

The Commerce Group, Inc. Compensation Committee Charter

Purpose of Committee

The primary purpose of the Compensation Committee (the “Committee”) of the Board of Directors (the “Board”) of The Commerce Group, Inc. is to discharge the Board’s responsibilities relating to compensation of the directors and officers of The Commerce Group, Inc. and its wholly-owned subsidiaries (the “Company”). In doing so, the Committee shall:

1. evaluate and determine the compensation of the directors, the Chief Executive Officer (“CEO”), and such other positions within the Company as identified by the Committee in accordance with applicable laws or regulations;
2. review, approve, and report to the Board regarding compensation paid to the officers of the Company who are not included in the preceding paragraph;
3. oversee compensation and benefit plans, policies and programs of the Company; and,
4. administer the incentive compensation plans of the Company.

Committee Membership

The Committee shall be composed of at least two members of the Board, each of whom is, in the business judgment of the Board, “independent” under the rules of the New York Stock Exchange, Inc. and determined in accordance with the Company’s Corporate Governance Guidelines.

The members of the Committee shall be appointed annually and removed or replaced by the Board in its discretion.

Committee Structure and Operations

The Board shall designate one member of the Committee as its chairperson. The Committee shall meet at least quarterly and otherwise as often as necessary to carry out its responsibilities under this Charter. The Committee shall make regular reports to the Board. Except for grants and awards to executive officers, the Committee may, in its discretion, delegate all or a portion of its duties and responsibilities to a subcommittee of the Committee.

The Committee shall have the resources and authority appropriate to discharge its responsibilities, including the authority to retain counsel and other experts or consultants.

Further, the Committee shall have the sole authority to select, retain and terminate any compensation consultant to be used to assist the Committee in the evaluation of the CEO and senior executive compensation, and shall have sole authority to approve the consultant's fees and other retention terms.

Committee Responsibilities

1. To annually review and approve corporate goals and objectives relevant to CEO and other executive officer compensation, evaluate their performance in light of those goals and objectives, and establish their compensation levels based on this evaluation. In determining the long-term incentive component of CEO and other executive officer compensation, the Committee will consider the Company's performance, the value of similar incentive awards to CEOs and other executive officers at comparable companies, and the awards given to the CEO and other executive officers in past years. The Committee also shall take into account the need to attract and retain high-performing executives. The Company's CEO should not attend any portion of a meeting where the CEO's performance or compensation is discussed, unless specifically invited by the Committee.
2. To review and approve, for the CEO and the executive officers of the Company, (a) the annual base salary level, (b) the annual incentive opportunity level, (c) the long-term incentive level, (d) employment agreements, severance arrangements, and change-in-control agreements/provisions, in each case as, when, and if appropriate, and (e) any special or supplemental benefits, arrangements or agreements, including perquisites. To the extent necessary for compliance with applicable laws or regulations, the Committee shall submit the foregoing to the board of directors of a subsidiary of the Company for approval by such board.
3. To prepare an annual report on executive compensation for inclusion in the Company's Proxy Statement or Annual Report on Form 10-K in accordance with applicable rules and regulations.
4. To evaluate its own performance annually.
5. To perform any other responsibilities delegated to the Committee by the Board from time to time.
6. To review and reassess the adequacy of this Charter periodically and recommend any proposed changes to the Board for approval.