

AFFIRMATIVE INSURANCE HOLDINGS, INC. CORPORATE GOVERNANCE GUIDELINES

Role of the Board of Directors

The business of Affirmative Insurance Holdings, Inc. (the “Company”) is conducted by its management, which acts under the direction of the Chief Executive Officer (the “CEO”). The Company’s stockholders elect the Board of Directors (the “Board”) to oversee the actions of the CEO and senior management and to assure that such actions are consistent with the long-term interests of the Company’s stockholders, as determined in the Board’s business judgment.

To fulfill its role, the Board, or a Board committee, is expected to perform the following primary functions:

- Regularly meet with senior management to review and discuss reports on the Company’s performance, its plans and prospects, as well as immediate issues facing the Company;
- Advise and counsel the CEO and senior executives who manage the Company’s business and affairs;
- Review and, where appropriate, approve the Company’s major financial objectives, plans and actions;
- Assess major risk factors relating to the Company and its performance, and review measures to address and mitigate such risks;
- Ensure that appropriate accounting and auditing principles and practices are used in the preparation of the Company’s financial statements and that appropriate processes are in place to maintain the integrity of the information relied upon in the preparation of such financial statements;
- Evaluate regularly the performance and approve the compensation of the CEO and, with the advice of the CEO, evaluate regularly the performance of senior executives; and
- Plan for succession of the CEO and monitor management’s succession planning for other key executives.

Director Qualifications

Professional Integrity and Experience. A director should possess personal and professional integrity, relevant professional experience and mature business judgment. The Board should be comprised of distinguished and accomplished people representing diverse business backgrounds, with the common goal of advancing the Company’s stockholders’ best interest over time.

Commitment to Serve. Directors must be willing to devote sufficient time and attention to carrying out their duties and responsibilities effectively, and should be committed to serve on the Board for an extended period of time.

Independence. A majority of the directors will be “independent directors” as defined by Nasdaq National Market listing standards and the rules of the Securities and Exchange Commission (the “SEC”). A director may be deemed independent if he or she is not an officer or employee of the Company or its subsidiaries and, in the opinion of the Board, does not have any other relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The Board has a responsibility to make an affirmative determination that no such relationship exists. In no event may the Board determine that a director is independent until a three-year “cooling-off” period has elapsed from the end of the following relationships:

- Being employed by, or having a Family Member¹ who is employed as an executive officer of, the Company or any parent or subsidiary of the Company.
- Having accepted payments, or having a Family Member who accepted payments, from the Company or any parent or subsidiary of the Company in excess of \$60,000, other than the following:
 - (i) compensation for Board or Board committee service;
 - (ii) payments arising solely from investments in the Company’s securities;
 - (iii) compensation paid to a Family Member who is a non-executive employee of the Company or a parent or subsidiary of the Company;
 - (iv) benefits under a tax-qualified retirement plan, or non-discretionary compensation; or
 - (v) loans permitted under Section 13(k) of the Securities Exchange Act of 1934.
- Being a partner, or having a Family Member who is a partner, of the Company’s outside auditor, or a partner or employee of the Company’s outside auditor who worked on the Company’s audit.
- Being a part of an interlocking directorate in which any of the executive officers of the Company served on the compensation committee of another company that concurrently employed the director, or a Family Member of the director, as an executive officer.
- Being a partner, controlling shareholder or executive officer, or having a Family Member who is any of the foregoing, of any organization (including not-for-profit entities) to which the Company made, or from which the Company received, payments for property or services that exceed 5% of the recipient’s consolidated gross revenues for that year or \$200,000 (whichever is more), other than payments arising solely from investments in the Company’s securities or payments under non-discretionary charitable contribution matching programs.

¹ A Family Member is a person’s spouse, parent, child or sibling, whether by blood, marriage or adoption, or anyone residing in such person’s home.

The Company must disclose in its annual proxy statement those directors that the Board has determined to be independent.

Limit on Number of Board Memberships. No director may serve on more than three other public company boards, unless this limit is waived by the Nominating and Corporate Governance Committee or the Board. A director should advise the Chairman of the Board and the Chairman of the Nominating and Corporate Governance Committee in advance of accepting an invitation to serve on another public company board.

