

## **CHARTER OF THE AUDIT COMMITTEE**

This Charter of the Audit Committee (this “Charter”) has been adopted by the Board of Directors (the “Board”) of Tower Group, Inc. (the “Company”). The Audit Committee (the “Committee”) shall review and reassess this Charter annually and recommend any proposed changes to the Board for approval.

### **A. Purpose**

The purpose of the Committee is to assist the Board in its oversight of the Company’s accounting and financial reporting processes and the audits of the Company’s financial statements, including (i) the quality and integrity of the Company’s financial statements, (ii) the Company’s compliance with legal and regulatory requirements, (iii) the independent auditors’ qualifications and independence and (iv) the performance of the Company’s internal audit functions and independent auditors, as well as other matters which may come before it as directed by the board. In fulfilling its purpose, the Committee shall maintain free and open communication with the Company’s independent auditors, internal auditors and management.

### **B. Duties and Responsibilities**

In furtherance of its purpose, the Committee shall have the following duties and responsibilities:

1. To review major issues regarding accounting principles, policies, practices and judgments and financial statement presentations, including (i) any significant changes to the Company’s selection or application of accounting principles, (ii) the adequacy and effectiveness of the Company’s internal controls and (iii) any special audit steps adopted in light of material control deficiencies.
2. To review analyses prepared by management, the independent auditors and/or others setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements.
3. To review the effect of regulatory and accounting initiatives and off-balance sheet structures on the Company’s financial statements.
4. To review the type and presentation of information to be included in the Company’s earnings press releases, paying particular attention to any use of “pro forma” or “adjusted” non-GAAP information, as well as review and discuss earnings press releases and any financial information and earnings guidance provided to analysts and rating agencies.
5. To discuss and approve the appointment and replacement of the internal auditors.
6. To review and discuss with the internal auditors significant reports that the internal auditors prepare for management as well as management’s responses to those reports.
7. To discuss with management and the independent auditors the responsibilities, budget, staffing and qualifications of the internal auditors and any recommended changes in the planned scope of the internal audit. The internal audit function, which may be outsourced to a third-party service provider other than the independent auditors, is intended to provide

management and the audit committee with ongoing assessments of the Company's risk management processes and system of internal control over financial reporting.

8. To periodically discuss with the Board the adequacy and effectiveness of the Company's internal controls.
9. To discuss with management and the independent auditors the integrity of the Company's financial reporting processes and controls, including policies and guidelines with respect to risk assessment and risk management and the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures.
10. To discuss with management and the independent auditors the Company's annual audited financial statements and quarterly financial statements, including the Company's disclosures under "Management's Discussion and Analysis of Financial Conditions and Results of Operations," together with the results of the independent auditor's annual audit or interim financial review and any report or annual required Actuarial Opinion rendered in connection therewith, as the case may be, prior to filing or distribution.
11. To recommend to the Board whether the audited financial statements and accompanying notes should be included in the Company's annual report on Form 10-K.
12. To prepare and approve the audit committee report required to be included in the Company's annual proxy statements pursuant to the proxy rules promulgated by the United States Securities and Exchange Commission (the "SEC") or, if the Company does not
13. To discuss with management and the independent auditors the independent auditors' judgments about the quality and appropriateness of the Company's accounting principles and underlying estimates in its financial statements.
14. To review and discuss with management and the independent auditors any correspondence with regulators or governmental agencies and any published reports and employee complaints concerning financial matters which raise material issues regarding the Company's financial statements or accounting policies.
15. To discuss with the independent auditors and management, as appropriate, any items required to be communicated by the independent auditors in accordance with Statement on Auditing Standards No. 61 not otherwise addressed in this Charter.
16. To discuss with the independent auditors, prior to the filing of the audit report with the SEC, reports from management and the independent auditors regarding (i) all critical accounting policies and practices used by the Company, (ii) all material alternative accounting treatments within GAAP that have been discussed with management, including the ramifications of the use of such alternative treatments and the treatment preferred by the accounting firm and (iii) other material written communications between the accounting firm and management.
17. To discuss periodically with the Company's CEO and CFO (i) all significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data, (ii) any significant changes in internal controls, including internal control over financial reporting, or other factors that could significantly affect such internal controls, including any corrective actions with regard

to significant deficiencies and material weaknesses and (iii) any fraud involving management or other employees who have a significant role in the Company's internal controls.

