

## **TRIAD GUARANTY INC.**

### **BOARD OF DIRECTORS**

#### **CORPORATE GOVERNANCE GUIDELINES**

The following corporate governance guidelines have been adopted by the Board of Directors (the “Board”) of Triad Guaranty Inc. (the “Company”) to provide a framework within which the Board and management can effectively pursue the Company’s objectives for the benefit of its stockholders. Where appropriate, references in these Corporate Governance Guidelines (the “Guidelines”) to the “Company” and to “management” include the Company’s subsidiaries and the management of those subsidiaries.

#### **I. THE ROLE OF THE BOARD AND MANAGEMENT**

The Board believes that the Company’s long-term success is dependent upon the maintenance of an ethical business environment. The Board expects all of the Company’s and its subsidiaries’ employees to conduct operations in an ethical manner consistent with applicable laws, rules and regulations and the Company’s Code of Conduct.

The Board is elected by the Company’s stockholders and represents the stockholders’ interest in increasing the value of the business. The primary responsibility of the directors serving on the Board (each, a “Director”) is to oversee the affairs of the Company for the benefit of the Company and its stockholders. Necessarily, this will involve also considering the needs of all the Company’s other principal stakeholders: customers, employees, the communities we serve and society as a whole. Day-to-day management of the Company is the responsibility of the Company’s executive officers. The responsibility of each Director is to be informed, to exercise his or her business judgment and to act in what he or she reasonably believes to be in the best interests of the Company and its stockholders.

The Company’s management, under the oversight of the Board and its Audit Committee, has the responsibility to prepare financial statements that fairly present the Company’s consolidated financial position, results of operations, cash flows and change in stockholders’ equity, and to make timely disclosures. The Audit Committee has the responsibility to engage an independent accounting firm, which will audit the financial statements prepared by management and issue an opinion on those statements based on Generally Accepted Accounting Principles. The Board, the Audit Committee and management shall establish and monitor adherence with policies designed to prevent actions by the Company or its employees that might compromise the independence of the independent auditors.

#### **II. BOARD FUNCTIONS**

The Board and its committees shall:

- review, approve and monitor operating and strategic plans and budgets;
- review Company financial and strategic performance;
- evaluate and assess management’s systems for internal control, financial reporting and public disclosure;

- establish corporate governance standards;
- select the Company's Chief Executive Officer, and evaluate and determine the compensation of the Chief Executive Officer;
- evaluate and approve the overall compensation and incentive plans for employees and officers for the Company and its subsidiaries, taking into account the methodology and recommendations provided by the Chief Executive Officer;
- evaluate the information and recommendations provided by the Chief Executive Officer for senior management performance and approve senior management compensation;
- advise management on significant issues facing the Company;
- plan for effective succession of the Chief Executive Officer and senior management;
- set a tone for a climate of integrity, corporate trust and confidence, as well as legal compliance;
- set standards for Director qualification;
- establish or make available, and evaluate, any programs deemed appropriate for Director orientation and continuing education; and
- undertake periodic performance evaluations of the Board and its committees.

### **III. SELECTION OF THE BOARD**

#### **A. Board Membership Criteria**

The Corporate Governance and Nominating Committee will annually review the independence, experience, skills and qualifications expected of Board members in the context of the current membership of the Board. This assessment should include, among other relevant factors, the judgment, skills, integrity and business and other experience of each Director.

Directors should possess the highest personal and professional ethics, integrity and values, and be committed to representing the long-term interests of the Company and its stockholders. In selecting candidates for nomination as Directors, the Corporate Governance and Nominating Committee will consider such criteria as it may deem appropriate, which may include current or recent experience as a senior executive officer, business expertise currently desired on the Board, industry experience, general ability to enhance the overall composition of the Board, and commitment to the Company's values and philosophy. Directors must be willing to devote sufficient time to carry out their duties and responsibilities effectively, and should be willing to serve on the Board for an extended period of time. The number of other public company boards on which a Director may serve shall be subject to a case-by-case review by the Corporate Governance and Nominating Committee to determine whether each Director will be reasonably likely to devote sufficient time to perform his or her duties as a Director of the Company.

