

Charter of the Audit Committee of the Board of Directors

Pennsylvania National Mutual Casualty Insurance Company

I. Audit Committee Purpose

The Audit Committee is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities. The Audit Committee's primary duties and responsibilities are to:

- Monitor the integrity of the Company's financial reporting process and systems of internal controls regarding finance, accounting, and legal compliance;
- Review areas of potential significant financial risk to the Company;
- Monitor compliance with legal and regulatory requirements;
- Monitor the independence and performance of the Company's independent auditors and internal auditing department; and
- Provide an avenue of communication among the independent auditors, management, the internal auditing department, and the Board of Directors.

II. Authority

The independent auditors report directly to the Audit Committee and the Board of Directors. The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and it has direct access to the independent auditors as well as anyone in the organization. The Audit Committee has authority to engage outside advisors and counsel, as it determines necessary to carry out its duties. The company must provide for appropriate funding, as determined by the audit committee, for payment of: (i) Compensation to any independent auditors for the purpose of preparing or issuing an audit report or performing other audit, review or attest services; (ii) Compensation to any advisors employed by the audit committee; and (iii) Ordinary administrative expenses of the audit committee that are necessary or appropriate in carrying out its duties.

III. Audit Committee Composition and Meetings

Audit Committee members shall meet the requirements of the NASD Exchange. The Audit Committee shall be comprised of three or more directors as determined by the Board, each of whom shall be independent non-executive directors, free from any relationship that would interfere with the exercise of his or her independent judgment. This includes affiliated persons of the Company or a subsidiary. No fees shall be received from the Company other than directors' fees. All members of the Committee shall have a basic understanding of finance and accounting and be able to read and understand fundamental financial statements, and at least one member of the Committee shall have accounting or related financial management expertise and knowledge of the regulatory requirements of the Company's industry. Former employees shall not be deemed independent until 3 years after their employment ends. Likewise, a director employed by a present or past auditor shall not be deemed independent until 3 years after the end of their audit relationship.

III. Audit Committee Composition and Meetings, continued:

Audit Committee members shall be appointed by the Board on the recommendation of the Chief Executive Officer. If an audit committee Chair is not designated or present, the members of the Committee may designate a Chair by majority vote of the Committee membership.

The Committee shall meet at least four times annually, or more frequently as circumstances dictate. The Audit Committee Chair shall prepare and/or approve an agenda in advance of each meeting. The Committee should regularly meet privately in executive session with management, the director of the internal auditing department, the independent auditors, and as a committee to discuss any matters that the Committee or each of these groups believes should be discussed.

IV. Audit Committee Responsibilities and Duties

Review Procedures

1. Review and reassess the adequacy of this Charter at least annually. Submit the charter to the Board of Directors for approval and have the document published on the external website.
2. Review the quarterly interim STAT/GAAP financial performance of Pennsylvania National Mutual Casualty Insurance Company and subsidiaries as compared to the approved plan and, when appropriate, recommend revisions to the Pennsylvania National Mutual Casualty Insurance Company Board. This would include a review of the loss and loss adjustment reserve recommendations of the chief actuary.
3. Review the Company's annual audited financial statements. Review should include discussion with management and independent auditors of significant issues regarding accounting principles, practices, and judgments, including off-balance sheet structures.
4. Review recommendations from management's Loss Reserve and Reinsurance Committee as to the major reinsurance programs, treaties and/or reinsurance agreements providing protection to the Company, and to make recommendations to the Board of Directors relative thereto, as well as to report to the Board of Directors on all major reinsurance issues applicable to the Company.
5. In consultation with the management, the independent auditors, and the internal auditors, consider the integrity of the Company's financial reporting processes and controls. Discuss significant financial risk exposures (i.e. legal, tax, loss reserves, information technology, internal controls, etc.) and the steps management has taken to monitor, control, and report such exposures. Review significant findings prepared by the independent auditors and the internal auditing department together with management's responses, including the status of previous recommendations. The Committee is charged with resolving any disagreements between management and the independent auditors.
6. Annually review and discuss management's evaluation of the adequacy of disclosure controls and procedures and internal control over financial reporting, including any attestation of the same by the independent auditors.
7. Discuss the risk of fraud with management, internal audit, and the independent auditors and the implementation of fraud controls.

