



*Transcript of
EMC Insurance Group, Inc. (EMCI)
3Q 2007 Earnings Conference Call
November 6, 2007*

Vcall

601 Moorefield Park Dr.
Richmond, VA 23236

Phone: 888-301-5399
Fax: 804-327-7554

info@vcall.com
www.vcall.com
www.investorcalendar.c

Participants

Name, **Mr. Bruce Kelley, President and CEO**

Name, **Mark Reese Senior Vice President and Chief Financial Officer**

Name, **William A. Murray Executive Vice President and Chief Operating Officer**

Name, **Ronald W. Jean Executive Vice President for Corporate Development**

Name, **Steven Peck, Senior Vice President Actuary;**

Presentation

Operator

Greetings and welcome to the EMC Insurance Group INC Third Quarter 2007 Earnings Results Call. At this time, all participants are in listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference please press star zero on your telephone keypad. As a reminder this conference is being recorded.

It is now my pleasure to introduce your host Ms. Anita Novak, Director – Investor Relations for EMC Insurance Group INC. Thank you Ms Novak, you many now begin

Anita Novak, Director - EMC Insurance Group INC- Investor Relations.

Thank you Ms. Notoya. Good morning every one and welcome to EMC Insurance Group 2007 Third Quarter Earnings Call. The supplemental Investor packet is available on your investor relations page of our website which can be found at emcinsurance.com the simulcast for replay purposes is also available at the slide until November 20th 2007. The transcript of the web cast will be available for one year. This presentation includes some forward looking statements about our expectations for our future performance actual results could differ materially from those adjusted by our comments today. Additional information about factors that could effect future results is addressed in our SEC filings including Form F1, 10K, 10Q and 8K. Any information provided today should be read in conjunction with the 2007 3rd quarter earnings release with the company financial tables issued earlier today. With us today our several members of EMC Insurance Group executive management team they are Mr. Bruce G. Kelley President, Chief Financial Officer, Mr. William A. Murray Executive Vice President and Chief Operating Officer Mr. Ronald W. Jean Executive Vice President for Corporate Development Mr. Steven Peck, Senior Vice President Actuary; Mr. Mark Reese, Senior Vice President and Chief Financial Officer. At this time and it's my pleasure to introduce EMC Chief Executive Officer Bruce G. Kelley.

Mr. Bruce Kelley, - EMC Insurance Group INC- President and CEO

Thank you Anita, Good morning 24/7 is shaping up is another very successful year for EMC Insurance Group Inc, 3rd quarter results was reasonably consistent with our



expectations and reflect anticipated large loss in storm activity and a decline in the amount of favorable development on prior years reserves, non or less we are pleased to report that operating income was \$0.50 per share, net income was \$0.49 per share and book value was \$25 \$0.14 per share an increase of 12% from December 31. Our average return on equity is 14.4% and our trajectory surplus as regards policy holders is \$349, \$349.5million, an increase of 17.4% year-to-date. Over the last several quarters, we have discussed while we believe an investment in our start is a good value, we've also discussed extensively how we planned to approach a continuing soft market to discuss these issues again today would be redundant. I would like to say a bit about market conditions and our immediate expectations. Great competitiveness was total changed from 2nd quarter, but overall premium rates were down approximately 4.8% as compared 1 year ago, we fully expect that rate competition will continue to the balance of 2007 and is going to await, but we will continue our disciplined approach to premium growth and only write good properly diversified business which can be priced adequately. New business premiums are up from last year, re tension levels remains stable at approximately 87% for commercial policies and 86% for personal policies. In light of current market conditions 2007 looks to another very successful year, I mean now have formal tools to select underwrite and price business then during the last half market and our employees are focused on what it takes to be successful, they understand that while we want to grow the primary focus is on profitability and that we can have both we want profit over production we continued to emphasize the ease of doing business with our agency force and building on those strong relationships providing the very best service available to our Insurance cutting edge technology in assistance and risk improvement activities which are virtually unique. A new marketing program for equipment dealers was launched during the 3rd quarter, this is the program that is previously been offered to limited regions to our target group programs but has been expanded to do a nation wide EMC choice program, agents have shown significant interest and we are already receiving codes in writing policies, we have high expectations for this success of this program given a roll out occurred just a few weeks ago on October 15th, with that I will ask for comments from Mark Reese Senior Vice President and Chief Financial Officer, we would be happy to answer any questions after this presentation. Mark

