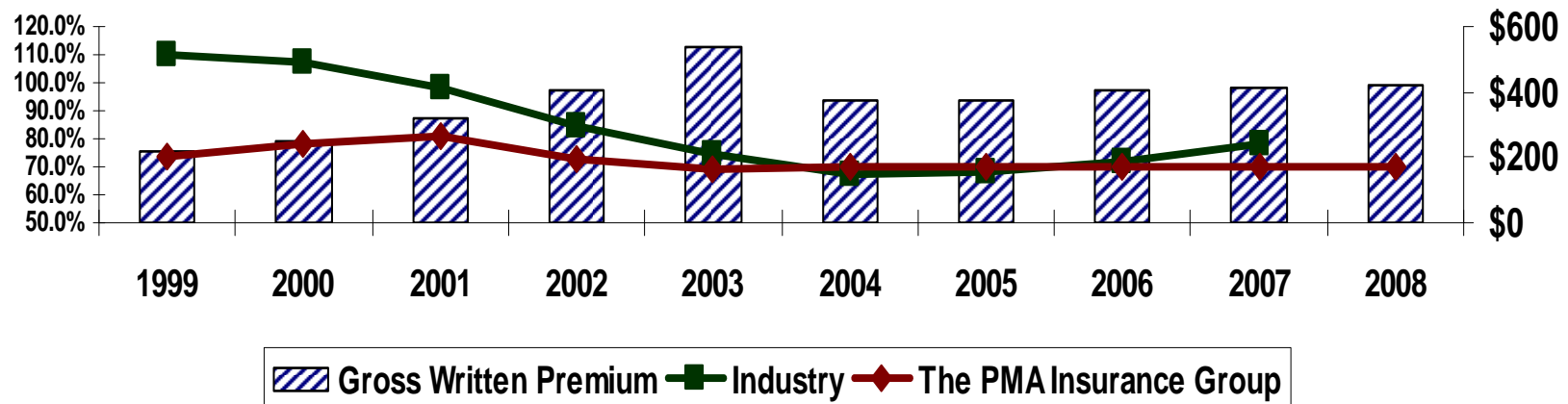


Direct
  National Brokers
  Regional Brokers  
 Local Brokers
  Bank Owned & Other

\*Excluding fronted business

# Proven Platform

The PMA Insurance Group – Workers' Compensation Estimated Undiscounted Accident Year Net Loss and LAE Ratio



**Disciplined underwriting → Consistent operating returns**

Source: A.M. Best



PMA Capital Corporation

# Maintain Competitive Advantage: Workers' Compensation

- Long-term strategy to write workers' compensation business at a combined ratio of 100% through underwriting cycle
  - Six months 2009 combined ratio of 96.5%
  - Full year 2008 combined ratio was 97.5%
- Measured steps to improve expense ratio, while maintaining service levels to customers
  - Expense target is currently to maintain controllable expense growth less than half the rate of direct premium growth
- Claims Strategic Alliances assist in managing loss costs
  - Medical networks
  - Bill review
  - Catastrophic claims

# Managing the Loss and LAE Ratio

- Pricing changes coupled with payroll inflation for rate-sensitive workers' compensation business were below overall estimated loss trends
- Diversification among classes of business insured
- Loss containment protection in loss-sensitive business (about 40-45% of our business) reduces risk to Company
- Outcome focused claims philosophy
  - Full integration of nurse professionals in claims process
  - In-house counsel in select jurisdictions

# Fee-based Business Segment



PMA Management Corp.