Independent Auditors

1. The Audit Committee shall review the independence and performance of the auditors and annually recommend to the Board of Directors the appointment of the independent auditors or approve any discharge of auditors when circumstances warrant. The Committee shall review the experience and qualifications of the senior members of the independent audit team as well as the quality control procedures of the independent auditor. The Committee should also determine whether it is appropriate to adopt a policy of rotating independent auditors on a regular basis.
2. Approve the fees and other significant compensation to be paid to the independent auditors.
3. Request annually a letter of independence from the external auditors which would include such items as the results of a peer review, services provided to management, and other matters.
4. On an annual basis, the Committee should review and discuss with the independent auditors all significant relationships they have with the Company that could impair the auditors' independence. This includes the pre-approval of any additional fees paid to the external audit firm for non-audit services.
5. Review the independent auditors' engagement letter and audit plan – discuss scope, key risk areas, staffing, locations, reliance upon management, and internal audit and general audit approach. Review the management letter with the independent auditors at the conclusion of the annual audit.
6. Prior to releasing the year-end earnings, discuss the results of the audit with the independent auditors. Discuss certain matters required to be communicated to audit committees by the independent auditors in accordance with SAS 114 (The Auditor's Communications with Those Charged With Governance).
7. Consider the independent auditors' judgments about the quality and appropriateness of the Company's accounting principles as applied in its financial reporting.
8. Discuss with management and the independent auditors the quality of the accounting principles and underlying estimates used in the preparation of the Company's financial statements.
9. Discuss with the independent auditors the clarity of the financial disclosure practices used or proposed by the Company.
10. Inquire as to the independent auditors' views about whether management's choices of accounting principles appear reasonable from the perspective of income, asset and liability recognition, and whether those principles are common practices or are minority practices.
11. The committee discusses significant/complex/unusual transactions with management and the independent auditors.

Internal Audit Department and Legal Compliance

1. Approve the staffing, budget, annual audit plan, changes in the annual audit plan, activities and organizational structure of the internal audit department based on the recommendation of management.
2. Review the coordination with independent auditors, organizational reporting lines, and qualifications of the internal audit department, as needed.
3. Approve the appointment or replacement of the senior internal audit executive based on the recommendation of management.
4. Review the performance and compensation of the senior internal audit executive.
5. The internal audit department shall be responsible to senior management, but have a direct reporting responsibility to the Board of Directors through the Committee.
6. Review significant reports prepared by the internal audit department together with management's response and follow-up to these reports.
7. On at least an annual basis, review a written report from the Company's counsel regarding threatened or pending legal matters that could have a significant adverse impact on the organization's financial statements, the Company's material compliance with applicable laws and regulations, and inquiries received from regulators or governmental agencies. Review all reports concerning any significant fraud or regulatory noncompliance that occurs at the Company. This review should include consideration of the internal controls that should be strengthened to reduce the risk of a similar event in the future.

Other Audit Committee Responsibilities

1. Perform any other activities consistent with this Charter, the Company's by-laws, and governing law, as the Committee or the Board deems necessary or appropriate.
2. Maintain minutes of meetings and periodically report to the Board of Directors on significant results of the foregoing activities. Annually report the compliance with charter provisions to the Board of Directors.

Other Charter Disclosures

1. Establish, review, and update periodically a Code of Ethical Conduct and ensure that management has established a system to enforce this Code.
2. Periodically perform self-assessment of audit committee performance.
3. Review financial and accounting personnel succession planning within the company.
4. Annually review policies and procedures as well as audit results associated with directors' and officers expense accounts and perquisites. Annually review a summary of director and officers' related party transactions and potential conflicts of interest.
5. Establish a complaints procedure for receipt, retention and treatment of complaints regarding accounting, internal accounting controls, or auditing. This process will also include the confidential, anonymous submission by employees of concerns regarding questionable accounting and auditing matters.