

ProCentury Corporation ~ Corporate Governance Guidelines

Purpose

The following Corporate Governance Guidelines (“Guidelines”) were adopted by the Board of Directors (the “Board”) of ProCentury Corporation (the “Company”) on November 15, 2006. These Guidelines, together with the Company’s Amended and Restated Code of Regulations, Code of Business Conduct and Ethics, Whistleblower Policy and Procedures, Insider Trading Policy, along with the charters of the Board’s Committees provide the overall framework for the corporate governance of the Company. These Guidelines are intended to enhance the Company’s ability to achieve its goals and to increase stockholder value.

Director Qualifications

Independence

The Board will have a majority of directors who meet the criteria for independence required by the NASDAQ National Market listing standards. The Nominating and Corporate Governance Committee is responsible for reviewing with the Board periodically the requisite skills and characteristics of Board members as well as the composition and appropriate size of the Board as a whole. This assessment will include members’ qualification as independent in accordance with all applicable laws and regulations, including NASDAQ listing standards and its consideration of diversity, age, skills and experience in the context of the then-current needs of the Company and the Board.

Nomination

Nominees for directorship will be recommended for selection by the Nominating and Corporate Governance Committee in accordance with the policies and principles in its charter and based upon an assessment of each member’s or potential member’s integrity, judgment, business experience, diversity, independence, other skills and whether the nominee would effectively serve shareholders long-term interests and contribute to the Company’s overall corporate goals. The invitation to join the Board should be extended by the Chairman of the Board.

Number of Directors

In accordance with the Company’s Code of Regulations, the number of directors shall not be fewer than three or greater than fifteen. The number of directors within that range may be fixed or changed by a resolution adopted by the Board.

Retirement or Change in Principal Occupation or Employment

When an individual director retires or otherwise changes his/her principal occupation or employment, that director should notify the chair of the Nominating and Corporate Governance of such change and offer to resign from the Board. Although the Board does not believe that in every instance a director who retires or otherwise changes his or her principal occupation or employment should necessarily leave the Board, there should be an opportunity for the Committee to consider the offer and recommend to the Board the action, if any, that should be taken in response to such offer based on a review of whether the individual continues to satisfy the Board’s membership criteria in light of his or her new status.

Number of Boards Limitation

The Board expects that each director will devote sufficient time and effort necessary to serve as a director and as a member of the Committee(s) to which he or she may be assigned. The Board recognizes that a director's obligations to other companies may cause conflicts with these time commitments and, accordingly, has determined that all directors should appropriately limit their involvement with such companies. If a director is actively involved in an executive capacity, which shall be defined as any officer who performs a policy-making function for the entity (including without limitation, the president and any vice president in charge of a principal business unit, division, or function) with the Company or another publicly traded company, it is the Board's expectation that the director will not serve on the boards of more than two public companies, in addition to his/her employer's board, in addition to the Company. If the director is involved in an executive capacity of another public company and is required to sit on his/her employer's board, then that director should only serve on one additional public company board in addition to the board of the Company and his/hers employer.

For a director who is either retired or not involved in an executive capacity with the Company or another company (as defined herein), it is the expectation of the Board that the director will not serve on the boards of more than six public companies in addition to the Company. Whether a director is involved in an executive capacity or not, no member of the Company's Audit Committee should serve on the audit committee of the board of more than two public companies in addition to the Company's. For the purposes of determining the number of boards and audit committees, the boards and audit committees of a holding company and its subsidiaries or affiliates will be considered to be one board or one audit committee, even if more than one of the companies in the holding company system is public.

The Board or the Nominating and Corporate Governance Committee may at any time recommend that a director reduce the number of boards or audit committees on which he or she serves to a number less than the numbers set forth herein. The Board requests that each director notify the Chairman of the Board and the Lead Director when he or she is considering accepting an appointment to an additional board or audit committee (public, private or nonprofit) to allow the Board and the Company to express any opinion they may have on whether that proposed additional position is consistent with the intent of this paragraph. The Board, upon the recommendation of the Nominating and Corporate Governance Committee, may grant an exception to the limitations set forth herein, if it determines such action to be in the best interests of the Company and its shareholders. Service on boards and/or committees of other organizations should also comply with the Company's Code of Business Conduct and Ethics.