MIDLANDS  
A PMA® COMPANY



PMA Management Corp.  
of New England



PMA Capital Corporation

## Fee-based Business Segment

- PMA Management Corp.
  - Third-Party Administrator (TPA) producing fee-based revenues
  - Focus on workers' compensation and risk management services
  - Business shares IT infrastructure with The PMA Insurance Group
- Midlands Management Corporation
  - Acquired October 1, 2007
  - Oklahoma City-based managing general agent (MGA), program administrator and provider of TPA services
  - Little overlap with PMA Management Corp.
- In June 2008, acquired PMA Management Corp. of New England
  - Connecticut-based provider of TPA services
  - Specializes in providing workers' compensation and risk management services to health care systems and public entities
- Revenues and margins from our fee-based businesses are less volatile than insurance underwriting

# Holding Company Review



PMA Capital Corporation



PMA Capital Corporation

# Capitalization

<i>\$ in millions</i>	<b>6/30/09</b>	<b>12/31/08</b>
<b>Shareholders' Equity (Including SFAS #115)</b>	<b>\$369.0</b>	<b>\$344.7</b>
<b>Shareholders' Equity (Excluding SFAS #115)</b>	<b>\$377.5</b>	<b>\$365.5</b>
<b>Debt</b>	<b>\$129.4</b>	<b>\$129.4</b>
<b>Debt to Capital (Including SFAS #115)</b>	<b>26.0%</b>	<b>27.3%</b>

## Debt Structure

<i>\$ in thousands</i>	<b>6/30/09</b>
<b>Junior Subordinated Debt, Due 2033-2037</b>	<b>\$64,435</b>
<b>8.50% Senior Notes, Due 2018</b>	<b>54,900</b>
<b>Surplus Notes, Due 2035</b>	<b>10,000</b>
<b>4.25% Convertible Debt, Due 2022</b>	<b>45</b>
<b>Total Long-Term Debt</b>	<b>\$129,380</b>

No debt maturities until 2018.

