FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day ladies and gentlemen, and welcome to the Fourth Quarter 2006 EMC Insurance Group Earnings Conference Call. My name is Cheryl, and I'll be your audio coordinator for today.

[OPERATOR INSTRUCTIONS]

I would now like to turn the call over to Miss Anita Novak, Director of Investor Relations. Please proceed, ma'am.

Anita Novak - *EMC Insurance Group Inc. - Director IR*

Thank you, Cheryl. Good afternoon everyone, and welcome to EMC Insurance Group's 2006 Fourth Quarter Earnings Call. A supplemental investor packet is available on the Investor Relations of our website, which can be found at www.emcinsurance.com. The simulcast for replay purposes is also available at this site until March 1, 2007. The transcript of the webcast will be available for one year.

This presentation includes some forward-looking about our expectations for our future performance. Actual results could differ materially from these suggested by our comments today. Additional information about factors that could affect future results is addressed in our SEC filings including Forms S-1, 10-K, 10-Q and 8-K. Any information provided today should be read in conjunction with the 2006 Fourth Quarter Earnings Release with the company's financial tables issued earlier today.

With us today are several members of EMC Insurance Group's management team. They are Mr. Bruce Kelley, President and CEO, Mr. Bill Murray, Executive Vice President and Chief Operating Officer, Mr. Ron Jean, Executive Vice President for Corporate Development, Mr. Steve Peck, Senior Vice President, Actuary, Mr. Rich Schulz, Senior Vice President, Claims, and Mr. Mark Reese, Senior Vice President and Chief Financial Officer.

At this time, it is my pleasure to introduce our President and Chief Executive Officer, Mr. Bruce Kelley.

Bruce Kelley - *EMC Insurance Group Inc. - President, CEO*

Thank you Anita, and good afternoon. Welcome to our 2006 Fourth Quarter Earnings Call. We appreciate your interest in EMC Insurance Group. As a reminder, we will be happy to take your questions at the conclusion of our discussion today. 2006 was another outstanding year for EMC Insurance Group Inc. We had a string of three consecutive record quarters during 2006. And the fourth quarter was the second-best fourth quarter in our 25-year history. The result was another record-setting year.

For 2006, operating income was $3.70 per share, and net income was $3.91 per share. Our GAAP combined ratio for the year was 92.9%. Our book value at December 31 was $22.44, another outstanding increase of 16.9% for the year. In a few moments, Mark Reese is going to expound on our financial results. I direct my comments today toward a discussion of what is driving our results. Many of my comments in previous earnings calls have been about our branch structure. This structure is the right strategy for our organization. Any discussion of financial success begins there, and I have a few observations.

For instance, we refer to the business underwritten through our branch offices as controlled business, and the total direct control loss ratio for 2006 was the lowest it's been since we became a public company 25 years ago. The loss ratio for, all major lines of business, were lower than the prior-year numbers. Only two branch offices recorded 2006 loss ratio above 50%. Neither of these branches exceeded a loss ratio of 53%.

Country wide, the loss for Personal Lines was 50.2%. Again, this is the best result in 25 years. In 2006, the Homeowner's line of business loss ratio was below 50% for the first time in 20 years. All major Commercial Lines experienced loss ratios well below the break-even mark for 2006. That Workers' Compensation line of business improved by 18 percentage points to 52.9%. We have experienced broad-based improvements across all branches and in all lines of business.

Net written premium for the year was down, largely the result of a reduction in assumed reinsurance business, but the Property and Casualty insurance segment also experienced a slight decline. Profitable growth is difficult to come by under competitive market conditions, and it's even more difficult when manual rate increases are limited by competition. Nevertheless, eight of our branch offices recorded an increase in written premium for the year. The largest increase recorded by one of our branches was 6.4%.

Personal Lines premium rates remained flat, although we saw some added momentum in targeted states by year-end. We saw moderate increases in written premium. New business for Commercial and Personal Lines including Surety Bonds was up 205 in 2006. Thirteen of our 16 branch offices wrote more new business in 2006 than in 2005.

