



American Physicians Service Group, Inc.

CHARTER OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS OF AMERICAN PHYSICIANS SERVICE GROUP, INC.

I. PURPOSES

The Compensation Committee (the “*Committee*”) is appointed by the Board of Directors (the “*Board*”) of American Physicians Service Group, Inc. (the “*Company*”) for the purposes of (a) discharging the Board’s responsibilities relating to the compensation of the Company’s chief executive officer (the “*CEO*”), (b) making recommendations to the Board with respect to the compensation of the Company’s other executive officers and the Company’s Board members, (c) administering the Company’s equity-based compensation plans, and (d) reviewing the disclosures in Compensation Discussion and Analysis and producing an annual compensation committee report for inclusion in the Company’s proxy statement.

II. RESPONSIBILITIES

In addition to such other duties as the Board may from time to time assign, the Committee shall:

- in consultation with senior management, assist the Board in ensuring that a proper system of long-term and short-term compensation is in place to provide performance-oriented incentives to management, and that compensation plans are appropriate and competitive and properly reflect the objectives and performance of management and the Company;
- review and approve the Company’s goals and objectives relevant to the compensation of the CEO, annually evaluate the CEO’s performance in light of those goals and objectives and based on this evaluation determine the CEO’s compensation level, including salary, bonus, incentive and equity compensation. In determining the long-term incentive component of the CEO’s compensation, the Committee shall consider, among other factors, the Company’s performance and relative shareholder return, the value of similar incentive awards to CEOs at comparable companies, and the awards given to the Company’s CEO in past years.
- make recommendations to the Board with respect to all compensation for non-CEO executive officers;
- make recommendations to the Board with respect to all employment agreements, severance arrangements, change in control provisions and agreements, and any special supplemental benefits applicable to the Company’s executive officers;
- review and make recommendations to the Board with respect to incentive compensation and equity-based plans;

- review and discuss with management the disclosures made in Compensation Discussion and Analysis prior to the filing of the Company’s annual proxy statement and recommend to the Board whether the Compensation Discussion and Analysis should be included in the proxy statement;
- prepare an annual compensation committee report for inclusion in the Company’s proxy statement for the annual meeting of stockholders in accordance with the applicable rules of the Securities and Exchange Commission;
- conduct an annual performance evaluation of the Committee, which evaluation must compare the performance of the Committee with the requirements of this charter. The performance evaluation should also recommend to the Board any improvements to this charter deemed necessary or desirable by the Committee. The performance evaluation by the Committee shall be conducted in such manner as the Committee deems appropriate. The report to the Board may take the form of an oral report by the chairperson of the Committee or any other member of the Committee designated by the Committee to make this report.
- review and reassess the adequacy of this charter on an annual basis and recommend any proposed changes to the Board for approval; and
- Administer the Company’s equity-based compensation plans in accordance with the terms and conditions thereof, discharge any responsibilities imposed on, and exercise all rights and powers granted to, the Committee by any of these plans, and oversee the activities of the individuals and entities responsible for the day-to-day operation and administration of these plans.

III. COMPOSITION

The Committee shall be comprised of three or more members (including a Chairperson), all of whom shall be “independent directors,” as such term is defined in the rules and regulations of the Nasdaq Stock Market, Inc. In addition, each Committee member shall be a “Non-Employee Director” as defined by Rule 16b-3 under the Securities Exchange Act of 1934 (with each member’s status in reference to Item 404(a) of Regulation S-K being determined pursuant to Note (4) to Rule 16b-3) and an “outside director” as defined by Section 162(m) of the Internal Revenue Code. The members of the Committee and the Chairperson shall be selected annually by the Board and serve at the pleasure of the Board. A Committee member (including the Chairperson) may be removed at any time, with or without cause, by the Board. Board may designate one or more independent directors as alternate members of the Committee, who may replace any absent or disqualified member or members at any meetings of the Committee.

IV. MEETINGS AND OPERATIONS

The Committee shall meet as often as necessary to enable it to fulfill its responsibilities. The Committee shall meet at the call of its Chairperson or at the request of any of its members. The Committee may meet by telephone conference call or by any other means permitted by law or the Company’s Bylaws. A majority of the members of the Committee shall constitute a quorum. The Committee shall act on the affirmative vote of a majority of members present at a

meeting at which a quorum is present. Subject to the Company's Bylaws, the Committee may act by unanimous written consent of all members in lieu of a meeting. The Committee shall determine its own rules and procedures, including designation of a chairperson pro tempore in the absence of the Chairperson, and designation of a secretary. The secretary need not be a member of the Committee or the Board and shall attend Committee meetings and prepare minutes. The Committee shall keep written minutes of its meetings, which shall be recorded or filed with the books and records of the Company. Any member of the Board shall be provided with copies of such Committee minutes if requested.

The Committee may ask members of management, employees, outside counsel, or others whose advice and counsel are relevant to the issues then being considered by the Committee to attend any meetings and to provide such pertinent information as the Committee may request. The Chairperson of the Committee shall be responsible for leadership of the Committee, including preparing the agenda, presiding over Committee meetings, making Committee assignments and reporting the Committee's actions to the Board from time to time as requested by the Board.

V. RESOURCES AND AUTHORITY OF THE COMMITTEE

The Committee shall have the resources and authority appropriate to discharge its duties and responsibilities, including the authority to select, retain, terminate, and approve the fees and other retention terms of special counsel, compensation consultants or other experts or consultants, as it deems appropriate.

VI. MISCELLANEOUS

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. This Charter, and any amendments hereto, 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.

Adopted by the Compensation Committee and approved by the Board of Directors on March 5, 2008.