# Investment Portfolio Overview



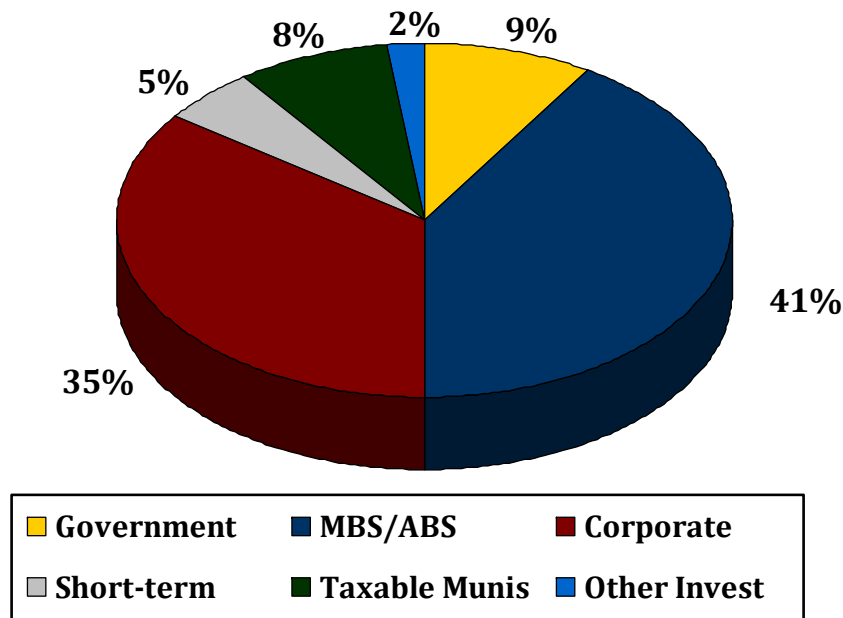
PMA Capital Corporation



PMA Capital Corporation

# High Quality, Liquid Investment Portfolio

June 30, 2009  
Asset Type

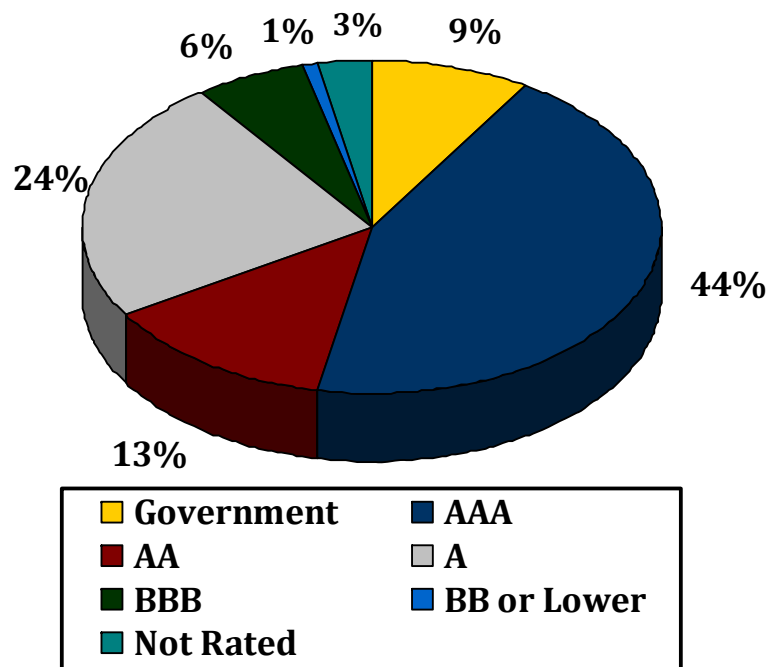


Total = \$810 million  
(excludes cash)

- Conservative investment posture
- No wrapped ABS CDO exposures
- No derivatives
- No equity exposure
- Pre-tax net unrealized loss of \$13 million at June 30, 2009
- Outside professional manager

# High Quality, Liquid Investment Portfolio

June 30, 2009  
Asset Quality



Total = \$772 million

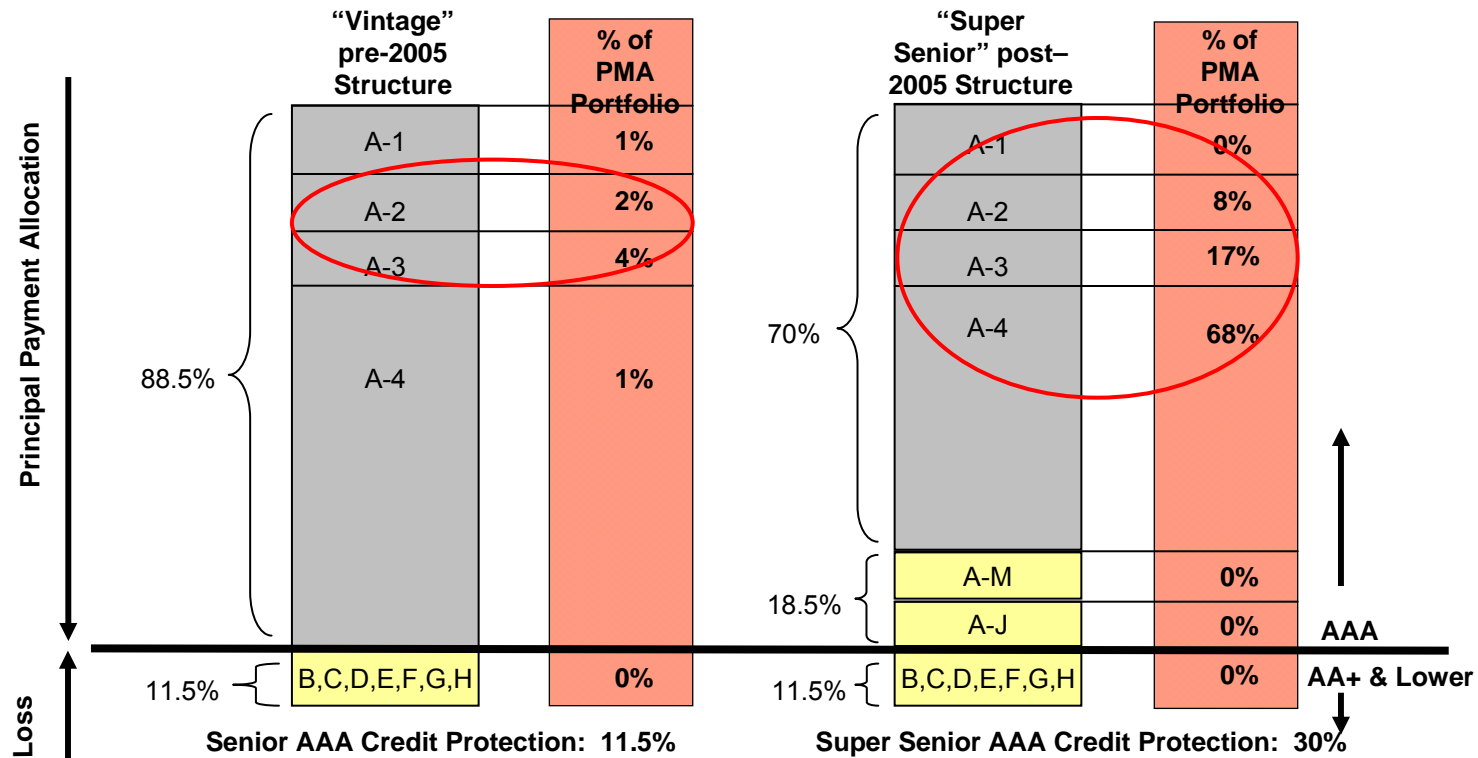
(excludes short-term investments and cash)