## **B. Selection of New Directors**

The Corporate Governance and Nominating Committee is responsible for identifying and evaluating candidates for Board membership and selecting or recommending to the Board nominees to stand for election. All candidates who, after evaluation, are then recommended by the Corporate Governance and Nominating Committee and approved by the Board are included in the Company's recommended slate of director nominees in the annual proxy statement.

The Corporate Governance and Nominating Committee, in consultation with the Chairman of the Board, shall periodically examine the composition of the Board, including the number of directors on the Board. If the Corporate Governance and Nominating Committee determines that adding one or more new Directors is advisable, the Committee shall initiate a search for a suitable candidate or candidates, which may include working with other Directors, management and a search firm retained to assist in the search, each as the Corporate Governance and Nominating Committee deems necessary or appropriate. The Corporate Governance and Nominating Committee shall consider all appropriate candidates proposed by management and the Directors. The Corporate Governance and Nominating Committee shall determine the process to consider nominations for directors received from the Company's stockholders, subject to the Company's Certificate of Incorporation and Bylaws.

## **C. Stockholder Recommendations of Board Nominees**

Any stockholder who is entitled to vote for the election of directors at the relevant meeting may recommend a candidate for nomination by submitting notice of such recommendation, together with the other information specified herein, in writing, to the Corporate Governance and Nominating Committee of Triad Guaranty Inc., c/o Secretary, 101 South Stratford Road, Winston-Salem, North Carolina 27104. In order to be considered by the Board and the Corporate Governance and Nominating Committee, such nominations must be received no less than sixty (60) days and no more than ninety (90) days prior to the meeting.

Such stockholder recommendations of director nominees must set forth the following information to the extent known to the recommending stockholder: (1) the name, age, business address and residence address of the proposed nominee; (2) the principal occupation or employment of the proposed nominee; (3) the class and number of shares of Company capital stock beneficially owned by the proposed nominee; (4) the signed consent of the proposed nominee to being nominated and to serving as a Director of the Company; (5) a description of the relationship between the proposed nominee and the stockholder making the nomination, including material interests of the stockholder in the business of the nominee; (6) a description of any arrangement or understanding between the proposed nominee and the stockholder making the nomination or any other person or persons (and the name of such other person or persons) pursuant to which the nominations are made by the stockholder making the nomination; (7) the name and address of the stockholder making the nomination; (8) the class and number of shares of Company capital stock beneficially owned by the stockholder making the nomination recommendation; (9) any other information required to be disclosed in solicitations of proxies for elections of directors or that is otherwise required pursuant to Securities and Exchange Commission ("SEC") Regulation 14A; (10) a director and officer questionnaire (which will be

provided by the Company upon request); and (11) a consent that permits the Company to conduct background checks of the proposed nominee.

No stockholder nominee shall be eligible for election under these procedures as a Director unless that person is nominated by the Corporate Governance and Nominating Committee after compliance with these procedures. The Chairman of the annual meeting of stockholders may, if the facts warrant, determine and declare at the meeting that a stockholder nomination was not made in accordance with these procedures. If the Chairman makes such determination, the nomination shall be disregarded.

#### **IV. BOARD COMPOSITION**

##### **A. Size of the Board**

The Company's Certificate of Incorporation provides that the number of directors, which shall constitute the whole Board of Directors, shall be fixed from time to time by, or in the manner provided for, in the Bylaws. The Bylaws provide that the number of directors shall be determined by Board resolution, but in no case shall there be more than nine (9) Directors or less than four (4) Directors. The Board shall determine, after considering the recommendations of the Corporate Governance and Nominating Committee, the size of the Board appropriate to provide that all of the necessary or desirable core competencies are possessed by the Board as a whole.