As you will recall, one of our primary objectives is to grow profitably. We have made great strides over the last few years to meet this objective. We believe our progress should be further evidenced in 2007. A lot of emphasis has been placed on improve industry earnings due to the lack of catastrophes and storms in 2006. There is, without question, a direct correlation between these two issues. We believe, however, it is unrealistic to presume that insurance companies have superior results because the wind did not blow. Our business depends on knowing the right kind of business to write and at what price that business will afford us a profit.

So, over the last several years, our long-term strategic plan has been centered on ways our company can meet the challenges of a competitive marketplace. We believe we have successfully met many of those challenges and even surpassed some of them. We met them by building stronger relationships with our agency partners. We met through our Fusion project, which is a means of getting our products to market more quickly.

We met them by investing in technology that affords our agency force more ease of doing business with us. We met them by offering the best risk improvement department in the industry. We met them by providing outstanding customer service to our agency partners and our policyholders. And we met them be developing better underwriting tools with which to evaluate new and existing business.

As for shareholder value, as I mentioned before, our book value per share increased 16.9% in 2006. Our stock price appreciated 71%, and we paid an annual dividend of $0.65 per share. By the way, in November of 2006, we declared and paid our 100th consecutive quarterly dividend. In the 25-year history of our company, we have never missed or reduced a dividend payment.

Our intent for 2007 is to underwrite more of the same kind of risks that have provided good results recently. We will continue to implement our new small business owners' product, emphasize our safety groups and target market programs in our EMC Choice products. We will also continue to pursue Personal Lines in selected states. In short, we will continue to be the company you, our agents and our policyholders can count on.

As we mentioned in our press release earlier today, we are issuing 2007 guidance for operating income of $2.25 per share to $2.50 per share. This estimate is based on a projected GAAP combined ratio of 100.6, which reflects our belief the rate environment in 2007 will remain competitive.

It's now my pleasure at this time to introduce Mark Reese, Senior Vice President and Chief Financial Officer, who will provide a more detailed description of our fourth quarter financial results.

Mark Reese - *EMC Insurance Group Inc. - SVP, CFO*

Thank you, Bruce. Let me begin with results for the fourth quarter. Operating income for the fourth quarter was $10.7 million, which is down 41.6% from the record $18.3 million reported in the fourth quarter of '05. Net income for the fourth quarter was also down, totaling the $11.5 million, compared to the record $19 million reported last year.

Net premiums written declined 3% to $87.6 million in the fourth quarter and 12.8% to $386.3 million for the year. As noted in previous calls, the large decline in the 12-month number was caused by a negative $3.4 million portfolio adjustment associated with the January 1, 2006, reduced participation in the MRB pool and a $29.6 million portfolio adjustment associated with the January 1, 2005, change in pool participation. Excluding these portfolio adjustments, net written premiums were down 5.8% from last year.

For the Property and Casualty insurance segment, net written premiums increased 2.5% to $66.3 million in the fourth quarter, but were down 8.7% to $320 million for the year. Excluding the previously discussed portfolio adjustment associated with the January 1, 2005 change in pool participation, net written premiums were down 0.3% from 2005.

On an overall basis, rate competition increased moderately in the property and casualty insurance marketplace during 2006, resulting in an approximate 3.7% decline in premium rate levels, after declining approximately 0.9% in 2005. Market conditions are expected to remain competitive in 2007, which will likely result in a further decline in premium rate levels.

For the reinsurance segment, net written premiums declined 17% to $21.3 million in the fourth quarter and 28.4% to $66.3 million for the year. Reflected in the 12-month figures is a decline of $19 million in MRB premiums that resulted from Employers Mutual's reduced participation in that pool, which includes a negative $3.4 million portfolio adjustment, previously noted.

In addition, written premiums for 2006 reflect an additional $4 million retained by Employers Mutual as compensation for the $2 million cap on losses assumed per event in accordance with the revised terms of the quota share agreement. For comparative purposes, the reinsurance segment paid $4.2 million of over-write commission to Employees Mutual in 2005 for the $1.5 million cap protection. As a percentage of gross earned premiums, the cost of the cap protection totaled 10.2% in 2006, compared to 8% in 2005.