Term Limits. The Board does not believe it should establish term limits. The Company and its stockholders both benefit from Board continuity and stability and by allowing directors to focus on long-term business strategies and results.

Age Limit. Directors may serve until the Annual Meeting of Stockholders next following their 72nd birthday, and may not stand for re-election after reaching the age of 72, unless this limit is waived by the Nominating and Corporate Governance Committee or the Board.

Recusal When Conflict of Interest: Prior to any Board discussion or decision related to any matter that potentially affects a director's personal, business or professional interests, that director should (i) disclose the existence of the potential conflict of interest to the Chairman of the Board and (ii) if the Chairman of the Board (in consultation with legal counsel) determines a conflict exists or the perception of a conflict is likely to be significant, recuse himself or herself from any discussion or vote related to the matter.

Number and Selection Process

The Board shall determine by resolution from time to time the appropriate size of the board within the requirements of the Company's charter and bylaws.

In accordance with the policies and principles in its charter, the Nominating and Corporate Governance Committee is responsible for (i) recommending existing directors as nominees for re-election to the Board and (ii) identifying and recommending potential new directors as nominees for election to the Board when there is a vacancy on the Board. In evaluating candidates for directors, the Nominating and Corporate Governance Committee considers whether an individual possesses the skills and attributes described in the director qualification standards set forth earlier in these guidelines. Existing directors standing for re-election may be presumed to possess highly relevant professional experience based upon their prior service on the Board.

The Company's stockholders may submit nominations to the Nominating and Corporate Governance Committee, care of the Secretary, Affirmative Insurance Holdings, Inc., 4450 Sojourn Drive, Suite 500, Addison, Texas 75001. The Nominating and Corporate Governance Committee will not evaluate a potential nominee any differently based on whether he or she is recommended by a stockholder.

Once the Nominating and Corporate Governance Committee has made its recommendations to the Board, and the Board has resolved to extend an invitation to a candidate, the Chairman of the

Nominating and Corporate Governance Committee or the Chairman of the Board shall extend an invitation to a potential director nominee to join the Board.

Director Compensation

Directors' compensation may be in the form of cash retainers and meeting fees, company stock, including options and restricted stock, or combination thereof, as well as any additional benefits regularly given to all directors. The exact amount and form of director compensation shall be determined and reviewed annually by the Compensation Committee in accordance with the policies and principles set forth in its charter.

Access to Senior Management and Advisors

The Board shall receive management presentations during Board meetings to gain additional understanding and insight into the Company's businesses and related issues, and to obtain exposure to management. Non-employee directors are encouraged to contact management of the Company to discuss the Company's business and any material issues facing the Company. Non-employee directors are also encouraged to consult with outside advisors to discuss the Company's business and any material issues facing the Company.

Communications with Investors / Press

The Board believes that interactions with institutional investors, the press or other third parties is best handled by the CEO and other designated management representatives. Directors should refer inquiries to one of the designated individuals.

Director Orientation and Continuing Education

All new directors shall receive an orientation package. The package will include a copy of the Company's charter and bylaws, the Code of Business Conduct and Ethics, the Corporate Governance Guidelines, all SEC filings for the current year and last preceding calendar year, press releases issued during the current calendar year and any other pertinent information. The new director will attend a meeting with the CEO and CFO to be briefed on the Company's strategic plans, its significant financial, accounting and risk management issues and current significant development projects.

All directors are encouraged to receive annual director education in subjects relevant to the duties of a director, including the study of corporate governance best practices or ethics. This education may be as a result of a program planned by the Company or by the director attending a pre-approved seminar, with all expenses paid by the Company.

CEO Evaluation and Management Succession

The Compensation Committee shall conduct an annual review of the CEO's performance and compensation, as set forth in its charter. The executive session of the Board shall review the Compensation Committee's report in order to ensure that the CEO is providing the best long and short-term leadership for the Company.

The Board shall approve and maintain a succession plan for the CEO. The Nominating and Corporate Governance Committee, working with the Board and the CEO, is responsible for

developing and maintaining a process for succession planning with respect to the position of CEO and other key corporate officers and advising and making recommendations to the Board.

