

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

**Purpose**

1. The purpose of the Audit Committee (the “Committee”) of the Board of Directors (the “Board”) of Affirmative Insurance Holdings, Inc. (the “Company”) is to assist the Board in fulfilling its financial, legal and regulatory oversight responsibilities. The Committee’s primary responsibilities are to oversee the Company’s accounting, financial reporting and control processes and the audits of the Company’s financial statements, including (1) the preparation, presentation and integrity of the Company’s financial statements, (2) the Company’s compliance with legal and regulatory requirements, (3) the independent auditor’s qualifications and independence, and (4) the performance of the Company’s internal audit function and independent auditor.
2. The Committee has the responsibilities and powers set forth in this Charter. Management is responsible for the financial reporting process, the preparation of consolidated financial statements in accordance with generally accepted accounting principles, the system of internal controls and procedures designed to ensure compliance with accounting standards and applicable laws and regulations. The Company’s independent auditors are responsible for auditing the financial statements. The Committee’s responsibility is to monitor and review these processes and procedures. 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.
3. 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.

**Membership and Meetings**

1. 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.
2. The Committee shall be comprised of not less than three members of the Board, each of whom is independent as determined by the Board in accordance with the Company’s Corporate Governance Guidelines.

3. Each member of the Committee shall have the ability to read and understand fundamental financial statements, including a balance sheet, income statement and cash flow statement. In addition, at least one member of the Committee must have past employment experience in finance or accounting, requisite professional certification in accounting, or any comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.
4. At least one member of the Committee shall, in the judgment of the Board, be an audit committee financial expert in accordance with the rules and regulations of the SEC.
5. No member of the Committee shall serve on more than three audit committees of publicly held companies.
6. The Committee shall meet at least quarterly, either in person or telephonically, and at such times and places as the Committee shall determine.

#### **Oversight of the Company's Independent Auditor**

1. The Committee shall be directly responsible for the appointment, compensation, retention and oversight of the work of the independent auditor (subject to stockholder ratification). In exercising this responsibility, the Committee shall obtain and review a written report provided by the independent auditor describing (1) the independent auditor's internal quality control procedures, (2) any material issues raised by the most recent internal quality control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more of the firm's audits, and any steps taken to deal with any such issues and (3) all relationships between the independent auditor and the Company. The Committee shall actively engage in a dialogue with the independent auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditor and shall take appropriate action to ensure such independence. Prior to commencement of the annual audit, the Committee will review the independent auditor's scope of work to be performed. Subsequent to the commencement of the annual audit, the independent auditor shall inform the Committee of any significant changes in the original audit plan, review the results of the audit and any problems or difficulties that the auditor encountered in the course of their audit work. In addition, the independent auditor shall discuss with the Audit Committee any questions, comments or suggestions that they may have relating to internal controls or accounting practices and procedures.
2. The Committee shall pre-approve any audit and permitted non-audit services performed by the independent auditor to assure that the provisions of such services do not impair the auditor's independence. In lieu of explicit pre-approval of each engagement, the Committee may establish by resolution policies and procedures for pre-approval of certain categories of services (e.g., Audit Fees, Audit-Related Fees, Tax Fees and All Other Fees, or such other categories as may be required by applicable regulation), provided such policies and

procedures (i) are detailed as to the nature of the services included within such categories (ii) do not delegate the authority to approve engagements to management and (iii) provide that the Committee be informed of each service actually rendered to the Company. Such policies and procedures shall be established by resolution at any time in advance of the provision of services for which pre-approval is required, and the Committee may revise the list of pre-approved services by resolution from time to time. Such policies and procedures may also provide for de minimis exceptions to the pre-approval requirement as permitted by law and applicable regulation.

3. The Committee may delegate the authority to pre-approve any audit or permitted non-audit service to one or more designated members of the Committee who are independent directors of the Company, and the decisions of any such designated member of the Committee shall be reported to the Committee at its next scheduled meeting.
4. The Committee shall approve the fees paid to the Company's independent auditor. In lieu of explicit approval of fees for each engagement, the Committee may establish by resolution annual limits on fees to be paid to the independent auditor for each category of service pre-approved by the Committee. Such limits may be established by resolution of the Committee from time to time. The Committee may delegate the authority to approve the fees paid to the independent auditor to one or more designated members of the Committee who are independent directors of the Company, and the decisions of any such designated member of the Committee shall be reported to the Committee at its next scheduled meeting.
5. From time to time, the Committee will review with management and the internal auditors, without the presence of the independent auditor, the competence and performance of the independent auditor.