##### **B. Director Independence**

The Company shall have at all times a majority of independent directors. While the Company is not listed on The NASDAQ Stock Market, LLC ("NASDAQ"), for purposes of determining if any director is an "independent director" the Company has adopted the categorical standards attached hereto as Annex A, which reflect the definition of "independent director" as defined by the rules and regulations of NASDAQ. Each member of the Board serving on the Audit Committee is subject to more stringent independence requirements, as described in the Audit Committee Charter. The Board must make an affirmative determination that a Director has no relationships that would interfere with the exercise of a Director's independent judgment. At least once per year, the Board will review each relationship that exists with a Director and his or her related interests for the purpose of determining whether the Director is independent.

The Board shall consider all relevant facts and circumstances when making a determination of independence. The Board shall consider the issue not merely from the standpoint of a Director, but also from that of persons or organizations with which the Director has a significant affiliation. Each Director shall be familiar with the rules describing director independence and with the categorical standards of independence adopted by the Board. Each non-management Director shall promptly notify the Corporate Governance and Nominating Committee of any fact or circumstance that may result in the loss of independence for purposes of the Director's service on the Board or any Board committee.

### **C. Lead Independent Director**

One independent Director shall be elected by the independent Directors as the Lead Independent Director. The Lead Independent Director shall be responsible for leading the executive sessions of independent Directors, advising on Board meeting schedules and agendas and for performing such other duties as are requested by the Board. The general authority and responsibilities of the Lead Independent Director are established by the Board, and shall include leading the self-evaluation of the Board. The Lead Independent Director shall serve a one-year term in such capacity, or until his or her resignation as Lead Independent Director or the election by the independent Directors of a successor Lead Independent Director.

### **D. Service on Other Boards of Directors**

Prior to accepting an invitation to serve on another public company's board of directors, a Director must advise the Chairman of the Board and the Chairman of the Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee will review whether such board membership may unduly affect the ability of the Director to fulfill the Director's duties to the Company.

### **E. Term and Age Limits**

The Board has determined that no individual who is not an employee of the Company will be eligible for nomination or renomination for election as a Director after the individual's seventy-second (72nd) birthday. Although the Board does not believe that term limits for Directors are appropriate, the Corporate Governance and Nominating Committee, in conjunction with the Chairman of the Board, will formally review each Director's continuation on the Board shortly before the end of such Director's then current term. This review shall be conducted in connection with the Corporate Governance and Nominating Committee's annual evaluation of governance and Board effectiveness, its consideration of nominations to the Board at the annual stockholders' meeting at which such Director's term shall expire, and the Board's annual self-evaluation. This provision does not constitute a condition of employment as to those directors who are also employees of the Company or any of its subsidiaries. Such persons may continue to serve in such other capacities.

## **V. BOARD MEETINGS**

### **A. Selection of Agenda Items for Board Meetings**

The Chairman of the Board and the Chief Executive Officer, in consultation with the Lead Independent Director, will establish the agenda for each Board meeting. Each Board member may suggest the inclusion of items on the agenda. Each Director may raise, at any Board meeting, subjects that are not on the agenda for that meeting.

### **B. Attendance at Board Meetings and Review of Board Materials**

Each Director is expected to use his or her diligent efforts to attend all meetings of the Board and committees on which the Director serves, and is expected to use his or her diligent efforts to attend the Company's Annual Meeting of Stockholders and be prepared to respond to

stockholder questions. In advance of each Board meeting, a proposed agenda and, to the extent feasible or appropriate, information and data that is important to an understanding of the business to be discussed will be distributed. Each Director is requested to review these materials prior to the Board meeting.

### **C. Executive Sessions of Independent Directors**

The independent Directors shall meet at regularly scheduled executive sessions, which shall be on the same day as regular Board meetings. Any independent Director may call a meeting of the independent Directors at any time upon not less than five (5) days prior notice, duly given, which notice shall include the purposes, location and time of the meeting. The Lead Independent Director will preside over executive sessions of independent Directors.

### **D. Reviewing and Approving Significant Matters**

Board approval of a particular transaction, plan, policy, strategy or other significant matter may be appropriate because of several factors, including:

1. legal, governance or regulatory requirements;
2. the materiality of the matter to the Company's financial performance, risk profile or business;
3. the terms of the transaction, plan, policy, strategy or other significant matter; or
4. other factors, such as a variation from the Company's strategic plan.