Mark Reese –EMC Insurance Group Inc-Senior Vice President and Chief Financial Officer

Thank you Bruce operating income for the 3rd quarter was \$6.9million which is down from the record \$11.6million reported in the 3rd quarter of 2006. For the first 9 months of 2007, operating income was \$34.6million which is also down from the record \$40million reported last year. Data income for the 3rd quarter and first 9 months of 2007 was \$6.7million and \$35.4 million respectively compared to \$11 million and \$42.1 million for the same periods in 2006. The declines in 2007 operating income and net income are attributed to an increase in large losses and increase in catastrophe and storm losses and a moderate, but steady decline in overall premium rate level. The large decline in third quarter results also reflects an expected decrease in the amount of favorable development experienced on prior year reserves. Net written premiums decline 0.6% to \$111.3 million in third quarter, but increased 2% to \$304.6 million for the first nine months of 2007. However, it should be noted that this increase reflects a negative \$3.4 million portfolio adjustment recorded in the first quarter of 2006 in the reinsurance segment in connection with employees mutual's reduced participation in the MRB pool. Excluding this adjustments written premiums increase 0.8% in the first nine months of 2007. Commercial lines net written premiums decreased 2.5% in the third quarter, but increased 0.7% for the first nine months of 2007. As new business premium was sufficient to offset premium loss from declining

Vcall
601 Moorefield Park Dr.
Richmond, VA 23236

Phone: 888-301-5399
Fax: 804-327-7554

info@vcall.com
www.vcall.com
www.investorcalendar.com



premium rates and business that renewed. Person lines net written premiums declined 4.4% in the third quarter and 5.6% for the first nine months of 2007.

For the first nine months of the year, new commercial lines premium is up 6.4% over a year ago, and new person lines premium is up 3.2%, with much of that coming in selected territories with greater profit potential. Actuary in storm losses total \$0.34 per share in the third quarter of this year compared to \$0.29 per share last year. For the first nine months of 2007, actuary term loss is total \$0.92 per share compared to \$0.61 per share in 2006. We now reported for the first nine months of 2007 includes \$0.29 per share of losses associated with the May Tornado the devastated Greensburg Cantus. Investment income increased 5.2% in the third quarter and 3.2% for the first nine months of 2007, as a result of higher average invested asset balances and a small increase in the yield on fixed maturity securities. The total rate of return on our equity portfolio for the first nine months of the year was 13.04% which compares very favorably to 9.13% for SMP 500.

The current annualized yield on our bond portfolio is 5.465% and the effective duration is 4.05 years, which is up from 3.91 years at the end of the 2006. As a part of ongoing efforts to enhance the effectiveness of the companies reserving process our methodology now includes both case loss reserve adjustments. These both reserve adjustments supplement the aggregate reserves associated with the individual of prime files in our used to health maintain a consistent level of overall case loss reserved adequacy. While case loss reserve adjustments and health can be both positive and negative will be established when necessary to keep the estimated adequacy of the company carried case loss reserves at a level consistent with management best estimates for the company's overall liability. The company's 3rd quarter actuarial analysis indicated that total carried reserves as of June 30th 2007 remained in the upper quartile of the range of actuarial reserve estimates. The actuarial review of the September 30th carried reserves is currently in process, based on that preliminary results of this review it is anticipated that the methodology will alternatively produce an increase in overall case loss reserves in the fourth quarter. As a result, management is revising its 2007 earnings guidance to a range of \$2.70 to \$2.90 of operating earnings per share from the prior range of 295 to 315 per share. Revised guidance is based on a projected GAAP combined ratio of 98.3% for the year.

With that I would like to open the phones for questions.

Question and Answer Session

Operator:

Thank you. We will now conduct a question and answer session. If you would like to ask a question please press star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two if you would like to remove your question from the queue. For participants using speaker equipment you maybe necessary to pick up your handset before pressing the star keys. One moment while we poll for questions.