On a byline basis, net written premiums for the major Commercial Lines of business increased during the fourth quarter as follows; Commercial Auto, 6.4%, Commercial Liability, 9.8%, Commercial Property, 4.6%, and Workers' Compensation, 1.3%. For the year, net written premiums for the major Commercial Lines increased as follows; Commercial Auto was relatively flat, Commercial Liability, 4.3%, Commercial Property, 1.2%, and Workers' Compensation, 0.4%. In total, Commercial Lines net written premium increased 5.3% in the fourth quarter and 1.8% for the year.

Net written premiums declined 9.7% in Personal Auto and 10.6% in personal property in the fourth quarter, but increased 8.6% in Personal Liability. For the year, Personal Auto declined 13.8%, and personal property declined 8.2% while Personal Liability increased 3.5%. In total, Personal Lines net written premiums declined 9.9% in the fourth quarter and 11.1% for the year.

Even though we continued to experience declines in Personal Lines written premiums in the fourth quarter, the declines were smaller than in recent quarters as a result of an increase in new policy count. For the year, the new Commercial Lines premium is up nearly 22% over a year ago. New Personal Lines premium is up over 13% with much of that coming in selected territories where we think we can make money.

The new small business three-month average policy count is up over 50%, and the new -- the total new policy count is up over 12%. This is a significant improvement over the 6.7% decline experienced in 2005 and the 10.8% decline experienced in 2004.

Policy retention remained at approximately 86% in Commercial Lines and 84% in Personal Lines during the fourth quarter. Catastrophe and storm losses remained relatively flat during that fourth quarter, totaling $0.08 per share compared to $0.07 per share in 2005. For the year, catastrophe and storm losses totaled $0.69 per share, which is down significantly from the $1.16 per share reported in 2005 as a result of the severe hurricane season.

The company experienced $3.4 million of favorable development in the fourth quarter, compared to $6.5 million in the fourth quarter of 2005. For the year, total favorable development totaled $41.9 million, compared to $15.4 million in 2005. The majority of the 2006 favorable development was produced by the Property and Casualty insurance segments direct case loss reserves, and occurred primarily in the Other Liability and Workers' Compensation lines of business.

While the amount of favorable development experienced on case reserves during 2006 was unusually large, it is important to note that on a net basis, all the favorable development can be attributed to the final settlement of closed claims. It is also important to note that current actuarial analysis supports the conclusion that newly reported claims continued to be reserved at a high level of adequacy.

At December 31, 2005, the company's loss and settlement expense reserves were in the upper quarter of the range of actuarial indications, and analysis performed at year-end 2006, indicates that carried reserves remain at or near that level of adequacy. Although the current actuarial analysis indicates that the company's loss and settlement expense reserves are at a high level of adequacy, management is not able to predict whether or to what extent the company will continue to experience favorable development on its reserves.

We began expensing stock options in the first quarter of 2006 in accordance with Statement of Financial Accounting Standards Number 123R. Stock option expense for 2006 amounted to $377,000. Stock option expense for the fourth quarter amounted to $237,000 and included $199,000 associated with the stock appreciation rights agreement entered into with Mr. Murray on October 19th.

Investment income increased 8.3% in the fourth quarter and 14.7% for the year. The large increase for the year is primarily attributed to the fact that the $107.8 million received from Employees Mutual in the first quarter of 2005 in connection with the change in pool participation was fully invested during 2006. The total rate of return on our equity portfolio for the year was 12.66%, which compares to 15.79% for the S&P 500.

The current annualized yield on our bond portfolio is 5.33%, and the effective duration is 3.91 years, which is down from 4.03 years at September 30th and 4.45 years at December 31, 2005. The company recognized approximately $750,000 of other than temporary investment impairment losses in its equity portfolio during the year.

These impairment losses were recognized because the company's outside equity manager indicated that they would likely sell several securities that were in an unrealized loss position before they recovered to their cost basis. As a result, the intent to hold these two securities -- two recoveries did not exist. No investment impairment losses were recognized in 2005.

