

Corporate Governance Guidelines & Principles

These Corporate Governance Guidelines and Procedures (the "**Guidelines**") have been adopted by the Board of Directors (the "**Board**") of Tower Group, Inc. (the "**Company**") to assist the Board in the exercise of its responsibilities to the Company and its shareholders. These Guidelines are not intended to change or interpret any law or regulation applicable to the Company and are subject to the Company's By-laws.

1. THE BOARD

The Role of the Board of Directors

The primary responsibility of the Board is to oversee the affairs of the Company in the best interests of the shareholders while day-to-day operation of the Company is the responsibility of management. The Board may also take into consideration the interests of other constituencies that affect the Company, such as policyholders, employees, producers, reinsurers, the communities in which the Company conducts its business and other pertinent factors in deciding what actions are in the best interests of shareholders and the Company. The Board is responsible for selecting the senior management team, in consultation with the Chief Executive Officer, and monitoring its performance. In discharging their obligations, the Directors are entitled to rely on the honesty and integrity of their fellow Directors as well as on the honesty and integrity of the management of the Company and its outside advisors and auditors.

Director Duties and Responsibilities

In Board activities, the Directors will act on an informed basis, in good faith and in the honest belief that the action taken is in the best interests of the Company and is lawful under all applicable laws and regulations. The Board is also responsible for:

- Overseeing the operations and results of business;
- Evaluating and approving sound business strategies;
- Selecting, evaluating, and based on the recommendation by the Compensation Committee compensating the Chief Executive Officer;
- Planning for succession with regards to management and Directors based on recommendations of the Corporate Governance & Nominating Committee;
- Assessing major risk factors and reviewing policies to manage and mitigate risk; and
- Assuring the Company's business is conducted on an ethical basis in compliance with applicable laws and regulations.

In support of this duty, Directors are expected to attend the Company's annual shareholders meeting, all Board meetings and meetings of Committees on which they serve. Each member of the Board must make the commitment to spend the time necessary to prepare for Board and Committee meetings, including through advance review of meeting materials, and to meet as frequently as required to properly discharge his or her responsibilities. Directors are also bound by the Company's Code of Business Conduct and Ethics.

Each Director has a duty of loyalty to the Company. This duty requires that the Directors make decisions based on the best interests of the Company, and not any personal interest. Pursuant to this duty, each Director must avoid personal investments, associations and situations that may:

- Interfere with the independent exercise of his or her judgment in the performance of duty;
- Conflict with the Company's best interest, or reflect unfavorably upon the Company's reputation;
- Take advantage of material non-public information pertaining to the Company; and
- Involve a beneficial corporate opportunity that is related to the business of the Company and, as such, belongs to the Company rather than the Directors, unless the opportunity is first presented to the Board and the Board declines to pursue it.

Chairman of the Board and Chief Executive Officer Positions

At present, the positions of Chairman of the Board and the Chief Executive Officer are held by the same person. The Board may, however, at some time in the future, decide to separate these positions if it determines that such separation is the best arrangement for the Company and its shareholders.

Size and Composition of the Board

The Corporate Governance & Nominating Committee will, in accordance with its charter, periodically review the structure, size and composition of the Board and make recommendations to the Board with regard to any adjustments deemed necessary.

Board Membership Criteria

The Corporate Governance & Nominating Committee of the Board establishes the criteria for identifying individuals qualified to become Directors. The minimum criteria for selecting nominees include, but are not limited to, the following:

- Highest standards of personal character, conduct and integrity.
- Experience in a position of leadership and substantial accomplishment in his or her field of endeavor, which may include business, government, not-for-profit or academia.
- An ability to understand and exercise sound judgment on issues affecting the Company.
- A willingness and ability to devote the time and effort required to serve effectively on the Board, including preparation for and attendance at Board and Committee meetings.
- Freedom from interests or affiliations that could give rise to a biased approach to directorship responsibilities and/or a conflict of interest, and free of any material relationship with the Company (except for ownership of the Company's securities and the employment relationship of any individual who is an employee of the Company).

Board Guidelines on Outside Director Independence

The Board will have a majority of Directors who meet the criteria for independence required by the rules of any securities exchange or automated inter-dealer quotation system on which any of the Company's securities are traded and any other applicable laws and regulations. The Company's independent Directors are prohibited from accepting directly or indirectly any consulting, legal, advisory or other compensatory fee from the Company or any of its affiliates, other than fees paid to the Director in his or her capacity as a member of the Board.

The Corporate Governance & Nominating Committee oversees the Board's annual review of the independence of all outside Directors.