Term Limits

The Board does not believe it should establish term limits. While term limits could help ensure that there are fresh ideas and viewpoints available to the Board, they hold the disadvantage of losing the contribution of directors who have been able to develop, over a period of time, increasing insight into the Company and its operations and, therefore, provide an important contribution to the Board as a whole. As an alternative to term limits, the Nominating and Corporate Governance Committee, in consultation with the Chairman, will review each director's continuation on the Board every three years. This will allow each director the opportunity conveniently to confirm his/her desire to continue as a member of the Board.

Director Responsibilities

Business Judgment

The basic responsibility of the directors is to exercise their business judgment to act in what they reasonably believe to be in the best interests of the Company and its shareholders in governing and guiding the Company to achieve its objectives. Directors owe the Company and its shareholders the duties of loyalty and due care. Directors should be entitled to rely on the honesty and integrity of the Company's senior executives and its outside advisors and auditors.

Attendance and Participation

Directors are expected to attend and contribute to all Board meetings and meetings of committees on which they serve, and to spend the time needed and meet as frequently as necessary to perform their responsibilities properly. Information and data that are important to the Board's understanding of the business to be conducted at a Board or a committee meeting should generally be distributed for review by the directors before the meeting. Directors are expected to read, question and understand the materials and financial statements distributed. Directors are also expected to participate openly in the Board's self-evaluation process, the evaluation of senior management and other duties as required by the Company of its directors. Directors are expected to attend the Company's Annual Meeting of Shareholders. Normally, a meeting of the Board will be scheduled to coincide with the Annual Meeting of Shareholders.

Lead Director

The Board has established the position of a Lead Director. The Chair of the Nominating and Corporate Governance Committee will serve as the Board's lead director, unless another director is designated as Lead Director by a majority vote of the Board. The Lead Director shall perform the following duties:

1. Convene and chair regular meetings of the non-management and independent Directors, as may be necessary from time to time (but not less than two meetings of the independent Directors per year).
2. Coordinate the agenda for and chair executive sessions of the independent Directors.
3. Coordinate feedback to the Chief Executive Officer on behalf of independent directors regarding business issues and management.
4. Assist the Chairman of the Board with the agenda for Board Meetings.
5. Discuss the results of the Chief Executive Officer's performance evaluation with the Chairman of the Compensation Committee and convey such results to the Chief Executive Officer, together with the Chairman of the Compensation Committee.
6. Other duties as may be necessary for the Board to fulfill its responsibilities or as may be requested by the Board as a whole, by the non-management Directors, or by the Chairman of the Board.

Board Meetings

The Chairman, with the assistance of the Lead Director, will establish the agenda for each Board meeting. At the beginning of the year, the Chairman will establish a schedule of meetings and an agenda of subjects to be discussed during the year at each meeting (to the degree this can be foreseen). Each Board member is free to suggest the inclusion of additional items on the agenda to the Chairman. Each Board member is free to raise subjects that are not on the agenda at any meeting. The Board will review the Company's long-term strategic plans and the principal issues that the Company will face in the future during at least one Board meeting each year.

External Communication

The Board believes that management should speak for the Company. Individual Board members may, from time to time, meet or otherwise communicate with various constituencies that are involved with the Company. It is expected, however, that Board members would do this with the knowledge of management and, absent unusual circumstances or as contemplated by the committee charters, only at the request of management.

Shareholder Communications with the Board of Directors

Shareholders may communicate with any of the members of the Company's Board of Directors by sending an email to boardofdirectors@procentury.com or by writing to the Company, c/o Vice President of Corporate Governance. Communications may be addressed to an individual Director, a Board committee, the non-management Directors or the full Board of Directors. Communications received by the Vice President of Corporate Governance will be distributed to the appropriate directors. Solicitations for the sale of merchandise, publications or services of any kind will not be forwarded to the Directors.

Board Committees

The Board has established an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee and may establish additional committees as it deems necessary or appropriate from time to time. All of the members of these committees will be independent directors under the criteria established by NASDAQ. Committee members will be appointed by the Board upon recommendation by the Nominating and Corporate Governance Committee. The Board believes that consideration should be given to rotating committee members periodically, but the Board does not feel that rotation should be mandated as a policy.

Committee Charters

The Board has adopted a charter for each committee, each of which is posted on the Company's website. The charters set forth the purposes, goals and responsibilities of the committees as well as qualifications for committee membership, composition, operations and reporting to the Board. The charters also provide that each committee annually will evaluate its own performance and may conduct or authorize investigations consistent with carrying out its duties to the Company.