The company adopted Statement of Financial Accounting Standards Number 158, Employees Accounting for Defined Benefits, Pension and Other Post-Retirement Plans in the fourth quarter of 2006. This statement requires public companies to recognize the funded status of their pension and post-retirement benefit plans as a net asset or liability in their financial statements, and requires future changes in the funded status of these plans to be recognized in the calculation of other comprehensive income. The adoption of this statement resulted in a $0.32 or 1.4% decrease in the company's book value per share.

At this time, I would like to open the phones for questions.

Anita Novak - *EMC Insurance Group Inc. - Director IR*

Operator, you may proceed with questions.

QUESTIONS AND ANSWERS

Operator

[OPERATOR INSTRUCTIONS]

Our first question will be from the line of Paul Newsome of A.G. Edwards. Please proceed.

Paul Newsome - *A.G. Edwards & Sons, Inc. - Analyst*

Yes, and good afternoon.

Bruce Kelley - *EMC Insurance Group Inc. - President, CEO*

Hi, Paul.

Mark Reese - *EMC Insurance Group Inc. - SVP, CFO*

Hi.

Paul Newsome - *A.G. Edwards & Sons, Inc. - Analyst*

I was hoping you could walk through the reserve releases that came out through -- in the fourth quarter in '06 and how they compared with last year?

Bruce Kelley - *EMC Insurance Group Inc. - President, CEO*

Well, thanks Paul. This is Bruce Kelley. I appreciate your interest in the company. I'd live to turn the question over to Steve Peck, our Chief Actuary to give you a little bit of color on that.

Paul Newsome - *A.G. Edwards & Sons, Inc. - Analyst*

Thank you.

Steve Peck - *EMC Insurance Group Inc. - SVP Actuarial*

I'm sorry. The question was on what?

Bruce Kelley - *EMC Insurance Group Inc. - President, CEO*

Reserve releases, '05 compared with '06 in the fourth and third quarters.

Steve Peck - *EMC Insurance Group Inc. - SVP Actuarial*

Okay. Well, the third -- the fourth quarter release this year -- or downward development was about $3.5 million. And that compared to approximately -- I think we spent $13 million in the third quarter. But, you recall that the third quarter -- I'm sorry, $17 million for the third quarter. The third quarter was somewhat inflated by the fact that we had adjusted the IBNR allocation factors and rather than taking the full reduction in the first quarter, we basically spread it over the first three quarters.

I cannot recall offhand what the amount was of that factor adjustment. [inaudible], did you?

Unidentified Company Representative

I didn't bring that number with me, no.

Paul Newsome - *A.G. Edwards & Sons, Inc. - Analyst*

Do you have the reserve releases for the year?

Steve Peck - *EMC Insurance Group Inc. - SVP Actuarial*

Yes. Compared to a year ago?

Paul Newsome - *A.G. Edwards & Sons, Inc. - Analyst*

That would be great.

Steve Peck - *EMC Insurance Group Inc. - SVP Actuarial*

All right. Well, would you like for me to go through it by piece, at least the major pieces?

Paul Newsome - *A.G. Edwards & Sons, Inc. - Analyst*

Sure.

Steve Peck - *EMC Insurance Group Inc. - SVP Actuarial*

Okay. Case reserve development on direct business, 2006, down $28 million, that compares to $6.5 million in 2005. And that is the major difference between the total downward development -- one of the two major differences between the total downward development in 2005 and 2006. IBNR development was virtually the same, $2.4 million this year compared to $2.8 million a year ago.

Loss adjustment expense, and this is all [pool], $3.6 million, compared to $3.8 million last year. The involuntary about zero this year, up about $1 million last year, the seeded, there was about a $5 million swing, seeded resulted in upward development of $2 million this year, downward development of $2.9 million in 2005.

The other major difference though, other than the case reserves, is EMC Re, that I believe developed downward about $600,000 in 2005, and $9.7 million downward in 2006. So --.

