CORPORATE GOVERNANCE GUIDELINES
of Mercury General Corporation

The Board of Directors (the "Board") of Mercury General Corporation (the "Company") has adopted the following Corporate Governance Guidelines (the "Guidelines") to assist the Board in the exercise of its responsibilities and to serve the interests of the Company and its shareholders. These Guidelines should be interpreted in the context of all applicable laws and the Company's articles of incorporation, bylaws and other corporate governance documents. These Guidelines acknowledge the leadership exercised by the Board's standing committees and their chairs and are intended to serve as a flexible framework within which the Board may conduct its business and not as a set of legally binding obligations. The Guidelines are subject to modification from time to time by the Board as the Board may deem appropriate in the best interests of the Company and its shareholders or as required by applicable laws and regulations.

These Guidelines are available on the Company's website at www.mercuryinsurance.com and to any shareholder who otherwise requests a copy. The Company's Annual Report on Form 10-K will state the foregoing.

The Board

Size of the Board

The Company's bylaws, as amended, provide that the number of directors will be fixed from time to time by the Board, but in no event will be less than 6 or more than 11. The Nominating/Corporate Governance Committee (the "Governance Committee") will periodically review the size of the Board, and may make recommendations to the Board regarding its determination of the appropriate size of the Board.

Independence of the Board

The Board will be comprised of a majority of directors who qualify as independent directors (the "Independent Directors") under the listing standards of the New York Stock Exchange (the "NYSE") and the rules and regulations of the U.S. Securities and Exchange Commission. The Governance Committee will review annually the relationships that each director has with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company). Following such annual review, only those directors who the Board affirmatively determines have no material relationship with the Company (either directly or as a partner, stockholder or officer of an organization that has a relationship with the Company) will be considered Independent Directors. The basis for any determination that a relationship is not material will be published in the Company's annual proxy statement or, if the Company does not file an annual proxy statement, in the Company's annual report on Form 10-K filed with the Securities and Exchange Commission.

In advance of the meeting to make such review, each non-employee director would be requested to supply the Board with complete information regarding the director's relationships with the Company and its affiliates to assist the Board to evaluate the director's independence. Directors have an affirmative obligation to notify the Board of any material changes in their relationships, which may affect their independence status as determined by the Board. The obligation encompasses all relationships between directors and the Company or members of senior management and their affiliates.

Lead Independent Director

The Chairman of the Board will appoint a lead Independent Director (the "Lead Independent Director"). The Lead Independent Director's duties will include coordinating the activities of the non-management Directors, coordinating the agenda for and chairing sessions of the Board's non-management Directors and facilitating communications between the non-management Directors and the other members of the Board and the management of the Company.

Separate Sessions of Non-Management Directors and Independent Directors

The non-management Directors will meet in executive session without management directors or management present on a periodic basis, but no less than 4 times a year. The Lead Independent Director will chair such meetings. The name of the Lead Independent Director will be published along with a means for shareholders to communicate with the non-management Directors. The non-management Directors will review the Company's implementation of and compliance with its Guidelines and consider such matters as they may deem appropriate at such meetings. Non-management Directors are all Directors who are not company officers (as that term is defined in Rule 16a-1(f) under the Securities Act of 1933), including such Directors who are not independent by virtue of a material relationship, former status or family membership, or for any other reason.

In addition, if the non-management Directors include Directors who are not also Independent Directors, the Independent Directors shall also meet separately at least once per year in executive session.

Director Qualification Standards

The Governance Committee is responsible for reviewing with the Board, on an annual basis, the appropriate characteristics, skills and experience required for the Board as a whole and its individual members. In evaluating the suitability of individual candidates (both new candidates and current Board members), the Governance Committee, in recommending candidates for election, and the Board, in approving (and, in the case of vacancies, appointing) such candidates, take into account many factors, including ability to make independent analytical inquiries, general understanding of marketing, finance and other elements relevant to the success of a publicly-traded company in today's business environment, understanding of the Company's business on a technical level, other board service and educational and professional background. Each nominee must also possess fundamental qualities of intelligence, honesty, good judgment, high ethics and standards of integrity, fairness and responsibility and a diversity of experience, skills and viewpoint. The Board evaluates each individual in the context of the Board as a whole, with the objective of assembling a group that can best perpetuate the success of the business and represent shareholder interests through the exercise of sound judgment using its diversity of experience in these various areas. In determining whether to recommend a director for re-election, the Governance Committee also considers the director's past attendance at meetings and participation in and contributions to the activities of the Board.