Our first question is from Robert Farnam from KBW. Please proceed with your question.

<Q>: Hi there, good morning. I have a – several questions actually. The case reserves the changing case reserves in the fourth quarter, is that due to all actuary years or is that current actuary year the year increasing is just kind of giving more flavors to what exactly the adjustments are going to be?

Vcall

601 Moorefield Park Dr.
Richmond, VA 23236

Phone: 888-301-5399
Fax: 804-327-7554

info@vcall.com
www.vcall.com
www.investorcalendar.com



Vcall
601 Moorefield Park Dr.
Richmond, VA 23236

Phone: 888-301-5399
Fax: 804-327-7554

info@vcall.com
www.vcall.com
www.investorcalendar.com

<A>: Thanks for your question Bob. I think the person that should answer this first would be Steve Peck, our chief actuary.

Steve Peck - EMC Insurance Group Inc – Chief Actuary

The adjustment will be made over all actuary years.

<Q>: Okay. And I just want to clarify this does not mean that I mean it sounds like cases are going up it doesn't necessarily mean that IBNR will be going up as well. So it does not mean that you can have average development in the fourth quarter not necessarily.

Steve Peck - EMC Insurance Group Inc – Chief Actuary

Not necessarily.

<Q>: Right. Okay. Second question is there is a – just look to my model you had a lower tax rate in the third quarter. Just curious if there is any justification quarter _ to recent quarter?

<A>: Yeah Bob I think that Mark Reese should answer that question.

Mark Reese - EMC Insurance Group Inc – Chief Financial Officer

Yeah Bob, that's primarily due to the fact that our booked income was lower in the third quarter but our tax exempted interest remained relatively constant and that ratio results in a lower effective tax rate.

<Q>: Okay. So the tax exempts to the larger portion of it by now. All right, and the – for your guidance for '07 how much are you including for Cap losses and total reserved relevant from there?

Mark Reese - EMC Insurance Group Inc – Chief Financial Officer

For group the loading is 7.6% _

<A>: For Cap

Mark Reese - EMC Insurance Group Inc – Chief Financial Officer

For Cap.

<Q>: Capex Okay.

<A>: And then what was the other question?

<Q>: Reserve development?

<A>: I am including 4% downward development on the case reserves. That would on the individual case reserves.

<Q>: Right. Okay, all right. And the last question I have is I had a couple of questions yesterday on the with the news of Alpha corporation as they privatized their P's and I think a lot of necessary similarities between Alpha and EMC and the thought just



curious if you thought about privatizing your EMC IP's or if you haven't why not you know what benefits do you get from being a good company?

Bruce Kelley - EMC Insurance Group Inc – Chief Executive Officer

Hi Bob this is Bruce Kelley, I will start off a make a few comments and the Ron Jean has some comments as well. Yes, we are a similar structure to Alpha. However, as an ongoing company we want to preserve our surplus through the soft market though we will not be going the route that Alpha went by basically reducing the amount of surplus we have and weakening the company as the soft market goes forward. We want to preserve our surplus through the soft market. We want to also continue to be a good blue chip investment for investors over a long period of time and we want to make sure that our investors receive with both dividends and stock appreciation a very good rate of return. Ron?

Ronald Jean - EMC Insurance Group Inc - Executive Vice President

That's the only thing I would add is that I mean obviously having that the company and it is have been beneficial for several years providing some long term incentives for employees with stock options and that the timing also the ability to generate some additional capital when we've needed it for heavy opportunities to do so but I think there point was made in terms of preserving surplus. As there was key earnings soft market to maintain a high level of surplus so that when that market hardens up again we are in a position to grow and have plenty of surplus to be able to support that growth. That's the time when you want to go out and raise some good new businesses adequately priced and so we want to make sure we are in a position to do that when the market turns around. So, I don't know all the reason why Alpha made a decision to do that but I think at this point those are the reasons why we would choose not to.

<Q>: Okay. Any idea what your opinion to be is when the market turns around?

Ronald Jean - EMC Insurance Group Inc - Executive Vice President

That's a good guess.