Paul Newsome - *A.G. Edwards & Sons, Inc. - Analyst*

Okay. And what reserve releases or development is contemplated by your guidance for next year?

Steve Peck - *EMC Insurance Group Inc. - SVP Actuarial*

Yes. That's a difficult one to estimate. In the -- on the case reserves, which is the major portion of this year's development, I'm estimating downward development equal to 4% of premium.

Paul Newsome - *A.G. Edwards & Sons, Inc. - Analyst*

I'm sorry. Are you still there?

Steve Peck - *EMC Insurance Group Inc. - SVP Actuarial*

Yes.

Paul Newsome - *A.G. Edwards & Sons, Inc. - Analyst*

I'm sorry. So, you said you're estimating 4% positive development next year on the case reserves?

Steve Peck - *EMC Insurance Group Inc. - SVP Actuarial*

It's a downward development of 4% of pool earned premiums.

Paul Newsome - *A.G. Edwards & Sons, Inc. - Analyst*

Anything else for the -- an IBNR for the reinsurance business?

Steve Peck - *EMC Insurance Group Inc. - SVP Actuarial*

Yes. I don't make specific projections on development for those. Instead, I project where the reserve levels are going to be and what the paid amounts are going to be, and actually don't even physically calculate assumption about downward -- or about development.

Paul Newsome - *A.G. Edwards & Sons, Inc. - Analyst*

Would there be any at all or not? I guess one question is, obviously, there's a pretty big swing between what you reported this year and what your expectation is for next year.

Steve Peck - *EMC Insurance Group Inc. - SVP Actuarial*

Yes.

Paul Newsome - *A.G. Edwards & Sons, Inc. - Analyst*

Combined ratio.

Steve Peck - *EMC Insurance Group Inc. - SVP Actuarial*

Yes. What I took was a point between -- as far as the case reserve development, I picked a point between this year's development as a percentage of premium and 2005's percentage. So, that -- but, that is a really tough one to estimate. I would say as far as the other pieces on the pool, 2005 and 2006 have been very similar in terms of IBNR development and LAE development. I wouldn't see any reason not to expect some similar amount of development next year. The involuntary is not a big deal. It would assume zero, and seeded it's hard to know since -- but, I think a reasonable assumption would be zero on the seeded too.

Paul Newsome - *A.G. Edwards & Sons, Inc. - Analyst*

Okay. That's very helpful, thank you. I'm sure others have question as well. Thank you, very much.

Steve Peck - *EMC Insurance Group Inc. - SVP Actuarial*

Sure.

Operator

Our next question is from the line of [Dick Kevin Shiel] of Deephaven Capital.

Dick Kevin Shiel - *Deephaven Capital - Analyst*

Good afternoon. I wanted to touch on Paul's point on the -- on kind of simplifying this. Pre-development, pre-catastrophe earnings in 2007 full year looked like it was $2.61. Could you give us the range inherent in the $2.25 to $2.50 that you would be expecting from pre -- on a pre-development, pre-catastrophe basis?

Bruce Kelley - *EMC Insurance Group Inc. - President, CEO*

Thanks for your question. I think the best person to discuss that at this point would be Mark Reese, who's been leading the effort to estimate our earnings on a year basis.

Mark Reese - *EMC Insurance Group Inc. - SVP, CFO*

I'm not sure I was following your question. Could you repeat it, or is --?

Dick Kevin Shiel - *Deephaven Capital - Analyst*

Sure. Looking at 2006 full year, stripping out favorable development and catastrophe on an after-tax basis EPS, it looks like you earned $2.61. So, my question would be, embedded in the $2.25 to $2.50 guidance, what would your range for pre-development, pre-cat expectation be?

Mark Reese - *EMC Insurance Group Inc. - SVP, CFO*

Oh. Steve is probably going to have to give me a little assistance there, because the ratio we get from him already implicitly has some of those assumptions in it.

Steve Peck - *EMC Insurance Group Inc. - SVP Actuarial*

Okay. The combined ratio assumption of 100.6 has a catastrophe component of 6 -- I'm sorry, 5.9%. And as I mentioned before, the only explicit assumption that I've made about development is a minus -- negative 4% of pool earned premiums.