Selection of New Directors

The entire Board will stand for election by the shareholders of the Company each year at the Company's annual meeting. Each year, at the annual meeting, the Board will recommend a slate of directors for election by the shareholders. In accordance with the bylaws of the Company, the Board will also be responsible for filling vacancies or newly-created directorships on the Board that may occur between annual meetings of shareholders. The Governance Committee is responsible for identifying, screening and recommending candidates to the entire Board for Board membership.

Selection of Chairman of the Board

The Board will select the Chairman of the Board in accordance with the Company's bylaws.

No Specific Limitation on Other Board Service

The Board does not believe that its members should be prohibited from serving on boards of other organizations and has not adopted any guidelines limiting such activities, except with respect to members serving on the Audit Committee, as described below. However, the Governance Committee and the Board will take into account the nature of and time involved in a director's service on other boards and/or committees in evaluating the suitability of individual director candidates and current directors and making its recommendations to the Company's shareholders.

Due to the demanding nature of service on the Audit Committee, the members of the Audit Committee may not serve on the audit committees of the boards of directors of more than two other companies at the same time as they are serving on the Audit Committee.

Service on other boards and/or committees should be consistent with the Company's conflict of interest policies set forth below.

Directors Who Resign Their Current Positions With Their Company

When a director, including any director who is currently an officer or employee of the Company, resigns or materially changes his or her position with his or her employer or becomes aware of circumstances that may materially adversely reflect upon the director or the Company, such director should notify the Board of such circumstances. The Board, in its discretion, may remove a director if the Board determines that such resignation, change in position or other circumstances would materially impact such director's ability to properly serve the Company.

Term Limits

As each director is subject to election by shareholders on an annual basis, the Board does not believe it is in the best interests of the Company to establish term limits at this time.

Additionally, such term limits may cause the Company to lose the contribution of directors who have been able to develop, over a period of time, increasing insight into the Company's business and therefore can provide an increasingly significant contribution to the Board.

Retirement

It is the general policy of the Company that age is not a useful criteria for determining retirement from the Board, which may have the disadvantage of discontinuing the availability and contributions of directors who are otherwise capable and valuable members of the Board.

Director Responsibilities

The business and affairs of the Company will be managed by or under the direction of the Board, including through one or more of its committees as set forth in the bylaws and committee charters. Each director is expected to spend the time and effort necessary to properly discharge his or her responsibilities. These include:

(1) overseeing the conduct of the Company's business, to evaluate whether the business is being properly managed;

(2) reviewing and, where appropriate, approving the Company's major financial objectives, plans and actions;

(3) reviewing and, where appropriate, approving major changes in, and determinations of other major issues respecting, the appropriate auditing and accounting principles and practices to be used in the preparation of the Company's financial statements;

(4) reviewing and, where appropriate, approving major changes in, and determinations under the Company's Guidelines, Code of Business Conduct and Ethics and other Company policies;

(5) reviewing and, where appropriate, approving actions to be undertaken by the Company that would result in a material change in the financial structure or control of the Company, the acquisition or disposition of any businesses or asset(s) material to the Company or the entry of the Company into any major new line of business; and

(6) planning for succession with respect to the position of Chief Executive Officer and monitoring management's succession planning for other key executives; and

(7) ensuring that the Company's business is conducted with the highest standards of ethical conduct and in conformity with applicable laws and regulations.

Compensation

Senior management of the Company will report periodically to the Compensation Committee regarding the status of the Company's Director compensation in relation to other

U.S. companies of comparable size and the Company's competitors. Such report will include consideration of both direct and indirect forms of compensation to the Company's Directors, including any charitable contributions by the Company to organizations in which a Director is involved. Following a review of the report, the Compensation Committee will recommend any changes in Director compensation to the Chairman of the Board, which changes will be approved or disapproved by the Board after a full discussion.

Director fees are the sole form of compensation that members of the Audit Committee may receive from the Company.

Conflicts of Interest

Directors are expected to avoid any action, position or interest that conflicts with the interests of the Company or gives the appearance of a conflict. If an actual or potential conflict of interest develops, the director should immediately report the matter to the Chairman of the Board. Any significant conflict must be resolved or the director should resign. If a director has a personal interest in a matter before the Board, the director will disclose the interest to the Board, excuse himself or herself from discussion on the matter and not vote on the matter.