- AA+ average credit quality
- 53% AAA Rated or Government bonds
- 2% held in Alternative A/ Subprime loans – average credit quality of AAA-
- 4% held in credit-enhanced securities with average credit quality of A+ and imputed credit quality of A+
- Portfolio duration – 4.3 years
- Current portfolio book yield – 5.0%

## Investment Portfolio Comments – 6/30/09

- Held CMBS with an amortized cost of \$107 million and fair value of \$89 million issued by entities other than Government Sponsored Enterprises.
  - These securities have a weighted average life of 6.0 years
  - All had a credit quality of AAA and were paying down as expected; delinquencies were well below their credit support structure and no defaults.
- Alt A and Subprime portfolio, with a \$14.3 million amortized cost, continues to pay down; collected \$14.1 million in principal paydowns since March 2007
  - No delinquencies; had OTTI losses of approx. 1% of amortized cost.
- Detailed portfolio holdings at June 30, 2009 and December 31, 2008 posted on our website ([www.pmacapital.com](http://www.pmacapital.com))
- Recent rating agency comments:
  - Fitch – 2/25/09: “Fitch notes that the company’s prudent investment portfolio that consists of ‘AA+’ average credit quality fixed income securities and zero common equities has performed better than the industry average portfolio.”
  - Moody’s – 3/9/09: “The company does have a sizeable CMBS portfolio (17% of total invested assets), which resulted in significant unrealized losses at year-end 2008 (approximately 8% of shareholders’ equity). However, the vast majority of this portfolio is invested in super senior tranches.”

# CMBS Transition To A Super Senior Structure



6/26/09 - "S&P places senior and super-senior AAA rated classes on watch for downgrade...updated methodology and assumptions for determining credit enhancement levels to withstand conditions commensurate with an extreme economic downturn, such as the Great Depression". S&P expected lowest rating for senior and super-senior is A- for 2005-2007 vintages.

## PMA Capital Book Value

	<b>PMA Insurance Group</b>	<b>Fee-based Business</b>	<b>Run-off Operations</b>	<b>Holding Company</b>	<b>Total</b>
<b>June 30, 2009</b>	\$ 13.73	\$ 1.43	\$ -	\$ (3.71)	\$ 11.45
<b>December 31, 2008</b>	12.94	1.36	0.06	(3.58)	10.78
<b>Change in Book Value</b>	\$ 0.79	\$ 0.07	\$ (0.06)	\$ (0.13)	\$ 0.67

## Summary

- 2009 year-to-date results illustrate continued execution of our business plan
  - Measured revenue growth at The PMA Insurance Group
  - Diligent expense management
  - Continued expansion of fee-based service platform
- Expecting profitable growth in workers' compensation in 2009
- Execution of 2009 plan should result in continued improvement in profitability of operations
- Expect a return on equity of between 6.0% and 7.0% on our ongoing businesses in 2009, an improvement from 5.8% in 2008
- June 30, 2009 book value of \$11.45 per share, up 6.2% from year end