Mark Reese - *EMC Insurance Group Inc. - SVP, CFO*

Does that answer your question then?

Dick Kevin Shiel - *Deephaven Capital - Analyst*

Okay. The -- so, the cat load was 5.9%?

Steve Peck - *EMC Insurance Group Inc. - SVP Actuarial*

Right, and --.

Dick Kevin Shiel - *Deephaven Capital - Analyst*

And does that include reinsurance premiums?

Steve Peck - *EMC Insurance Group Inc. - SVP Actuarial*

It does.

Dick Kevin Shiel - *Deephaven Capital - Analyst*

Okay, thank you.

Operator

And ladies and gentlemen, we have a question from the line of [Robert Barnham] of KBW.

Robert Barnham - *KBW Asset Management, Inc. - Analyst*

Hi there, good afternoon. I have just two quick -- actually, two quick questions. Looking for -- you had some changes in the reinsurance piece, obviously with change in the MRB pool and whatnot. I'm trying to figure out what a good growth rate for '07, because I think '07's and '08 probably would be more normalized. And I know you were kind of getting into that, but I don't think we ever got it clear as to kind of what the growth was actually was in '06 if you looked at apples-to-apples in reinsurance?

Bruce Kelley - *EMC Insurance Group Inc. - President, CEO*

So Bob, you're interested in the growth for the Mutual Reinsurance Bureau, or our --?

Robert Barnham - *KBW Asset Management, Inc. - Analyst*

In the total -- no, the total reinsurance segment.

Bruce Kelley - *EMC Insurance Group Inc. - President, CEO*

Total -- growth for the total reinsurance segment, what's our estimate there?

Steve Peck - *EMC Insurance Group Inc. - SVP Actuarial*

In the projections I did, I assumed 4%.

Robert Barnham - *KBW Asset Management, Inc. - Analyst*

Okay. That's something similar for the pool as well?

Steve Peck - *EMC Insurance Group Inc. - SVP Actuarial*

No. I was a bit more pessimistic on the pool. I assumed an increase in policy count, but because of rate reductions and the increase, the impact those are going to have on earned premium next year, I assumed -- well first of all, I assumed that written premium would be down three-tenths of a percent. And earned premium, I believe was about 1%.

Robert Barnham - *KBW Asset Management, Inc. - Analyst*

Okay.

Steve Peck - *EMC Insurance Group Inc. - SVP Actuarial*

That was assuming policy group -- policy count growth just above 2 -- or, just below 2%. It assumes a 4.5% rate reduction to be implemented this year. And it essentially assumes no change in the average policy size except the result of rate changes and the natural premium trend the two agents place and price inflation. So --.

Bruce Kelley - *EMC Insurance Group Inc. - President, CEO*

Bob, do you have a second question?

Robert Barnham - *KBW Asset Management, Inc. - Analyst*

Yes. The second question I have was expense ratio. I'm trying to look for a run rate for the expense ratio and wondering, is that going to be trending up, trending down? I'm not sure what commissions are looking like. I'm not sure if there's any expense savings you're planning on implementing or are working on. So, I was just trying to get a run rate for the expense ratio.

Ron Jean - *EMC Insurance Group Inc. - EVP Corporate Development*

This Ron Jean, Bob. I'll try to address that. I think expense ratio, obviously, is something that we're continuing to look at. It has been trending upward the last few years, but it's been largely driven by two things, number one being the relatively flat premium growth during that timeframe. And as wages and so forth continue to decline, we've seen that -- the expense ratio go up a little bit.

But, as I said, the loss ratio's gone down, so we've seen a great improvement in profitability. But, because the loss ratio has dropped and because our profitability's improved, we're also paying out more in terms of our employee [commitment] salary plan. And so, that's pushed the expense ratio up a little bit. We're paying a little bit more in terms of agents' incentive program. There are commissions and so forth because of the profit change. So, some of the things that are driving the expense ratio up have been because of the good results that we've had.