Board Orientation and Continuing Education of Board Members

The Company provides new directors with materials to familiarize them with, among other things, the Company's business, strategic plans, significant financial, accounting and management issues, compliance programs, conflicts policies, Code of Business Conduct and Ethics, Guidelines, principal officers, internal auditors and independent auditors.

Interaction with Institutional Investors, the Press and Customers

The Board believes that management speaks for the Company. Each director should refer all inquiries from institutional investors, the press or customers to management. Individual Board members may, from time to time at the request of the management, meet or otherwise communicate with various constituencies that are involved with the Company. If comments from the Board are appropriate, they should, in most circumstances, come from the Chairman of the Board.

Board Access to Senior Management

The Board will have complete access to Company management in order to ensure that directors can ask any questions and receive all information necessary to perform their duties. Directors should exercise judgment to ensure that their contact with management does not distract managers from their jobs or disturb the business operations of the Company. Such contact, if in writing, should be copied to the Chief Executive Officer of the Company.

Board Access to Independent Advisors

The Board committees may hire independent advisors as set forth in their applicable charters. The Board as a whole shall have access to such advisors and such other independent advisors that the Company retains or that the Board considers necessary to discharge its responsibilities.

Annual Self-Evaluation

Following the end of each fiscal year, the Governance Committee will oversee an annual assessment by the Board of the Board's performance. The Governance Committee will be responsible for establishing the evaluation criteria and implementing the process for such evaluation, as well as considering other corporate governance principles that may, from time to time, merit consideration by the Board.

The assessment should include a review of any areas in which the Board or management believes the Board can make a better contribution to the governance of the Company, as well as a review of the committee structure and an assessment of the Board's compliance with the principles set forth in these Guidelines. The purpose of the review will be to improve the performance of the Board as a unit, and not to target the performance of any individual Board member. The Governance Committee will utilize the results of the Board evaluation process in assessing and determining the characteristics and critical skills required of prospective candidates for election to the Board.

Board Meetings

Frequency of Meetings

The Board will meet at least four times annually. In addition, special meetings may be called from time to time as determined by the needs of the business. It is the responsibility of the directors to attend meetings.

Director Attendance

A director is expected to spend the time and effort necessary to properly discharge his or her responsibilities. Accordingly, a director is expected to regularly prepare for and attend meetings of the Board and all committees on which the director sits (including separate meetings of non-management Directors and the Independent Directors), with the understanding that, on occasion, a director may be unable to attend a meeting. A director who is unable to attend a meeting is expected to notify the Chairman of the Board or the Chairman of the appropriate committee in advance of such meeting, and, whenever possible, participate in such meeting via teleconference.

Attendance of Non-Directors

The Board encourages the Chairman of the Board or of any committee to bring Company management and outside advisors or consultants from time to time into Board and/or committee meetings to (i) provide insight into items being discussed by the Board which involve the manager, advisor or consultant, (ii) make presentations to the Board on matters which involve the manager, advisor or consultant, and (iii) bring managers with high potential into contact with the Board. Attendance of non-directors at Board meetings is at the discretion of the Board.

Agendas

The Chairman establishes the agenda for each Board meeting with input from the management and, as necessary or desired, from the other directors.

Advance Receipt of Meeting Materials

Information regarding the topics to be considered at a meeting is essential to the Board's understanding of the business and the preparation of the directors for a productive meeting. To the extent feasible, the meeting agenda and any written materials relating to each Board meeting will be distributed to the directors sufficiently in advance of each meeting to allow for meaningful review of such agenda and materials by the directors. Directors are expected to have reviewed and be prepared to discuss all materials distributed in advance of any meeting.

Committee Matters

Number, Name, Responsibilities and Independence of Committees

The Board currently has four committees, each composed entirely of members of the Board. Committee members shall be Independent Directors, with the exception of members of the Investment Committee who need not be Independent Directors. From time to time, the Board may form a new committee or disband a current committee, depending upon the circumstances. Each committee will perform its duties as assigned by the Board in compliance with the Company's bylaws and the committee's charter.