To the extent the Board determines it to be appropriate, the Board will develop standards to be utilized by management in determining types of matters that should be submitted to the Board for review and approval or notification.

## **VI. BOARD COMMITTEES**

### **A. Number, Structure and Independence of Committees**

The Company shall have an Audit Committee, a Compensation Committee, and a Corporate Governance and Nominating Committee. All members of the Audit Committee, the Compensation Committee and the Corporate Governance and Nominating Committee shall be "independent," as such term is defined by the categorical standards attached hereto as Annex A and the applicable rules of the SEC. The Board may appoint an Executive Committee and such other committees, as it deems appropriate from time to time.

### **B. Assignment of Committee Members**

The Corporate Governance and Nominating Committee shall, after consultation with the Chairman of the Board and the Chief Executive Officer and with consideration of the interests, experience and qualifications of individual Directors, recommend to the full Board the assignment of Directors to committees.

### **C. Committee Meetings**

Committee Chairmen, in consultation with committee members, will determine the frequency and length of committee meetings. Each committee shall meet as set forth in each Committee's charter, and otherwise as frequently as required to carry out its responsibilities. Committee Chairmen, in consultation with the appropriate members of senior management and staff, will develop the agenda for each committee meeting. Each Committee shall report regularly on its meetings to the Board.

## **VII. DIRECTOR OBLIGATIONS**

### **A. Ethics and Conflicts of Interest**

Directors, as well as officers and employees, must act ethically at all times and should acknowledge their adherence to the policies described in the Company's Code of Conduct and in these Guidelines. If an actual or potential conflict of interest exists for a Director, the Director should promptly inform the Chairman of the Board and the Chairman of the Corporate Governance and Nominating Committee. If a significant conflict exists and cannot be resolved, the Director should submit his or her resignation to the Board. All Directors shall disclose their personal or business interests in any transaction in which the Company may engage, and shall recuse themselves from any discussion or decision affecting their personal or business interests.

### **B. Reliance on Others; Liability Insurance**

In discharging their obligations and responsibilities, the Company's Directors are entitled to rely, in good faith, on the honesty and integrity of their fellow Directors, the Company's management, independent auditors and outside advisors. Further, to promote the ability of each Director to act in accordance with the Director's reasonable, good faith business judgment without undue concern for the substantial risk of personal liability faced by public company directors, the Company shall seek to purchase and maintain at all times directors' and officers' liability insurance in amounts deemed reasonably appropriate.

### **C. Directors Who Change Their Present Job Responsibility**

Directors who change the occupation they held when initially elected shall immediately notify the Chairman of the Board and the Chairman of the Corporate Governance and Nominating Committee of such change. The Board does not believe that in every instance Directors who retire or change from the position they held when they became Board members should necessarily leave the Board. There should, however, be an opportunity for the Board, through the Corporate Governance and Nominating Committee, to review the continued appropriateness of Board membership under the changed circumstances. If requested by the Chairman of the Board, such Director whose occupation has so changed should submit a letter of resignation to the Board.

### **D. Speaking on Behalf of the Company**

It is important that the Company speak to employees and outside constituencies with a single voice, and that management serve as the primary spokesperson. If a situation does

arise in which it seems necessary for a Director to speak on behalf of the Company to one of these constituencies, the Director should consult with the Chairman and the Chief Executive Officer.

#### **E. Confidentiality**

The proceedings and deliberations of the Board and its Committees will be confidential. Each Director will maintain the confidentiality of information received in connection with his or her service as a Director.