I would expect that we'd see that expense ratio kind of level off. Until we actually get things turned around in terms of getting some additional production and see that written premium growth, I don't think you're going to see dramatic expense savings. We don't have any major initiatives to reduce expenses. But, I think we're actually operating fairly lean. We -- our branch structure and our -- the fact that we operate with independent agents pushes our expense ratios up slightly.

Robert Barnham - *KBW Asset Management, Inc. - Analyst*

Yes.

Ron Jean - *EMC Insurance Group Inc. - EVP Corporate Development*

But, the bottom line is our employee count has dropped. And I don't think we're over-staffed in any way. We're trying to find ways always -- find ways to do things more efficiently and more effectively and streamline the processes. But, we don't see any major expense cutting initiatives in the [next year] or so.

Bill Murray - *EMC Insurance Group Inc. - EVP, COO*

Bob, this is Bill Murray. Ron's mentioned the profitability issues and the flat premium growth. The other thing is, over time, we've certainly made and continue to make some investments in things that are going to ensure future profitability in the various tools that we have available to help us analyze risk and rating. We've also done a lot in terms of leadership and training, both management and line employees. We have done some expense monitoring.

And certainly that'll continue going forward, because we know our expenses are a little high, higher than we might wish them to be. But again, we do -- we always look for ways that we can correlate any expenses that we choose to expand with the reduction and loss ratios.

Bruce Kelley - *EMC Insurance Group Inc. - President, CEO*

I think Steve has another point.

Robert Barnham - *KBW Asset Management, Inc. - Analyst*

Okay.

Steve Peck - *EMC Insurance Group Inc. - SVP Actuarial*

I just wanted to mention, because of the conservatism assumption that I made about premium growth in the pool, I am -- in that 100.6 loss -- combined ratio estimate including some increase in the expense ratio. For the pool, I am projected a -- just about a three-tenths of a point increase in the LAE ratio and just a tenth of a point increase in underwriting expense next year.

Robert Barnham - *KBW Asset Management, Inc. - Analyst*

Okay.

Bruce Kelley - *EMC Insurance Group Inc. - President, CEO*

Was that responsive, Bob?

Robert Barnham - *KBW Asset Management, Inc. - Analyst*

Yes, that was very good. That's all I had. Thank you.

Operator

[OPERATOR INSTRUCTIONS]

Our follow-up question will be from the line of Paul Newsome of A.G. Edwards.

Paul Newsome - *A.G. Edwards & Sons, Inc. - Analyst*

I just got a little confused here about the expense question. Do you feel that your expenses are too high or too low? And if they're -- if they are -- or adequate? And if they're adequate, how do peer comp that? Because, most companies I cover have expense ratios that are lower than yours.

Bruce Kelley - *EMC Insurance Group Inc. - President, CEO*

Well Paul, this is Bruce Kelley. I just want to make a point. As you know, the taxes, agent commissions and salaries are the big expenses that we have. And I think we've talked about each of those and how we're trying to pursue that. Now, our employee count has been relatively flat for the last four or so years. And then, we've done quite a bit work on our agent commissions. And I think Bill can go into a little bit of detail on how we've been holding down commission expense.

Bill Murray - *EMC Insurance Group Inc. - EVP, COO*

Well, we always make an attempt to compare our commissions. At the same time, we believe our agents add a lot of value, so we want to be sure that we are fairly compensating them for the work that they do. One thing that we have done over the last couple of years is to revise to agency profit-sharing plan to assure ourselves that the agents that are participating in that are, in fact, profitable. When I say that, I mean we've removed a previous loss, stop loss provision, for example. The changes that we made a year or so ago -- certainly without those changes our profit-sharing payment stages would have been much higher than they are today.

Paul Newsome - *A.G. Edwards & Sons, Inc. - Analyst*

I apologize. I probably should have had this number sitting around here. But, what is the typical commission you're paying out versus -- to agents at this point?

Steve Peck - *EMC Insurance Group Inc. - SVP Actuarial*

Excluding contingent commission --.