Annual Self-Evaluations

The Nominating and Corporate Governance Committee shall have the responsibility for conducting and overseeing the annual self-evaluations for the Board and each committee of the Board and reporting the results to the Board following the end of each fiscal year. The evaluations will be based on such objective and subjective criteria as the Nominating and Corporate Governance Committee deems appropriate.

Code of Business Conduct and Ethics

The Board shall adopt and maintain the Code of Business Conduct and Ethics (the “Code”) for the directors, officers and employees of the company in compliance with Nasdaq National Market listing standards. The purpose of the Code shall be to focus the directors, officers and employees on areas of ethical risk, provide guidance in recognizing and dealing with ethical issues, provide mechanisms to report unethical conduct and help foster a culture of honesty and accountability.

Each director shall act at all times in accordance with the requirements of the Code. Waivers of the code for any executive officer or director may only be made by the Board. Any waiver for an executive officer or director must be posted on the Company website and otherwise disclosed as required by law.

Board Meetings

The Board expects to have four regularly scheduled meetings each year. Upon adequate notice, unscheduled meetings may be called throughout the year as the need arises. The Chairman of the Board shall consult with other Board members in determining the times and duration of the Board meetings.

Meeting Attendance. Directors are expected to attend meetings of the Board and of the committees on which they serve. Directors also are expected to devote an adequate amount of time and effort to discharge properly their responsibilities.

Board Materials. Information and data that are important to the Board’s understanding of the business to be conducted at a Board or committee meeting should be distributed to the directors sufficiently in advance of the meeting to permit their review. Directors are expected to review these materials in advance of the meeting. A director may request that the CEO or appropriate member of senior management present to the Board specific information as it relates to the Company and its operations.

Board Meeting Agenda. The Chairman of the Board shall establish the agenda for each Board meeting. Each director shall be furnished with a copy of the agenda in advance of the Board meeting if possible, and if advance distribution is not possible, then the agenda shall be distributed at the Board meeting. Each director may suggest the inclusion of agenda items. Each director can bring up, at any Board meeting, subjects that are not on the agenda for that meeting.

Executive Session of Independent Directors. The independent directors shall meet in executive session after each regularly scheduled Board meeting or more frequently, if necessary, but in no event less than twice annually. If the Chairman is not independent, the independent directors shall elect a “Presiding Director” to preside at these executive sessions. The name of the Presiding Director shall be disclosed in the annual proxy statement, together with a system for interested parties to communicate directly with the “Presiding Director.”

Board Committees

The Board shall have at all times an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. All members of these committees shall be independent directors as determined by the Board in accordance with the aforementioned independence criteria and such additional criteria required by Nasdaq National Market listing requirements and SEC rules, or as otherwise set forth in the relevant committee charter. The Board shall appoint committee members annually based upon the recommendation of the Nominating and Corporate Governance Committee, and the committee members shall designate their chairperson. As a general rule, the Board believes that chairpersons of these committees should be rotated every three years.

The Audit Committee, Compensation Committee and the Nominating and Corporate Governance Committee each shall have a written charter that sets forth the committee’s structure, membership qualifications, purposes, responsibilities and procedures for appointing and removing committee members. The charters also shall provide that each committee annually evaluates its performance.

Each committee chairman, in consultation with the committee members, shall determine the frequency and length of the committee meetings consistent with any requirements set forth in the committee’s charter. Each committee chairman, in consultation with the appropriate members of the committee and management, shall develop the committee’s agenda. Each committee shall report to the Board its activities, findings and recommendations after each committee meeting.

The Board may, from time to time, establish or maintain additional committees of the Board, including an Executive Committee. If an Executive Committee is established, it will have the powers and authority as specified in the Company’s bylaws.

Each committee shall have the full power and authority to hire independent legal, financial or other advisors as it may deem necessary, without consulting with or obtaining the pre-approval of any Company officer or the Board.

Any director may attend any committee meetings, whether or not he or she is a member of that committee, providing that he or she has obtained pre-approval to attend from the committee chair or a majority of the committee.