The current committees are:

(1) Audit Committee. The Audit Committee consists of at least 3 members and reviews the work of the Company's internal accounting and audit processes and independent auditors. The committee has sole authority to appoint and fire the Company's independent auditors and to approve any significant non-audit relationship with the independent auditors.

(2) Compensation Committee. The Compensation Committee consists of at least 3 members and reviews and approves the Company's goals and objectives relevant to compensation, stays informed as to market levels of compensation and, based on evaluations submitted by management, recommends to the Board compensation levels and systems for the Board that correspond to the Company's goals and objectives. The committee also produces an annual report on executive compensation for inclusion in the Company's proxy statement, in accordance with applicable rules and regulations.

(3) Nominating and Corporate Governance Committee. The Governance Committee consists of at least 3 members and is responsible for recommending to the Board individuals to be nominated as directors and committee members. This includes evaluation of new candidates as well as evaluation of current directors. This committee is also responsible for developing and recommending to the Board the Guidelines, as well as reviewing and recommending revisions to such Guidelines on a regular basis and for overseeing the evaluation of the Board and the Company's management. This committee also performs other duties as are described in these

Guidelines and prepares any disclosure of the nominating process required by applicable rules and regulations.

(4) Investment Committee. The Investment Committee consists of at least three members and is responsible for developing, reviewing and recommending to the Board of Directors, and monitoring management's compliance with, investment strategies and guidelines, selecting and monitoring the competence and performance of investment managers, monitoring compliance of the Company's investment policies and practices with applicable legal and regulatory requirements, reviewing and approving investment transactions, reporting to the Board of Directors at least quarterly regarding the investment transactions made by the Company and the Company's investment strategies and guidelines, and performing all other duties of the Board of Directors with respect to investment transactions made by the Company.

Assignment and Rotation of Committee Members

Based on the recommendations of the Governance Committee, the Board appoints committee members and committee chairs according to criteria set forth in the applicable committee charter and such other criteria that the Board determines to be appropriate in light of the responsibilities of each committee. Committee membership and the position of committee chair will not be rotated on a mandatory basis unless the Board determines that rotation is in the best interest of the Company.

Each member of the Audit Committee must satisfy the independence requirements of Rule 10A-3 under the Securities Exchange Act of 1934 and must be financially literate, as determined by the Board in its business judgment, or must become financially literate within a reasonable period of time after his or her appointment, and that at least one member of the Audit Committee must have accounting or related financial management expertise as determined by the Board in its business judgment. In addition, at least one member of the Audit Committee must meet the definition of "audit committee financial expert" as determined by the Board in its business judgment in accordance with Item 407(d) of Regulation S-K.

Frequency of Committee Meetings

Each committee will meet at least 2 times annually.

Committee Agendas

The Chairman of each committee, in consultation with the appropriate members of the Committee, will develop his or her committee's agenda.

Committee Self-Evaluations

Following the end of each fiscal year, each committee will review its performance and charter and recommend to the Board any changes it deems necessary.

Related Party Transaction Policy and Procedures

The Board recognizes that Related Party Transactions can present conflicts of interest and questions whether the transactions are in the best interest of the Company. It is therefore the Company's policy to enter into, approve or ratify Related Party Transactions based upon a determination that the transaction is in, or not opposed to, the best interest of the Company. The Board has adopted the policy and procedures below for the review, approval and ratification of Related Party Transactions.

For purposes of this policy, a "Related Party Transaction" is a transaction, arrangement or relationship, or any series of similar transactions, arrangements or relationships, that is reportable under the Securities and Exchange Commission's rules regarding related party transactions ("SEC Rules"). For purposes of this policy, "related person" and "immediate family member" have the meanings as set forth in Item 404 of Regulation S-K of the SEC Rules.

Approval Procedures

Generally, Related Party Transactions should be approved in advance.

Board, CEO and Shareholder Transactions. The Nominating/Corporate Governance Committee of the Board (the "Governance Committee") should review and approve Related Party Transactions involving any director, nominee for director, the Corporation's Chief Executive Officer, any shareholder owning more than 5% of the Corporation's voting securities, or any of their immediate family members or related firms. Any member of the Governance Committee that is involved in the transaction being considered is expected not to participate in determining whether it should be approved.

