

CORPORATE GOVERNANCE GUIDELINES

The following Corporate Governance Guidelines (the “*Guidelines*”) have been adopted by the Board of Directors (the “*Board*”) of First Mercury Financial Corporation (the “*Corporation*”) to assist the Board in the exercise of its responsibilities. These Guidelines reflect the Board’s commitment to monitor the effectiveness of policy and decision-making both at the Board and management level, and to enhance stockholder value over the long term. These Guidelines are a statement of policy and are not intended to change or interpret any federal or state law or regulation, including the Delaware General Corporation Law, or the Certificate of Incorporation or Bylaws of the Corporation. The Guidelines are subject to periodic review by the Nominating and Corporate Governance Committee (the “*Committee*”) of the Board and to modification from time to time by the Board.

BOARD COMPOSITION

1. **Selection of Chair of the Board and Chief Executive Officer**

The Board shall be responsible for selecting its Chair and the Chief Executive Officer of the Corporation.

2. **Size of the Board**

The Board believes that it should generally have no fewer than five members. This number permits diversity of experience without hindering effective discussion or diminishing individual accountability. The Committee shall periodically assess the appropriate size of the Board and make any recommendations for changing the number of directors serving on the Board.

3. **Selection of New Directors**

The entire Board shall be responsible for nominating candidates for election to the Board at the Corporation’s annual meeting of stockholders and for filling vacancies on the Board that may occur between annual meetings of stockholders. The Committee is responsible for identifying, screening and recommending candidates to the entire Board for Board membership. When formulating its Board membership recommendations, the Committee shall also consider any advice and recommendations offered by the Chief Executive Officer, directors or the stockholders of the Corporation or any outside advisors the Committee may retain.

An orientation process for all new directors will be maintained. This process will include comprehensive background briefings by the Corporation’s executive officers. The orientation program is the responsibility of the Chief Executive Officer.

4. **Board Membership Criteria**

Nominees for director shall be selected on the basis of experience, integrity, ability to make independent analytical inquiries, understanding of the Corporation’s business environment and willingness to devote adequate time to Board duties. Board members are expected to diligently prepare for, attend, and participate in all Board and applicable committee meetings.

Each Board member is expected to ensure that other existing and planned future commitments do not materially interfere with the member's service as an outstanding director.

The Committee shall be responsible for assessing the appropriate balance of skills and characteristics required of Board members.

The Board shall be committed to a diversified membership, in terms of both the individuals involved and their various experiences and areas of expertise.

The Board shall be committed to satisfying qualification requirements for audit committee members as established by law, regulation or the listing requirements of the New York Stock Exchange (the "NYSE").

5. Percentage of Independent Directors on Board

In accordance with the listing requirements of the NYSE, independent directors shall constitute a majority of the Board within twelve months of the effectiveness of the Corporation's Registration Statement on Form S-1 filed in connection with the Corporation's initial public offering of its common stock.

6. Board Definition of Director Independence

No director will qualify as an independent director of the Corporation unless the Board has affirmatively determined that the director meets the standards for being an independent director established from time to time by the NYSE, the U.S. Securities and Exchange Commission and any other applicable governmental and regulatory bodies. To be considered independent under the rules of the NYSE, the Board must affirmatively determine that a director has no material relationship with the Corporation (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Corporation). To assist it in determining each director's independence in accordance with the NYSE's rules, the Board has established guidelines, which provide that a director will be deemed independent unless:

- (i) within the preceding three years, the director was an employee, or an immediate family member of the director was an executive officer, of the Corporation;
- (ii) within the preceding three years, the director or an immediate family member of the director received during any twelve-month period more than \$100,000 in direct compensation from the Corporation, excluding director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service);
- (iii) (A) the director or an immediate family member of the director is a current partner of a firm that is the Corporation's internal or independent auditor; (B) the director is a current employee of such a firm; (C) an immediate family member of the director is a current employee of such a firm and participates in the firm's audit, assurance or tax compliance (but not tax planning) practice; or (D) the director or an immediate family member of the director was, within the last three

years (but is no longer), a partner or employee of such a firm and personally worked on the Corporation's audit within that time;

- (iv) the director or an immediate family member of the director is, or has been within the preceding three years, employed as an executive officer of another company where any of the Corporation's executive officers at the same time serves or served on that company's compensation committee; or
- (v) the director is a current employee, or an immediate family member of the director is a current executive officer, of another company that made payments to or received payments from the Corporation for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million, or two percent (2%) of such other company's consolidated gross revenues.