Committee Schedules and Agendas

The Chairperson of each committee, in consultation with the committee members, will develop the agenda and determine the frequency and length of the committee meetings consistent with any requirements set forth in the committee's charter. At the beginning of the year, each

committee chairperson with the assistance of the other committee members will establish a schedule of agenda subjects to be discussed during the year (to the degree these can be foreseen). This tentative agenda schedule for each committee will be furnished to all directors.

Committees

The Board and each committee have the power to retain and terminate independent legal counsel or other advisors, as the Board or Committee may deem necessary, without consulting or obtaining approval of any officer of the Company. Any fees of any independent legal, financial or other advisor engaged by the Board or any of its Committees shall be borne by the Company.

In addition to the committees discussed above, the Company has an Executive Committee, the charter of which has been approved by the Board and the purpose of which is to take legal action and exercise the authority of the Board in periods between Board Meetings. Presently, two independent directors and the Chairman are appointed to this Committee by the Board. The Board may, from time to time, establish additional committees as necessary or appropriate.

Director Access

Directors have full and free access to the books, records, officers and employees of the Company. Any meetings or contacts that a director wishes to initiate with an officer or employee may be arranged through the CEO or the Secretary or directly by the director. The directors will use their judgment to ensure that any such contact is not disruptive to the business operations of the Company and will, if appropriate, copy the CEO on any written communications between a director and an officer or employee of the Company. The Board welcomes regular attendance at each Board meeting of senior officers of the Company.

Director Orientation and Continuing Education

All new directors must participate in an orientation program developed by the Company, which should be conducted within two months of the meeting at which new directors are elected. This orientation will include presentations by management at Company headquarters to familiarize new directors with the Company's strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its Code of Business Conduct and Ethics and other applicable policies and its internal and independent auditors. All directors are welcome to attend the Orientation Program. New directors should become familiar with the Company's business operations, competitors and competitive climate and Core Values. All directors are encouraged to further their understanding of all aspects of the Company's business and their role as a director by meeting with key management personnel, visiting the Company, attending Company events and attending director education programs whenever convenient and appropriate.

Board and Committee Evaluations

The Board will periodically conduct a self-evaluation to determine whether the Board and its committees, in accordance with their respective charters, are functioning effectively. The Nominating and Corporate Governance Committee will develop and recommend to the Board the process for and oversee these evaluations.

Director Compensation

The form and amount of director compensation will be determined by the Compensation Committee in accordance with the policies and principles set forth in its charter, and the Compensation Committee will conduct an annual review of director compensation. The Board believes that compensation should be competitive with directors of companies similar in size and performance, both within and outside of the insurance industry and should include a significant equity component. The Compensation Committee will consider that directors' independence may be jeopardized if director compensation and perquisites exceed levels of similar companies, if the Company makes substantial charitable contributions to organizations with which a director is affiliated, or if the Company enters into consulting contracts with (or provides other indirect forms of compensation to) a director or an organization with which the director is affiliated.

Stock Ownership Guidelines

The Board believes that each director should have an ownership interest in the Company. In this regard, the Board expects that each director should own 2,000 common shares of PROS within one calendar year of his/her election to the Board and should maintain such holding, once achieved, as a minimum investment in PROS shares throughout his/her tenure as a director.

CEO Evaluation and Management Succession

To ensure that the CEO is providing the best leadership for the Company in the long and short term, the Compensation Committee, in accordance with its Charter, will annually evaluate the performance of the CEO after receiving a written self-evaluation from the CEO. The Chairman of the Compensation Committee will review the evaluation results with the Lead Director and both the Lead Director and the Chairman of the Compensation Committee will review the results of the evaluation with the CEO. The Compensation Committee will also distribute and report the results of its evaluation of the CEO to the Board.

In addition, the Compensation Committee will periodically review with the CEO his/her evaluation of other executive officers of the Company. During this evaluation review, individual Board members will provide to the CEO his/her comments with respect to the performance of such other executive officers based upon his/her interaction with such executive officers, respective business unit performance or such other factors deemed relevant by the director.

The Nominating and Corporate Governance Committee will assist the CEO or other designated executive officers in reporting annually to the Board on succession planning, including reviewing and making recommendations regarding any proposed changes in senior management for consideration by the Board. The entire Board will work with the Nominating and Corporate Governance Committee to nominate and evaluate potential successors to the CEO.