18. To review the internal control reports of management prepared pursuant to the rules and regulations of the SEC promulgated under the Sarbanes-Oxley Act of 2002 prior to filing with the SEC.
19. To directly appoint (subject to stockholder ratification), retain, compensate, evaluate and oversee the independent auditors engaged for the purpose of preparing or issuing an audit report or related work or performing other audit, review or attest services for the Company, and to resolve any disagreements between management and the independent auditors. To approve in advance, or, in the alternative, to establish and periodically review pre-approval policies and procedures for all audit engagement fees and terms, including the retention of the independent auditors for any significant permissible non-audit engagement or relationship. To have direct responsibility for the oversight of the independent auditors. The Committee shall inform each registered public accounting firm performing work for the Company that such firm shall report directly to the Committee. The Committee may terminate the independent auditors in its sole discretion. The Committee should also take into account the opinions of management in its dealings with the independent auditors.
20. To annually evaluate the experience, qualifications, performance and independence of the independent auditors, including their lead partners. To assure the regular rotation of the audit partners, including the lead and concurring audit partners, as required by applicable laws, rules and regulations. To consider whether there should be regular rotation of the independent auditors. The Committee should take into account the opinions of management and the internal auditors in its evaluation of the independent auditors. The Committee should present its conclusions with respect to the independent auditors to the full Board.
21. To obtain and review, on an annual basis, a formal written report from the independent auditors describing (i) the auditing firm's internal quality control procedures; (ii) any material issues raised within the preceding five (5) years by the auditing firm's internal quality-control reviews, peer reviews, or any governmental or other inquiry or investigation relating to any independent audit conducted by the auditing firm, and the steps taken to deal with such issues; and (iii) all relationships between the independent auditors and the Company, as contemplated by Independence Standard Board Standard Number 1.
22. To discuss with the independent auditors any disclosed relationships between the auditors and the Company or any other relationships that may adversely affect the objectivity or independence of the independent auditor. To discuss with the independent auditors any services provided to the Company or any other services that may adversely affect the objectivity and independence of the independent auditor. To take, or to recommend that the full board take, appropriate action to oversee the objectivity and independence of the independent auditor.
23. To review with the independent auditors any audit problems or difficulties, together with management's responses, including any restrictions on the scope of the independent auditors' activities or on access to requested information, and any significant disagreements with management.
24. To review the independent auditors' audit plan, including its scope, staffing, locations, reliance upon management and general audit approach.

25. To review and approve all related party transactions for potential conflict of interest situations on an ongoing basis
26. To establish clear guidelines for the hiring of current or former employees of the Company's independent auditors
27. To review and discuss with management and the independent auditors the quality of the Company's financial and auditing personnel and the responsibilities, budget and staffing of the Company's internal audit functions.
28. To review with management, including the Company's legal counsel, the independent auditors, and the internal auditors on a quarterly basis, or more frequently as circumstances dictate, any legal matters that could have a significant impact on the Company's financial statements or the Company's compliance with applicable laws, rules and regulations, any breaches of fiduciary duties and inquiries received from regulators or governmental agencies.
29. To establish and maintain procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, including procedures for the confidential and anonymous submission by the Company's employees of concerns regarding questionable accounting or auditing matters.
30. To conduct any investigation appropriate to fulfill its responsibilities with the authority to have direct access to the independent auditors as well as anyone in the Company.
31. To ensure that no improper influence on the independent directors is exerted by any officers or directors of the Company or any person acting under their direction.
32. To keep abreast of new accounting and reporting standards promulgated by the Public Company Accounting Oversight Board, the FASB, the SEC and other relevant standard setting bodies.
33. To approve ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.
34. To 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.

**C. Outside Advisors**

The Committee, acting by majority vote, shall have the authority to retain, at the Company's expense, outside legal, accounting, actuarial or other advisors or experts it deems necessary to perform its duties. The Committee shall retain these advisors without seeking Board approval and shall have sole authority to approve related fees and retention terms.

**D. Annual Performance Evaluation**

The Committee shall conduct an annual self-performance evaluation, including an evaluation of its compliance with this Charter. The Committee shall report on its annual self-performance evaluation to the Board.