### **VIII. DIRECTOR ORIENTATION AND EDUCATION**

Management, working with the Corporate Governance and Nominating Committee, will establish, or identify and provide access to, appropriate orientation programs, sessions or materials for newly elected Directors. The program or materials will include information to acquaint new Directors with the Company, including its strategy, long-range plans, financial statements, assets and operations, these Guidelines and the Code of Conduct. As part of the orientation, new Directors will be introduced to appropriate members of the Company's senior management and be provided with an opportunity to meet with appropriate external advisors. The Board believes that ongoing director education is important to maintaining an effective board of directors. Accordingly, the Board encourages each Director to participate in education programs, including, from time to time, more formal director education programs, as may be necessary to enable Directors to fulfill their duties. As appropriate, Directors will receive information and updates on legal and regulatory changes that affect the Company and the Directors.

### **IX. DIRECTOR COMPENSATION**

The form and amount of Director compensation will be determined by the Compensation Committee in accordance with policies and principles set forth in its charter. Changes in Director compensation recommended by the Compensation Committee will be considered by the Board, which may approve or deny such changes, in whole or in part. The Board believes that the level of Director compensation generally should be competitive with that paid to directors of other corporations of similar size and complexity, and commensurate with the time and effort required by the Company of its Directors. The Compensation Committee, in consultation with management and or outside consultants, if desired, shall annually review and report to the Board for its consideration the status of the Company's Board compensation in relation to other comparable companies. The Compensation Committee understands that the independence of Directors may be jeopardized if Director compensation and perquisites exceed customary levels, 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 direct or indirect compensation to a Director or his or her family or an organization with which the Director is affiliated.

### **X. BOARD ACCESS TO MANAGEMENT AND ADVISORS**

Board members shall have unrestricted access to the Company's and its subsidiaries' management. Furthermore, the Board encourages management, from time to time, to bring to

Board meetings officers and managers who: (a) can provide additional insight to matters before the Board because of such person's involvement in the areas being discussed, or (b) are officers and managers with potential for future advancement that senior management believes should be given exposure to the Board. As necessary and appropriate, Board members shall also have access to outside legal, accounting and other professional advisors to assist them in carrying out their duties and responsibilities as Directors.

## **XI. STOCKHOLDER COMMUNICATIONS WITH THE BOARD**

Stockholders who wish to communicate with the Board, a Board committee, the non-management Directors as a group, or other individual Directors may do so by sending written communications addressed to: Chairman of the Board of Directors, Triad Guaranty Inc., 101 South Stratford Road, Winston-Salem, North Carolina 27104. The Chairman of the Board shall be responsible for responding to such communications. All communications will be compiled by the Chairman of the Board and reported to the Board at its next regularly scheduled meeting.

## **XII. PERFORMANCE EVALUATIONS**

The Board shall conduct periodic evaluations of itself and its committees to determine whether it and its committees are functioning effectively. The Corporate Governance and Nominating Committee shall receive and review comments from each Director and report through the Lead Independent Director to the Board with an assessment of the Board's performance. This assessment should review the Board's contribution as a whole and the areas in which the Board believes a better contribution is possible. Similar periodic reviews and assessments will be undertaken by each of the Board's committees.

## **XIII. LEADERSHIP DEVELOPMENT**

### **A. Formal Evaluation of the Chairman of the Board**

The Corporate Governance and Nominating Committee shall evaluate the performance of the Chairman of the Board on a periodic basis as deemed appropriate. In evaluating the Chairman, the committee shall take into consideration the Chairman's performance in both qualitative and quantitative areas, such as: leading and organizing the Board in the performance of its function, developing the processes to carry it out and communicating with the Board on matters affecting the Company and its affiliates. The Compensation Committee may also recommend a discretionary payment for services above and beyond those traditionally performed by a non-executive Chairman of the Board. The Chairman of the Corporate Governance and Nominating Committee in conjunction with the Lead Independent Director shall review such evaluation with the Chairman. The Compensation Committee shall set the compensation of the Chairman of the Board.

### **B. Formal Evaluation of the Chief Executive Officer**

Each year, or more frequently as desired, the Board of Directors, led by the Chairman, shall evaluate the performance of the Chief Executive Officer. In evaluating the Chief Executive Officer, the Board shall take into consideration the Chief Executive Officer's performance in both qualitative and quantitative areas such as: leading the management in conducting the

business of the Company the performance of the business, including the achievement of financial and non-financial objectives and goals, accomplishments under the Company's operating and strategic plans and keeping the Board informed of major issues and developments affecting the Company and of management's views and plans with regard to such issues. The Compensation Committee shall consider the evaluation of the Chief Executive Officer by the Board in setting the compensation of the Chief Executive Officer.