Selection of New Director Candidates

It is the responsibility of the Corporate Governance & Nominating Committee to identify and recommend nominees for membership to the Board, which shall in turn submit its recommendations to the shareholders for election. The Corporate Governance & Nominating Committee considers candidates recommended by Directors and shareholders consistent with the criteria set out above and the By-laws of the Company. Shareholders may submit written recommendations for nominees, consistent with the procedures established by the Corporate Governance & Nominating Committee, to the Chairperson of the Corporate Governance & Nominating Committee, in care of the Company's Secretary.

The Company does not have a policy of limiting the number of other public company boards of directors upon which a Director may serve except that a Director may not serve on the audit committees of more than three public companies. However, in considering any prospective nominee, the Corporate Governance & Nominating Committee will consider the number of other boards on which such individual sits.

Directors Who Change Their Present Job Responsibilities

The Board does not believe that Directors who retire or otherwise change the position they held when they came onto the Board should necessarily leave the Board. However, promptly following such event, the Director must notify the Chairman of the Board and the Chairperson of the Corporate Governance & Nominating Committee. The Corporate Governance & Nominating Committee will review the appropriateness of the affected Director remaining on the Board under the circumstances and make a recommendation to the Board regarding his or her continued service. The affected Director should tender his or her resignation if that is deemed in the best interests of the Company by the Board following such review.

Term Limits

The Board does not believe that it should establish limits on the number of terms a Director may serve on the Board. While term limits could help insure that there are fresh ideas and viewpoints available to the Board, they hold the disadvantage of losing the contribution of Directors who over time have developed increasing insight into the Company and its operations. An individual Director's renomination is dependent upon such Director's performance, as well as his or her contributions to the Board and the Corporate Governance & Nominating Committee, as part of the self-evaluation process and in consultation with the Chairman, will review each Director's continuation on the Board.

Retirement Age

A Director may not stand for re-election in the calendar year following the date of his or her 72nd birthday. This age limit may be waived by the Board.

Director Orientation/Continuing Education

New Directors are expected to participate in an orientation process that includes (i) reviewing materials regarding the Company's business, compliance programs and code of conduct, (ii) reviewing these Guidelines and other policies and procedures developed by the Board, including the charter of any Committee on which new Director is to serve, and (iii) visiting the Company's offices and meeting with key personnel to discuss the Company's business and operations, strategic plans, the environment in which the Company operates and its significant financial, accounting and risk management issues. The orientation process is expected to be undertaken no later than three months after the time the new Director joins the Board. Directors are encouraged to attend an outside director education program once a year. The Company will reimburse Directors for all reasonable expenses incurred in connection with the attendance at such programs.

Assessing the Board's Performance

The Corporate Governance & Nominating Committee oversees an annual self-evaluation of the Board's performance and reports the results of such evaluation to the Board, preferably in the first quarter of the following year.

The purpose of this review is not to single out the performance of particular Directors, but to improve the Board's performance as a whole.

This review will focus on the Board's contribution to the Company, and on particular areas in which the Board or management believes that the Board could improve. The assessment will also focus on the characteristics of the Board members to ensure the proper range of talent, skill, and expertise necessary to provide sound guidance to the Company.

Independent Advisors

The Board and each Committee have the power to hire, at the expense of the Company, independent legal, financial or other advisors as they may deem necessary, without consulting or obtaining the approval of any officer of the Company in advance.

2. BOARD MEETINGS

Scheduling and Agendas for Board Meetings

Directors are expected to attend meetings of the Board and the Committees on which they serve and to review, prior to each meeting, the materials distributed for such meeting. A Director who is unable to attend a meeting is expected to notify the Chairman of the Board and the Chairperson of any Committee on which he or she serves in advance of such meeting.

The Board shall hold at least six regularly scheduled meetings each year, the dates of which shall be determined at or before the last meeting of the previous year, and shall also meet between regularly scheduled meetings as and when circumstances require. At least one Board meeting each year will be devoted to a review of the Company's annual business plan. One Board meeting will be in conjunction with the annual shareholders' meeting.

The Chairman of the Board and the Corporate Secretary of the Company will develop the agenda for each Board meeting and distribute it in advance to the Board. Directors may suggest additional agenda items and may, at any meeting, raise subjects that are not on the agenda. To assist the Chairman, the Corporate Governance & Nominating Committee shall recommend a standing agenda to the Chairman, which shall set forth a general agenda of topics, including strategic business plans, budget matters, risk management, regulatory concerns, and disclosure controls and procedures. The Corporate Governance & Nominating Committee shall periodically review the standing agenda and make additional recommendations, additions, and modifications. The standing agenda shall be distributed to the full Board. Directors are encouraged to suggest additional topics

and are free to raise issues at meetings not specifically on the agenda.