<Q>: All right. That's it from me. Thanks.

Ronald Jean - EMC Insurance Group Inc - Executive Vice President

Thank you.

Operator: [Operator Instructions]. There are no further questions in queue at this time. I would like to turn the floor back over to Anita Novak for closing comments. We have two questions jump into queue Ms.Novak. [Multiple Speakers]

<A>: Okay. [Multiple Speakers]

Operator: We have Ron Bob man from Capitality Returns. Please proceed with your question.

Vcall
601 Moorefield Park Dr.
Richmond, VA 23236

Phone: 888-301-5399
Fax: 804-327-7554

info@vcall.com
www.vcall.com
www.investorcalendar.com



Vcall
601 Moorefield Park Dr.
Richmond, VA 23236

Phone: 888-301-5399
Fax: 804-327-7554

info@vcall.com
www.vcall.com
www.investorcalendar.com

<Q>: Yeah some other while thank you. I am curious to know the account. I am curious to know the account type or the line of business that's prompting the bulk case reserves being established here or increased?

<Q>: This is Steve.

<A>: Yeah Steve Peck here?

<Q>: About the re force of the reduction and adequacy so far this year has in the individual case reserve has been and what was comp.

<Q>: Okay. Thank you.

Operator: Our next question is from Don Sable from Quick Bridge Capital. Please proceed with your question.

<Q>: Hi, sorry if I miss this I jumped on a little bit late but what specifically changed between June and September I know you just mentioned workers comp but was it more frequency severity and what – if you just help us out a little bit more in terms of what have changed between quarters?

<A>: No I think Steve Peck can continue with this one.

Steve Peck - EMC Insurance Group Inc – Chief Actuary

Yes, I would first like to clarify are you trying this to the case reserved issue or something else?

<Q>: Yes, that the case reserve.

<A>: Okay, okay

Steve Peck - EMC Insurance Group Inc – Chief Actuary

Okay, okay. Well, I don't think anything dramatically changed in the third quarter. We have been seeing rather gradual decline in the adequacy of case reserves... beginning sometime in 2006. And that trend has continued and somewhat accelerated in 2007 but until the third quarter and that is until our third quarter review of the second quarter reserves, until then the level of redundancy has been within the range that we were comfortable with. However, the June reserves dropped below that range the targeted range of adequacy that we would like to maintain and that's what prompted the first use of the bulk reserve with this procedure.

Bruce G. Kelley - EMC Insurance Group Inc - President, Chief Executive Officer, Director

This is Bruce Kelley. I just want to make two comments on it. So you are clear we are still on the upper core tile of the estimates and we are still adequate but it's just that the margin of adequacy has declined slightly.

<Q>: Oh sure, thanks. You know I appreciate that I mean I think that its one of the attractive investment qualities of the company but I guess what I am trying I think would you just explain was the methodology that led you to warning to push those reserves up so I guess what I was looking for something more specific. You mentioned before workers comp I mean what specifically is it that's pushing it?



Vcall
601 Moorefield Park Dr.
Richmond, VA 23236

Phone: 888-301-5399
Fax: 804-327-7554

info@vcall.com
www.vcall.com
www.investorcalendar.com

<A>: Well that's a good question I think that one answer to that is that case reserves on newly reported claims are probably not being reserved as adequately this year as they had been in the last 2 or 3 years. I say that because the change in severity this year is actually is negative, the change in severity on newly reported claims.

<Q>: Okay.

<A>: It's very unusual. Now the reduction severity is not only due to what I expect is somewhat less adequate reserving. It's also due to an unusual number of very small claims reported particularly in the first quarter, these storms that, these are claims are related to storms but not property storm claims, you know were comp injuries not the things like that. Mike, I can't really give you a break out between the two but together we have about a 4.7% drop in average severity so far this year, and that is very unusual. Last part of the answer, I believe the other parts maybe that the maintenance of claims that had previously been reported has not resulted in the level of adequacy, of those remaining open claims that we had in 2006 and 2005, but I suspect that the leading driver probably is the new claims. Figured out that what your...