Paul Newsome - *A.G. Edwards & Sons, Inc. - Analyst*

All in, please.

Steve Peck - *EMC Insurance Group Inc. - SVP Actuarial*

Excuse me?

Paul Newsome - *A.G. Edwards & Sons, Inc. - Analyst*

The total, with contingencies.

Steve Peck - *EMC Insurance Group Inc. - SVP Actuarial*

Close -- around 17, I believe.

Paul Newsome - *A.G. Edwards & Sons, Inc. - Analyst*

So, that's not terribly unusual compared to other companies, independent agent companies, right?

Ron Jean - *EMC Insurance Group Inc. - EVP Corporate Development*

No. If -- our - this is Ron Jean. If you look at a comparison of companies that do business the same way we do, three independent agents and have a similar structure and so forth --.

Paul Newsome - *A.G. Edwards & Sons, Inc. - Analyst*

Yes.

Ron Jean - *EMC Insurance Group Inc. - EVP Corporate Development*

Then, I think it matches up fairly well. If you compare us to a -- some peer groups that might include companies that write directly or have a much different commission structure, then our commission outlook might look a little high. And if you -- most of the comparisons that we do when we look at other insurance companies, the major difference is -- in our total expense ratio, is in the commission area. Our taxes are pretty similar. Our non-commission expenses in terms of payroll costs and those kinds of things are fairly similar and fairly competitive, so the major difference.

But, I think it's driven by the fact that some companies are paying very low commissions. You also have some companies that -- when you look at expenses, there's things that can show up in the numbers that distort the results. For example, if you have a company that's a servicing carrier for work comp in a number of states, they're getting servicing carrier fees for handling that business, and they net that against their own expenses. So, it reduces their expense ratio, and that distorts the numbers some too.

Paul Newsome - *A.G. Edwards & Sons, Inc. - Analyst*

Well, I just -- for example, just pulled up the [United Flyer] over in Cedar Rapids, which would have the same sort of domicile as well and somewhat similar business mix. And your expense ratios are 3% higher than theirs.

Ron Jean - *EMC Insurance Group Inc. - EVP Corporate Development*

You know where it's coming from? I haven't looked at their components.

Paul Newsome - *A.G. Edwards & Sons, Inc. - Analyst*

But, I know -- I think that they're -- I don't think they're doing anything particularly unusual. I think if you look at St. Paul Travelers, the others, they're running expense ratios that are around 30 to -- 28 to 30. You're at about 33. So, that's why when I -- you say you thought you were running pretty lean, I was a little bit surprised. Maybe you are, but then there's maybe a scale issue, but --.

Ron Jean - *EMC Insurance Group Inc. - EVP Corporate Development*

Well, I think it's a combination of things. Our branch structure is certainly more extensive than what [United Flyers] is, and there is a cost associated with that, having that local presence out there. And we recognize that. But, without being able to look at each of the individual components and analyze where those numbers are coming from, it's hard to say for sure. And I don't want to -- I don't want to mislead to say that we think the expenses are okay where they're at.

The bottom line is, we recognize though that when premiums are somewhat flat, the expense ratio doesn't necessarily stay flat, because there are things that go up over time. What we're saying is the in looking at all of our operations, we don't think there's a lot of fat in the operation and a lot of room to cut expenses. So, we're willing to -- as long as we can maintain good loss ratios, we're willing to absorb a little bit more on the expense ratio side until we can get the premium situation turned around.

Paul Newsome - *A.G. Edwards & Sons, Inc. - Analyst*

Thank you, very much.

Operator

Ladies and gentlemen, this concludes our question-and-answer session. I'd like to return the line to Anita Novak for any closing remarks.

Anita Novak - *EMC Insurance Group Inc. - Director IR*

Thank you, Cheryl. Thank you, ladies and gentlemen. I would like to remind you that a playback of this call will be available on the company's website until March 1, 2007, and a transcript of this call will be available later this afternoon. We appreciate your interest in EMC Insurance Group, and all of us wish you an enjoyable day.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes or presentation. You may now disconnect. Good day.