Any communication between the Committee and legal counsel in the course of obtaining legal advice will be considered privileged communications of the Company and the Committee will take all necessary steps to pursue the privileged nature of those communications.

#### **E. Membership**

The Committee shall consist of the number of independent directors fixed from time to time by the Board, but no fewer than three (3) directors. Each Committee member shall meet the independence requirements of The NASDAQ Stock Market and of the SEC, as determined by the Board, and any other requirements set forth in applicable laws, rules and regulations. All Committee members shall have a basic understanding of finance and accounting and be able to read and understand fundamental financial statements, including the Company's balance sheet, income statement and cash flow statement. At least one Committee member shall have past employment experience in finance or accounting, requisite professional certification in accounting or any other comparable experience. At least one Committee member shall meet the requirements of an "audit committee financial expert" as such term is defined by the SEC.

Committee members shall be appointed annually by a majority vote of the Board on the recommendation of the Corporate Governance & Nominating Committee. Each prospective Committee member shall carefully evaluate existing time demands before accepting Committee membership. No director may serve as a Committee member if such director serves on the audit committee of more than two (2) other public companies, unless the Board expressly determines that such service would not impair that director's ability to serve on the Committee and such determination is disclosed in the Company's annual proxy statement. The Committee members may be removed, with or without cause, by a majority vote of the Board.

No member of the Committee shall receive compensation other than (i) director's fees for service as a director of the Company, including reasonable compensation for serving on the Committee and regular benefits that other directors receive and (ii) a pension or similar compensation for past performance, provided that such compensation is not conditioned on continued or future service to the Company.

#### **F. Chairman**

The Committee shall include a Committee chairman. The Committee chairman shall be appointed by a majority vote of the Board. The Committee chairman shall be entitled to chair all regular sessions of the Committee, add topics to the agenda, and cast a vote to resolve any ties. In the absence of the Committee chairman, the majority of the members of the Committee present at a meeting shall appoint a member to preside at the meeting.

#### **G. Meetings**

The Committee shall meet at least one (1) time per quarter, or more frequently as circumstances dictate, and all Committee members shall strive to attend all Committee meetings. At least two Committee meetings each year shall be in person. The Committee meetings shall follow a set agenda established by the Committee.

The chairman may call a Committee meeting upon notice to each other Committee member at least forty-eight (48) hours prior to the meeting. A majority of the Committee members, acting in person or by proxy, shall constitute a quorum. The Committee shall be responsible for maintaining minutes and

other applicable records of each Committee meeting. The Committee shall report its actions and recommendations to the Board at the next Board meeting after each Committee meeting.

The Committee shall meet separately, periodically, with management, the independent auditors and those responsible for the internal audit functions to discuss any matter that the Committee or any of these groups believes may warrant Committee attention. The Committee shall also meet in executive session as required.

Adopted: February 24, 2005

In addition to the chart showing the Tower Audit Committee Meeting Schedule and Checklist, another way to be sure we cover the duties in the Charter is to assign each duty to a meeting or meetings. I'm taking a stab at that as follows. [The paragraph numbers relate to the revised charter I've suggested above.]

Intro.....Annual Review.....February each year

A. Purpose

B. Duties and Responsibilities

<u>Item #</u>	<u>Meeting Assignment</u>
1	Quarterly
2	Quarterly
3	Quarterly
4	Quarterly
5	Annually / February
6	Quarterly
7	Annually / October
8	Semiannually / July & February
9	Semiannually / July & February
10	Quarterly
11	Annually / February
12	Annually / February
13	Quarterly
14	As necessary
15	Quarterly
16	Quarterly
17	Quarterly
18	Quarterly
19	Annually / February
<u>Item #</u>	<u>Meeting assignment</u>
20	Annually / April
21	Annually / April
22	Quarterly/ as necessary
23	Quarterly
24	Annually / April
25	Quarterly / as necessary

26	As necessary
27	Annually / April
28	Quarterly / as necessary
29	Initially and review annually / October
30	As necessary
31	As necessary
32	Ongoing
33	As necessary
34	As necessary

- C. Outside Advisors
- D. Annual Performance Evaluation – Annually / February, beginning 2006
- E. Membership / Annually, February
- F. Chairman
- G. Meetings