Other Executive Transactions. The CEO should review and approve Related Party Transactions involving executive officers, or any of their immediate family members or related firms, other than the CEO or any executive officer who is also a director. The CEO or any other executive officer may, at his or her sole discretion, refer consideration of any Related Party Transaction involving an executive officer other than the CEO or other employee director(s) to the Governance Committee of the Board. Similarly, the Governance Committee may, in its sole discretion, refer consideration of any Related Party Transaction to the full Board.

Information Required. The Governance Committee or CEO should be informed of all relevant facts concerning the proposed transaction, including material terms and conditions and the related person's relationship or interest, prior to a decision to approve the transaction.

Factors Considered. In determining whether the transaction is in, or not opposed to, the Company's best interest, the Governance Committee or CEO may consider any factors deemed relevant or appropriate, including (but not limited to) whether any actual or apparent conflicts of interest are raised, the nature, size or degree of those conflicts, whether mitigations of the conflicts are feasible, potential benefits and detriments to the Company, whether the nature or terms of the transaction are unusual, and whether steps have been taken to ensure fairness to the Corporation. In making a decision, the Governance Committee or CEO may consider the provisions of the Company's Code of Business Conduct and may seek and consider any legal or expert advice considered appropriate.

Approval Conditions. A transaction submitted to the Governance Committee or the CEO for advance approval should be approved before it is finalized. Notice of a decision by the CEO to approve a Related Party Transaction should be sent o the Governance Committee. The Governance Committee or the CEO may impose any conditions deemed appropriate in connection with approving a Related Party Transaction, including but not limited to specific mitigations.

Ratification Procedures. If any director or executive officer becomes aware of a Related Party Transaction that should have been but was not approved in advance under this policy, he or she should report the transaction to whoever would have been responsible to review and approve the transaction had it been submitted for advance approval (i.e., the Governance Committee or the CEO, depending on the related person involved). If the transaction is ongoing and legally revocable, it should be reviewed to determine whether ratification or any other action should be taken (including but not limited to amending or terminating the transaction). If the transaction is completed and not legally revocable, it should be evaluated to determine if any mitigation or other action should be taken. In each case, the Governance Committee or the CEO should consider any factors and advice deemed relevant or appropriate.

Employment of Immediate Family Members. The Board believes that employment of an immediate family member of an executive officer (other than the CEO) does not need to be reported to the Governance Committee prior to approval.

Periodic Committee Reports. Management should report to the Governance Committee at its next regularly scheduled meeting, any transaction between the Company and a related person of which management becomes aware that is not covered by the foregoing approval policy because it is not reportable under the SEC Rules or it involves employment of an immediate family members that was not reported to the Governance Committee in advance under this policy.

Standing Pre-Approval for Certain Transactions.

The Committee has determined that each of the following Related Person Transactions shall be deemed to be pre-approved by the Committee, even if the aggregate amount involved will exceed $120,000.

Employment of Executive Officers. Any employment by the Company of an executive officer of the Company, as long as the executive officer is not an Immediate Family Member of another executive officer or director of the Company, and his or her compensation has been approved in accordance with Company policy.

Director Compensation. Any compensation or benefits paid to a director for service as a director of the Company.

Certain Transactions with Other Companies. Any commercial transaction in the ordinary course of business and under ordinary business terms with another company in which a director or an Immediate Family Member of a director is an employee or executive officer, serves as a director, or is the beneficial owner of more than 10% of that company's shares, if the aggregate amount involved does not exceed the greater of $1,000,000, or 2% of the other company's total annual revenues.

Certain Company Charitable Contributions. Any charitable contribution, grant or endowment by the Company to a charitable organization, foundation or university in which a related person's only relationship is as an employee (other than an executive officer), or a director or trustee, if the aggregate amount involved does not exceed the greater of $250,000, or 2% of the charitable organization's total annual receipts.

Transactions Where All Shareholders Receive Proportional Benefits. Any transaction where the related person's interest arises solely from the ownership of a class of the Company's equity securities and all holders of that class of equity securities received the same benefit on a pro rata basis (e.g., dividends).

Transactions Involving Competitive Bids. Any transaction involving a related person in which the rates or charges involved are determined by competitive bids.

Leadership Development; Succession Planning

The Governance Committee will periodically review the Company's succession plan upon the Chief Executive Officer's retirement and in the event of an unexpected occurrence, including the death or disability of the Chief Executive Officer. The Governance Committee may conduct performance reviews of the Chief Executive Officer and other senior officers as it deems necessary.