For purposes of these guidelines, an "immediate family member" includes a person's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than domestic employees) who shares such person's home, and references to the "Corporation" include any parent or subsidiary in a consolidated group with the Corporation.

The Board annually will review all relationships between its directors and the Corporation to determine whether the directors meet these categorical independence tests. If a director has a relationship with the Corporation that is not covered by these independence guidelines, those directors who satisfy such guidelines will consider the relevant circumstances and make an affirmative determination regarding whether such relationship is material or immaterial, and whether the director would therefore be considered independent under the NYSE's rules.

The Corporation will disclose in its proxy statement (a) the basis for any Board determination that a relationship was immaterial despite the fact that it did not meet the categorical independence tests of immateriality set forth above, and (b) any charitable contributions made by the Corporation to any charitable organization in which a director serves as an executive officer if, within the preceding three years, contributions in any single fiscal year exceeded the greater of \$1 million, or two percent (2%) of such charitable organization's consolidated gross revenues.

7. Retirement Age

Except in extraordinary circumstances as determined by the Board, no director after having attained the age of 75 years shall be nominated for re-election or reappointment to the Board, without the prior approval of the Committee.

8. Directors Who Change Their Present Job Responsibility

Each director will notify the Committee if the director has a material change in employment circumstances or other directorships. The Committee shall review the continued appropriateness of Board membership if a Board member has a material change in employment

circumstances and the affected director shall be expected to act in accordance with the Committee's recommendation.

9. Director Compensation

The Corporation's employees shall not receive additional compensation for their service as directors. Director compensation shall be reviewed annually as determined by the Compensation Committee.

The Corporation believes that compensation for non-employee directors should be competitive.

10. Evaluation of Board

The Board shall be responsible for annually conducting a self-evaluation of the Board as a whole. The Committee shall be responsible for establishing the evaluation criteria and implementing the process for such evaluation.

11. Board Contact with Senior Management

Board members shall have complete access to senior management of the Corporation. Board members shall use sound business judgment to ensure that such contact does not interfere with management responsibilities.

Furthermore, the Board encourages senior management, from time to time, to bring employees into Board meetings who: (a) can provide additional insight concerning the items being discussed because of personal involvement in these areas; (b) represent significant aspects of the Corporation's business; and (c) assure the Board of exposure to employees with future potential to assure adequate plans for management succession within the Corporation.

12. Board Interaction with Institutional Investors and Press

The Board believes that management generally should speak for the Corporation, consistent with all regulations governing such communications and with common sense. Unless otherwise agreed to or requested by the Chief Executive Officer, each director shall refer all inquiries from institutional investors and the press to designated members of senior management or to the Chief Executive Officer.

13. Communications

The Board shall work with management to establish and maintain an electronic or physical mailbox for direct communication with non-employee directors and disclose communication procedures in public reports.

BOARD MEETINGS

14. **Frequency of Meetings**

There shall be at least four regularly scheduled meetings of the Board each year. It is the responsibility of the directors to attend the meetings.

15. **Selection of Agenda Items for Board Meetings**

The Chair of the Board shall prepare an agenda of items to be considered by the Board at each of its specified meetings during the year. Each Board member shall be free to suggest inclusion of items on the agenda for any given meeting.

16. **Strategic Discussions at Board Meetings**

At least one Board meeting each year will be primarily devoted to long-range strategic plans.

