



# Baldwin & Lyons, Inc.

## AUDIT COMMITTEE CHARTER

### **I. PURPOSE**

The Audit Committee's primary function is to assist the Board of Directors in fulfilling the Board's oversight responsibilities to shareholders and others relating to (a) the Company's financial statements prepared for shareholders and the investment community; (b) the Company's systems of internal accounting and financial controls; (c) the Company's auditing, accounting and financial reporting processes generally; and (d) the Company's compliance with legal and regulatory requirements.

The Audit Committee's primary duties and responsibilities are to:

- Serve as an independent and objective party to monitor the Company's financial reporting process and internal control system.
- Review and appraise the audit efforts of the Company's independent auditors and internal auditing department.
- Provide an open avenue of communication among the independent auditors, financial and senior management, the internal audit department, and the Board of Directors.

The Audit Committee will primarily fulfill these responsibilities by carrying out the activities enumerated in Section IV of this Charter.

### **II. COMPOSITION**

The Audit Committee shall be comprised of three or more directors. Each member of the Audit Committee shall be an independent director, as defined under Federal Securities laws or shall be admitted to the Committee using exemptions allowed under Federal Securities laws. All members of the Audit Committee shall have a working familiarity with basic finance and accounting practices and at least one member shall qualify as a financial expert as defined by the SEC. The Audit Committee may also include such other members as the Board deems necessary and appropriate to ensure a balance of expertise and appropriate representation of shareholder interests. Further, the Audit Committee shall have the authority and funding to retain special legal, accounting or other consultants to advise the Committee.

The members of the Audit Committee shall be elected by the Board annually or until their successors shall be duly elected and qualified. Unless a Chair is elected by the full Board, the members of the Audit Committee may designate a Chair by majority vote of the full Audit Committee membership.

### **III. MEETINGS**

The Audit Committee shall meet quarterly with management, the Company's internal audit manager and the Company's independent auditors to discuss any matters that the Audit Committee or each of these groups believe should be discussed privately. In addition, the Audit Committee or its Chair shall meet with the independent auditors quarterly to review the Company's financial statements, consistent with section IV.3 below. All meetings may exclude management, at the sole discretion of the Chair or the Committee.

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

To fulfill its responsibilities and duties the Audit Committee shall:

##### Documents/Reports Review

1. Review this Charter at least annually, and update the Charter as circumstances warrant.
2. Review the Company's Annual Report on Form 10-K prior to its filing (or the annual report to shareholders if distributed prior to filing of the Form 10-K) and discuss with the Company's independent auditors the quality of accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements. Also, the Committee shall discuss the results of the annual audit and any other matters required to be communicated to the Committee by the independent auditors under generally accepted auditing standards.
3. Review the Company's Quarterly Report on Form 10-Q prior to its filing and discuss with the Company's independent auditors the quality of accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements. Also, the Committee shall discuss the results of the auditor's limited quarterly review and any other matters required to be communicated to the Committee by the independent auditors under generally accepted auditing standards. The Chair of the Audit Committee may represent the entire Committee for purposes of this review.
4. Review and approve with Company management, independent auditors and internal auditors any off-balance sheet financing and related party transactions.
5. Review the Company's code of conduct to ensure that it is adequate and up-to-date.

##### Independent Auditors

6. Recommend to the Board of Directors the selection of the Company's independent auditors, considering independence and effectiveness, and review the fees and other compensation to be paid to the independent auditors.
7. Ascertain that the lead or concurring audit partner has not served in that capacity for more than five years and that other engagement partners have not served more than seven years at the partner level on the Company's audit.
8. On an annual basis, the Audit Committee shall receive a written description from the Company's independent auditors of all significant relationships the independent auditors have with the Company. The Audit Committee shall review and discuss with the auditors all significant relationships the independent auditors have with the Company to determine the auditors' independence.
9. Monitor all auditing services, internal control related services and non-audit services performed by the independent auditors and approve all such services in advance.
10. Discuss with the independent auditors the overall scope and plans for their audit including the adequacy of staffing.
11. Review the performance of the Company's independent auditors and recommend to the Board of Directors any proposed discharge of the independent auditors when circumstances warrant.
12. Periodically consult with the independent auditors out of the presence of management about internal controls and the organization's financial statements.

#### Internal Audit Process

13. Review activities, organizational structure, and qualifications of the internal audit department.
14. Establish an independent reporting relationship between the internal audit manager and the Audit Committee. This relationship will be separate and apart from the administrative reporting relationship between the internal audit staff and the C.E.O. and/or C.F.O. and shall be the primary to any such administrative reporting relationship.
15. Review all internal audit reports and management's response thereto.

#### Financial Reporting Process

16. In consultation with the independent auditors and the internal audit manager, review the Company's financial reporting processes, both internal and external.
17. Consider the independent auditors' judgments about the Company's accounting principles as applied in its financial reporting.
18. Consider and approve, if appropriate, major changes to the Company's auditing and accounting principles and practices as suggested by the independent auditors or management.

#### Whistleblower Compliance

19. Review the procedures for the anonymous receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters that may be submitted by any party internal or external to the organization.
20. Review any complaints that are received and take appropriate action based on the results of such review.

#### Process Improvement

21. Establish regular systems of reporting to the Audit Committee by management, the independent auditors and the internal audit department regarding any significant judgments made in management's preparation of the financial statements and the appropriateness of such judgments.
22. Following completion of the Company's annual audit, review separately with management and the independent auditors any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.
23. Review any significant disagreement between management and the independent auditors in connection with the preparation of the financial statements.
24. Review with the independent auditors, the internal audit department and management the extent to which changes or improvements in financial or accounting practices, as approved by the Audit Committee, have been implemented.