Board Materials Review and Distribution

Information that is important to the Board's or a Committee's understanding of the business to be conducted will be distributed to the members in advance of each meeting. Such information is to be presented in a concise manner, while still providing the necessary information, so that more meeting time may be spent in discussion. If the subject is too sensitive to be distributed in writing, the presentation will be made at the meeting. Board members are expected to prepare for meetings by reviewing the materials in advance and contacting senior management, if appropriate, with requests for additional information if needed.

Executive Sessions of Outside Directors

The Company's policy is that, at a minimum, the non-employee Directors will meet in executive session at each regularly scheduled Board meeting. These executive sessions of the outside Directors shall be chaired, on a rotating basis, by the Chairpersons of the Corporate Governance & Nominating Committee, the Compensation Committee and the Audit Committee, in that order.

Board Access to Senior Management

Board members may initiate contact with the Company's management at any time.

The Chief Executive Officer will invite key members of management to regularly attend Board meetings so that they may provide additional insight into the items being discussed. The Board expects that management will use this process to give exposure to managers with senior management potential.

3. BOARD COMMITTEES

Standing Committees of the Board

The Board has the following standing committees: Audit Committee, Compensation Committee, Corporate Governance & Nominating Committee and Executive Committee. The Board may at any time form a new committee or disband an existing committee, other than the Audit Committee, the Compensation Committee and the Corporate Governance & Nominating Committee. Only independent Directors may serve on these three Committees. Each Committee is expected to perform an annual performance evaluation and to review the results of such evaluation with the Board. Each Committee shall have the duties and responsibilities set out in its charter.

Assignment of Committee Members

The Corporate Governance & Nominating Committee recommends to the Board, and the Board designates, the members and the chairperson(s) of the Committees, taking into account the preferences and qualifications of the individual Directors.

The Board and the Corporate Governance & Nominating Committee will review Committee membership annually and consider whether membership of any Committee should be changed. There are no fixed terms for Committee membership. Committee Chairpersons shall be selected by the full Board, serve for a term of one year and be eligible for reappointment.

Committee Meetings

Committee meeting dates are generally scheduled to coincide with regular Board meetings. The Chairperson of any Committee may call additional meetings as needed.

Committee Agendas

The Chairperson of each Committee will develop the agenda for meetings of such Committee. Committee members may suggest additional agenda items and may, at any meeting, raise subjects that are not on the agenda.

4. MANAGEMENT REVIEW AND RESPONSIBILITY

Formal Evaluation of the Chief Executive Officer

The Compensation Committee evaluates the performance of the Chief Executive Officer at least once per year in light of the corporate goals, objectives and incentive criteria that have been approved by the Compensation Committee as relevant to the

Chief Executive Officer's performance and compensation. The objectives upon which the Chief Executive Officer is measured include the Company's overall performance, accomplishment of long-term strategic objectives, leadership development and other factors deemed relevant by the Compensation Committee. The results of this evaluation are then communicated to the Chief Executive Officer by the Chairperson of the Compensation Committee, after consultation with the full Board (other than the Chief Executive Officer if he or she is then a Director). The Compensation Committee has the authority to approve and set the compensation of the Chief Executive Officer based on this annual evaluation.

Formal Evaluation of Executive Officers

The Compensation Committee also reviews the Chief Executive Officer's annual performance evaluations of senior management of the Company and makes recommendations to the Board with respect to compensation of such officers, including any bonuses and incentive compensation plans.

Succession Planning

The Corporate Governance & Nominating Committee will, as appropriate and from time to time, make recommendations to the Board regarding succession planning in respect of the Board and the Chief Executive Officer. The Board's succession planning review should include policies and principles for selecting a new Chief Executive Officer, including the evaluation of potential successors to the Chief Executive Officer and policies regarding succession in the event of an emergency or the retirement of the Chief Executive Officer. The Board shall also plan for the succession to certain other senior management positions.

To assist the Board in this process, the Chief Executive Officer will annually provide an assessment of the members of the Company's senior management team and their potential to succeed to the position of Chief Executive Officer and an assessment of those individuals considered potential successors to other senior management positions.

Succession planning will be discussed by the Corporate Governance & Nominating Committee and by the outside Directors during their executive sessions.

Board Interaction with Investors, the Press, Customers, etc.

The Board believes that management speaks for the Company. Management appoints persons to interact with investors, the press and members of the public. Individual Directors ordinarily do not communicate directly with these constituencies about Company matters, unless requested to do so by the Board or management. This policy does not preclude independent Directors from meeting with shareholders, but it is suggested that any such meetings be held with management present unless otherwise approved by the Board.