### **C. Succession Planning**

The Chairman and Chief Executive Officer will periodically provide the Board of Directors and the Corporate Governance and Nominating Committee a report regarding succession planning for the position of Chief Executive Officer. The Chief Executive Officer will also communicate a recommendation for his or her successor as a result of an unexpected event to the Chairman of the Board and the Chairman of the Corporate Governance and Nominating Committee. This recommendation should be updated by the Chief Executive Officer periodically.

The Board has the responsibility to fill the positions of Chairman of the Board and Chief Executive Officer, as it deems best for the Company and its stockholders from time to time.

## **XIV. PERIODIC REVIEW OF CORPORATE GOVERNANCE GUIDELINES**

These Guidelines shall be reviewed by the Corporate Governance and Nominating Committee on a periodic basis, but not less than annually. Any recommended changes shall be submitted to the Board for consideration, provided that the Corporate Governance and Nominating Committee may update these Guidelines without the consideration or approval of the full Board to correct errors and ambiguities herein.

## **XV. DISCLOSURE OF CORPORATE GOVERNANCE GUIDELINES**

The Company shall maintain and update promptly its website to include these Guidelines and any other information required to be disclosed thereon by the SEC or NASDAQ. The Company will disclose in its annual proxy statement that this information is available on the Company's website and is available in print to any Company stockholder who requests it.

### **Categorical Standards for Determining Director Independence**

The Corporate Governance Guidelines of Triad Guaranty Inc. (the “Company”) provide that the Company shall have, at all times, a majority of independent directors. For directors to be deemed an “independent” director, the Company’s Board of Directors (the “Board”) must affirmatively determine that the Director has no relationships that would interfere with the Director’s exercise of independent judgment. This determination shall be disclosed in the proxy statement prepared by the Company before each annual meeting of stockholders. For purposes of determining if any director is an “independent director” the Company has adopted the following categorical standards, which reflect the definition of “independent director” as defined by Nasdaq Rule 5605(a)(2).

In determining Director independence, the Board shall not deem any Director to be an “independent” director if:

1. the Director is, or at any time during the past three years was, employed by the Company or by any parent or subsidiary of the Company;
2. the Director has accepted or has a Family Member (as defined below) who has accepted any payments from the Company or any parent or subsidiary of the Company in excess of \$120,000 during any period of 12 consecutive months within the three years preceding the determination of independence, other than the following:
  - a. compensation for Board or Board committee service;
  - b. compensation paid to a Family Member who is a non-executive employee of the Company or a parent or subsidiary of the Company; or
  - c. benefits under a tax-qualified retirement plan, or non-discretionary compensation;
3. the Director is a Family Member of an individual who is, or at any time during the past three years was, employed by the Company or by any parent or subsidiary of the Company as an executive officer;
4. the Director is, or has a Family Member who is, a partner in, or a controlling shareholder or an executive officer of, any organization to which the Company made, or from which the Company received, payments for property or services in the current or any of the past three fiscal years that exceed 5% of the recipient’s consolidated gross revenues for that year, or \$200,000, whichever is more, other than (i) payments arising solely from investments in the Company’s securities, or (ii) payments under non-discretionary charitable contribution matching programs;
5. the Director is, or has a Family Member who is, employed as an executive officer of another entity where at any time during the past three years any of the

executive officers of the Company served on the compensation committee of such other entity; or

6. the Director is, or has a Family Member who is, a current partner of the Company's outside auditor, or was a partner or employee of the Company's outside auditor who worked on the Company's audit at any time during any of the past three years.

For purposes of this Annex A, a "Family Member" means a person's spouse, parents, children and siblings, whether by blood, marriage or adoption, or anyone residing in such person's home.

Approved May 2006

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