#### **Annual and Quarterly Financial Statements**

1. The Committee will review and discuss with management and the independent auditor the annual audited financial statements and the quarterly financial statements, including the disclosures in management's discussion and analysis and the annual independent auditor's opinion. The annual and quarterly discussions regarding the financial statements with management and the independent auditor will include a discussion of:
  - a) all critical accounting policies and estimates inherent in the financial statements, including the appropriateness and clarity of the disclosure concerning such critical accounting policies and estimates;
  - b) all material alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the independent auditor;
  - c) other material written communications between the independent auditor and the Committee or management, such as the independent auditor's Report to

Management and management's responses thereto or schedules of unadjusted differences and their significance to the Company's financial statements as a whole; and

- d) any other matters related to the conduct of an audit required to be communicated to those responsible for the oversight of the financial reporting process (e.g., communications required by SAS No. 61 and No. 90).
2. The Committee shall recommend to the Board whether the financial statements should be included in the annual report on Form 10-K or quarterly report on Form 10-Q.
3. The Committee will review, at least quarterly, with the independent auditor without the presence of management and internal audit the adequacy of the cooperation of management and internal audit in the conduct of services, any audit problems or difficulties and any material disagreements with management.
4. The Committee shall be responsible for resolving any disagreements between the Company's independent auditor and management.

#### **Oversight of Internal Audit**

1. The Committee shall oversee the Company's internal audit function. The internal audit function may be performed by an outside auditor other than the independent auditor under the supervision of management, if the Committee determines appropriate. With regard to internal audit the Committee shall:
  - a) Review the proposed scope of the internal audit for each year under the period deemed appropriate;
  - b) The internal auditor shall inform the Committee of any significant changes in the original internal audit plan, review the results of internal audits, any problems or difficulties that internal audit encountered in the course of their audit work, and management's response, and discuss any questions, comments or suggestions that internal audit may have relating to the internal controls, and accounting practices and procedures;
  - c) At least quarterly, review with internal audit, without the presence of management, the cooperation of management during the performance of the internal audits; and
  - d) Review and concur in the appointment replacement, reassignment or dismissal of the director of internal audit.

**Compliance with Legal and Regulatory Requirements**

1. The Committee shall prepare the Audit Committee Report required by Securities and Exchange Commission (“SEC”) Regulation S-K Item 306 each year and cause such report to be included in the Company’s annual proxy statement.
2. The Committee shall also review with management each year the disclosures relating to the audit committee and the administration of the audit required by applicable law and regulation, including:
  - a) Disclosures required in the proxy statement by Schedule 14A, Item 7 (or any successor regulation), including (i) identification of the audit committee members, (ii) statement that such members are “independent” as defined by applicable Nasdaq National Market listing standards or additional information concerning any member who is not, and (iii) statement of adoption of this Charter and provision of a copy of the Committee’s Charter at least once every three years and for the year in which the Charter is revised.
  - b) Disclosures required in the annual report proxy statement by Schedule 14A, Item 9 (or any successor regulation), including (i) fees paid to the independent auditor segregated by category (e.g., Audit Fees, Audit-Related Fees, Tax Fees and All Other Fees, or such other categories as may be required by applicable regulation) and the nature of the services included within such categories and (ii) a description of the Committee’s pre-approval policies and procedures to pre-approve services by category, including the percentage of the total fees paid to the independent accountant for unapproved services where a de minimis exception was used.
  - c) Disclosures required by Regulation S-K, Item 401(h) – Audit Committee Financial Expert.
3. The Committee will be responsible for reviewing and approving all related party transactions from time to time unless another independent body of the Board is designated to review and approve any such transaction. The term “related party transaction” shall refer to transactions required to be disclosed pursuant to Regulation S-K, Item 404.

**Other Duties and Responsibilities**

1. The Committee shall be responsible for establishing procedures for and for the monitoring of the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential anonymous submissions by Company employees regarding questionable accounting or auditing matters.
2. The Committee will obtain advice and assistance from outside legal, accounting or other advisors as the Committee deems necessary to carry out its duties. The Committee may conduct or authorize investigations into or studies of matters within the Committee’s

scope of responsibilities. The Committee has the authority to retain and compensate such advisors without seeking Board approval.

3. The Committee shall receive funds from the Company for the payment of compensation to the Company's independent auditor and outside legal, accounting or other advisors employed by the Committee, and ordinary administrative expenses, in such amounts and at such times as the Committee determines by resolution from time to time.
4. The Committee will discuss earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies. These discussions may be general discussions of the type of information to be disclosed and the type of presentations, and need not occur in advance of each earnings release or each instance in which the Company may provide guidance.
5. Meet periodically with management to review and assess the Company's major financial risk exposures and the manner in which risks are being monitored and controlled.
6. The Committee will review with the Company's general counsel legal matters that may have a material impact on the financial statements, the Company's compliance policies, and any material reports or inquiries received from regulators or government agencies.
7. The Committee will establish by resolution from time to time clear hiring policies for employees or former employees of the independent auditor.
8. The Committee will report regularly to the Board and review with the Board any issues that may arise with respect to:
  - a) the quality or integrity of the Company's financial statements;
  - b) the Company's compliance with legal or regulatory requirements;
  - c) the performance and independence of the Company's independent auditors; or
  - d) the performance of the Company's internal audit function.
9. The Committee will annually review and reassess the adequacy of this Audit Committee Charter and revise as needed to address new requirements, Company circumstances and changing expectations of the Board.
10. The Committee will evaluate its own performance annually by distributing to its members a written self-assessment.

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