<Q>: Yeah. So I guess, I guess I'm getting that – here is that this would not, it this doesn't sound like a something its necessarily systemic and wide reaching, it sounds like this is something a little more benign. Is that fair way to characterize it or not?

<A>: I don't know how the characterize it exactly, but I will say is that we have a very standardized procedure that should help us move, will help us to the adequacy of overall case reserves individual or both close to the, closer to the targeted level of adequacy that we want to maintain.

<Q>: Okay. And so would it be fair to say that by, you know, increasing the reserves in the fourth quarter that would move you from maybe the net point or below the upper quartile to the upper half or the very top of that quartile. Is that kind of where you going with this?

<A>: Well, we'd established a range of adequacy that we would like to, ideally like to maintain for the case reserves. It's a very fairly narrow range and basically that range of adequacy provides us with the risk load that I think it's necessary in the reserves. Yes, the reserves in the fourth quarter, the individual case reserves do not change in adequacy then the adjustment we're contemplating, as contemplating right now. In the fourth quarter, we will move as very close to the lower end of that targeted range. Just quite get us there but I guess gets us very close and naturally by design because we, while we want to react to what we are seeing in our analysis, we don't want to overreact to it. Yes, at the end of the fourth quarter we see that we are still below the range we're targeting than we would expect to make an additional adjustment in the first quarter, at the end of the first quarter.

<Q>: Okay and you would know that early next year?

<A>: We will know that towards the beginning of February.

<Q>: Okay. Thank you.

<A>: I can make one additional comment, just for clarification I think about two different ranges here. For one thing, we are talking about being in the upper quartile, the range, we are talking about overall reserves, everything combined, case reserves,



IBNR in terms of the overall range of actual indications. We are talking about case reserve adequacy in particular; we are talking about fairly narrow range of redundancy percentage above what the indicated level of a point. The point estimate is and that we're, that's the range that Steve was talking about just now, but the fact, the matters is overall reserves are still one of a quartile and I was inner strengthening which moves up in a quartile.

<A>: I think that Bill can talk little bit about what's going to happen with our semi annual case reserve review, that's going to be moving throughout the company in the next month. In this period of time, it's going to effect the reserves and make them very, very appropriate.

Mr. William A. Murray - EMC Insurance Group Inc - Chief Operating Officer

<A>: This is Will Murray, basically I'm aware of a lot of good work that's going on in the Claims Department by the plans handlers in an effort to be sure that our reserves are in fact being maintained at an adequate level. Part of that has to do with additional reviews as Bruce has mentioned all of those case reserves to see that those are being looked out individually and that the reserves are thought to be adequate at the time of the certifications are made by the branch officers. What Steve is saying in terms of severity is certainly in the numbers and is certainly something that we want to continue to monitor. But I think it may in some instances go back to some of the handling of case reserve files that occurred in 2004, and there after when know that we had some and freely admitted that there may have been certainly a very aggressive action taken in the branches when some of the reserves were set up. So Steve mentioned that the reserves that are being set up on newly reported claims may be being less adequate or not as high as they were during 2005 and 2006. And I don't know that's a necessarily all that surprising because we continue to get better I think that pricing those individually case is up and that is the part of the training process that has been going on ever since 2004, when we realize that we needed to do some work in terms of handling those case reserve files a little better.

Operator

Once again ladies and gentlemen to ask a question please press star one on your telephone keypad. There are no further questions at this time. I would like to turn the floor back over to Ms. Anita Novak for closing comments.

Anita Novak:

Thanks for joining us (indiscernible) ladies and gentlemen. This now concludes this conference call. I would like to remind you that a playback of this call will be available on the Company's website at www.emcinsurance.com until November 20th, 2007 and a transcript of this conference will be available until November 2008, which can be accessed from our website as well. We appreciate your interest in EMC Insurance Group and all of us wish you an enjoyable day. Thank you.

Operator

This concludes today's teleconference. You may disconnect your line at this time. Thank you for your participation.

Vcall

601 Moorefield Park Dr.
Richmond, VA 23236

Phone: 888-301-5399
Fax: 804-327-7554

info@vcall.com
www.vcall.com
www.investorcalendar.com