

**AFFIRMATIVE INSURANCE HOLDINGS, INC.
CHARTER OF THE COMPENSATION COMMITTEE
OF THE BOARD OF DIRECTORS**

Purpose

The Compensation Committee (the “Committee”) of the Board of Directors (the “Board”) of Affirmative Insurance Holdings, Inc. (the “Company”) is appointed by the Board to evaluate and determine the compensation of the Company’s directors, Chief Executive Officer (“CEO”), other executive officers and such key management employees earning a base salary that exceeds a dollar amount established by the Committee, which amount can be changed at the Committee’s discretion; to prepare an annual report on executive compensation for inclusion in the Company’s proxy statement; and to oversee the Company’s compensation and benefit plans, policies and programs, including the review, approval and administration of incentive compensation plans and equity-based plans. The Committee shall ensure that the Company’s compensation program is consistent with the Company’s compensation philosophy and adheres to all requirements of the appropriate regulatory bodies.

Nothing contained in this Charter is intended to expand applicable standards of liability under statutory or regulatory requirements for the directors of the Company or members of the Committee. The purposes and responsibilities outlined in this Charter are meant to serve as guidelines rather than as inflexible rules and the Committee is encouraged to adopt such additional procedures and standards as it deems necessary from time to time to fulfill its responsibilities. This Charter, and any amendments thereto, shall be displayed on the Company’s web site and a printed copy of such shall be made available to any stockholder of the Company who requests it.

Committee Membership

The Committee shall consist of no fewer than three directors. The Committee shall be appointed annually by the Board and shall report to the Board. The Board shall have the power at any time to change the membership of the Committee and to fill vacancies, subject to such new member(s) satisfying Committee membership requirements. The Committee shall designate one of its members to be the Chairman of the Committee.

The Committee shall have the authority to delegate any of its authority and responsibilities to subcommittees as the Committee may deem appropriate, provided that the members of any such subcommittee satisfy Committee membership requirements. The Committee shall have the authority to delegate such authority and responsibilities to Company personnel as the Committee may deem appropriate, subject to the limitations of applicable law, rule or regulation.

Committee Meetings

The Committee shall meet as often as necessary, but at least once each year, to carry out its responsibilities. Any Committee member may request the Chairman of the Committee to call a meeting. The Chairman of the Committee shall report on any Committee meeting held at the next regularly scheduled Board meeting following the Committee meeting. The Committee may ask member of management or other whose advice and counsel are relevant to the issues then

being considered by the Committee, to attend any meetings and to provide such pertinent information as the Committee may request. The CEO may not attend any portion of a meeting where the CEO's performance or compensation is discussed, unless specifically invited by the Committee, and the CEO may not be present during voting or deliberations with respect to the determination of the CEO's compensation. If invited by the Committee, the CEO may be present during any portion of a meeting when the performance or compensation of other executive officers or other key management employees is discussed or approved, but may not vote on such matters.

Committee Authority and Responsibilities

In carrying out its oversight responsibilities, the Committee's policies and procedures should remain flexible to enable the Committee to react to changes in circumstances and conditions so as to ensure the Company remains in compliance with applicable legal and regulatory requirements. The Committee shall have the following responsibilities:

1. The Committee shall review and make recommendations to the Board on the Company's overall compensation philosophy.

2. The Committee annually shall review and approve corporate goals and objectives relevant to the compensation of the CEO and other executive officers, evaluate their performance in light of those goals and objectives, and establish their compensation levels based on this evaluation. In determining the long-term incentive component of CEO and other executive officer compensation, the Committee may consider the Company's performance and relative stockholder return, the value of similar incentive awards to CEOs and other executive officers at comparable companies, the awards given to the CEO and other executive officers in past years and/or any other factors the Committee deems appropriate.

3. The Committee annually shall review and approve, for the CEO, other executive officers and key management employees of the Company, (a) the annual base salary level, (b) the annual incentive opportunity level, (c) the long-term incentive opportunity level, (d) the terms of any employment agreements, severance arrangements and change-in-control agreements/provisions, in each case as, when and if appropriate, and (e) any special or supplemental benefits, arrangements or agreements, including perquisites.

4. The Committee shall approve revisions to the Company's overall salary structure, salary increase guidelines and increases associated with executive and key management promotions. The Committee shall assist the Nominating and Corporate Governance Committee, the CEO and the Board in establishing appropriate organizational structures and compensation programs to encourage the development of key individuals in order to facilitate, to the extent possible, orderly succession plans for the Company's executive officers.

5. The Committee shall review and approve, and make recommendations to the Board where necessary or appropriate, director compensation, including fees for board retainers, committee retainers, board meetings, committee meetings, board chairmanship, committee chairmanship, equity grants and any other components of director compensation and benefits.

Charter of the Compensation Committee (cont.)

6. The Committee shall oversee the Company's compensation and benefit plans, policies and programs, and shall be responsible for the review, modification, approval and administration of incentive compensation plans and equity-based plans. From time to time the Committee shall make recommendations to the Board with respect to such plans.

7. The Committee shall maintain and administer the Company's compensation and benefit plans, policies and programs mindful of Section 162(m) of the Code.

8. The Committee shall prepare an annual report on executive compensation for inclusion in the Company's proxy statement in accordance with applicable rules and regulations.

9. The Committee shall have full access to all Company records, personnel records and personnel of the Company as deemed necessary by any member of the Committee to discharge the Committee's responsibilities.

10. The Committee shall have the resources and authority appropriate to discharge its responsibilities, including the authority to retain counsel and other experts or consultants. The Committee shall have the sole authority to select, retain and terminate any compensation consultant to be used to assist the Committee in the evaluation of director, CEO, executive officer and key management employee compensation and in the administration of the Company's compensation plans, policies and programs. The Committee shall have sole authority to approve the consultant's fees and other retention terms, all at the Company's expense.

11. The Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval.

12. The Committee shall evaluate its own performance annually by distributing to its members a written self-assessment.

13. The Committee shall perform any other responsibilities delegated to the Committee by the Board from time to time.

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