17. **Outside Directors' Discussion**

The Board's policy is to have a separate meeting time for the non-employee directors in conjunction with the regularly scheduled Board meetings. Any non-employee director designated by the other non-employee directors will assume the responsibility of chairing the regularly scheduled meetings of outside directors and shall bear such further responsibilities which the outside directors as a whole might designate from time to time and will serve as the interface between the non-employee directors and the Chief Executive Officer in communicating the matters discussed during the session.

18. **Executive Sessions**

The non-employee directors may meet with each of the Corporation's independent external auditors, internal auditors and outside legal counsel to discuss pending financial and compliance matters.

19. **Board Materials Distributed in Advance**

Information and data is important to the Board's understanding of the Corporation's business and essential to prepare Board members for productive meetings. Presentation materials relevant to each meeting will be distributed in writing to the Board in advance of the meeting unless doing so would compromise the confidentiality of competitive information or impracticable. Management will make every effort to provide presentation materials that are brief and to the point, yet communicate the essential information.

COMMITTEE MATTERS

20. Number and Names of Board Committees

The Corporation shall have three standing committees: Audit, Compensation and Nominating and Corporate Governance. The duties for each of these committees shall be outlined in each committee's charter and by resolution of the Board. The Board may form additional committees as deemed appropriate.

21. Independence of Audit, Compensation and Nominating and Corporate Governance Committees

In accordance with the listing requirements of the NYSE, the Audit, Compensation and Nominating and Corporate Governance Committees shall be composed entirely of independent directors.

22. Assignment and Rotation of Committee Members

The Committee shall be responsible, after consultation with the Chair, for making recommendations to the Board with respect to the assignment of Board members to various committees. After reviewing the Committee's recommendations, the Board shall be responsible for appointing the members to the committees on an annual basis.

The Chair and the Committee shall annually review the committee assignments and shall consider the rotation of members with a view toward balancing the benefits derived from continuity against the benefits derived from the diversity of experience and viewpoints of the various directors.

23. Annual Review by Committee

Each committee shall annually review its charter and recommend to the Board any changes it deems necessary. In addition to its charter, the Committee will annually review the Corporate Governance Guidelines and recommend to the full Board any changes it deems necessary.

LEADERSHIP DEVELOPMENT

24. Evaluation of Chief Executive Officer

The Board shall conduct an ongoing evaluation of the Chief Executive Officer. The evaluation of the Chief Executive Officer is accomplished through the following process:

- The Chief Executive Officer meets with the Compensation Committee to develop appropriate goals and objectives for the next year, which are then discussed with the entire Board.
- At year end, the Compensation Committee, with input from the Board, evaluates the performance of the Chief Executive Officer in meeting those goals and objectives.

- This evaluation is communicated to the Chief Executive Officer.
- The Compensation Committee uses this evaluation in determining the Chief Executive Officer's compensation.

25. Succession Planning

The Corporation understands the importance of succession planning. Therefore, the Compensation Committee, along with the Chief Executive Officer, shall analyze the current management, identify possible successors to senior management, and timely develop a succession plan. The plan shall then be reviewed by the entire Board, and reviewed periodically thereafter.

26. Management Development

The Board, with the assistance of the Compensation Committee, shall periodically review the plans for the education, development, and orderly succession of senior and mid-level managers throughout the Corporation.

CONFLICTS OF INTEREST

27. Interest Matters

If a director, directly or indirectly, has a financial or personal interest in a contract or transaction to which the Corporation is to be a party, or is contemplating entering into a transaction that involves use of corporate assets or competition against the Corporation, the director is considered to be "interested" in the matter. The director should contact the Chief Executive Officer, the Corporate Secretary or the Chair of the Committee. The director's involvement or interest will be reviewed by the Corporation's outside legal counsel, and then referred for resolution to the Committee. Interested directors should be identified and/or disclosed, and they shall not participate in any discussion or any vote relating to the matter in which they have been deemed to be interested. The decision of the Committee on all matters of "interest" shall be final.