



**Transcript of
EMC Insurance Group Inc. (EMCI)
Second Quarter 2008 Earnings Conference
Call
July 24, 2008**

Vcall
601 Moorefield Park Dr.
Richmond, VA 23236

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

info@vcall.com
www.vcall.com

Participants

Anita Novak, Director of Investor Relations
Bruce Kelly, President and CEO
Ron Jean, EVP for Corporate Development
Steve Peck, SVP Actuary
Rick Schulz, SVP Claims
Ray Davis, SVP Investments and Treasurer
Mark Reese, SVP and CFO
William Murray, EVP and COO

Presentation

Operator

Greetings and welcome to the EMC Insurance Group Inc. second quarter 2008 earnings results conference call. [Operator Instructions]. It is now my pleasure to introduce your host Ms. Anita Novak. Thanks Ms. Novak you may begin.

Anita Novak, Asst. Secy. - Director of Investor Relations

Thank you Melissa. Good morning, everyone and welcome to EMC Insurance Group's 2008 second quarter earnings call. A supplemental investor packet is available on the investor relations page of our website, which can be found at www.emcinsurance.com. The webcast for replay purposes is also available at this site until October 24, 2008. The transcript of the webcast 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 suggested by our comments today. Additional information about factors that could affect future results is addressed in our SEC filings, including forms S-1, 10k, 10q, and 8k. Any information provided today should be read in conjunction with the 2008 second quarter earnings release with accompanying financial tables issued earlier today.

With us today are several members of EMC Insurance Group's executive management team. They are Mr. Bruce Kelley, President and Chief Financial Officer; Mr. William A. Murray, Executive Vice President and Chief Operating Officer; Mr. Ron Jean, Executive Vice President for Corporate Development; Mr. Steven Peck, Senior Vice President, Actuary; Mr. Rich Schulz, Senior Vice President, Claims; Mr. Ray Davis, Senior Vice President, Investments and Treasurer; and Mr. Mark Reese,



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Senior Vice President and Chief Financial Officer. At this time, it is my pleasure to introduce EMC's Chief Executive Officer, Bruce Kelley.

Bruce Kelley, President and CEO

Thank you, Anita.

We reported a net operating loss of \$0.09 per share this morning for the second quarter of 2008 and a second quarter combined ratio of 116.0. While that is high, it is important to note that our underlying book of business is performing reasonably well and consistent with expectations, given the competitive state of the insurance buying market.

When comparing this quarter to prior quarters, we noticed some interesting details. We have been reporting financial results for 106 quarters. Of those 106 quarters, only 13 have produced operating losses – with 4 of those quarters being second quarters. Given that we are headquartered in the Midwest, it's not surprising that all four of those second quarter losses, including second quarter 2008, have resulted from heightened Midwestern storm activity. Second quarter 2008 is somewhat unique, however, in that the record \$1.12 per share of storm losses we incurred was 65 percent higher than the previous record of \$0.68 per share incurred in the second quarter of 2001.

In recent weeks, we have released quite a bit about the 2008 storms; and we have responded to numerous questions as well. It seems to be the topic on most peoples' minds. Therefore, I would like to speak briefly about some of those issues.

Parkersburg, Iowa and other severe storms

The most significant weather event of the quarter occurred on May 25, 2008. An EF5 tornado struck the southern half of the small community of Parkersburg, IA, killing 8 people and destroying or damaging hundreds of homes, businesses and other personal property. EMC insured the Aplington-Parkersburg High School, which suffered a direct hit by the tornado resulting in a total loss. The Company received nearly 1,600 claims associated with the storm system that produced the Parkersburg tornado. We are proud to report that all of the claims associated with this storm system have been adjusted and 90 percent of those claims have been paid, many within days of the event. Losses from this storm system totaled \$0.41 per share. Since all claims have been adjusted, we do not expect any further development associated with this event.

There were many other Midwest storms during the quarter, some of which had a significant impact on second quarter results; however, none of those events were of the magnitude of the storm system that hit Parkersburg. These storms were in Colorado, Nebraska, Kansas, Minnesota, Missouri, Oklahoma and Arkansas. An additional 1,900 claims were submitted as a result of these storms. As was the case with the storm system that devastated Parkersburg, 90 percent or better of the claims have been paid. The cumulative impact of these storms was approximately \$0.44 per share.

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“All other” catastrophe and storm losses, including those associated with our reinsurance segment, accounted for an additional \$0.27 per share.

Iowa Flooding

Given the global media coverage associated with the devastating Iowa floods this year, it is logical to question whether the Company had a direct exposure to these events. Generally speaking, the Company does not insure flood damage, although a few of our products do offer a limited amount of flood protection. Most of our exposure is associated with sewer backup and sump pump failure and we did receive a number of claims associated with these types of losses. Our total flood related losses amounted to less than \$800,000.

California Wildfires

The Company does not have significant exposures in California and therefore considers the wildfires to be a “non-event” for the Company.

As we mentioned in our press release earlier today, catastrophe and storm losses added 24.3 percentage points to our combined ratio for the second quarter. Over the course of the last decade, catastrophe and storm losses have annually averaged 5.4 percent of earned premiums. Assuming normal storm activity for the remainder of the year, we are currently projecting that catastrophe and storm losses will approximate 11.5% of earned premiums in calendar year 2008.

Diversification

The question one might ask is whether or not we have overly concentrated our book of business in any one geographic region – the answer is no, we have not. The Midwest storms occurred over a very wide geographic region, and have affected several of our branch offices. As with many insurance companies this year, we have simply seen a significant increase in wide-spread storm activity.

I would like to mention that of our 16 branches, 9 have not been significantly impacted by second quarter storms and in each of those instances the branch’s combined ratio reflects a profitable result. Bottom line, the second quarter saw heavy storm losses.

With that, I will call on Mark Reese, Senior Vice President and CFO to discuss the financials for the quarter. We would be happy to answer any questions after his presentation.

Mark Reese, Senior Vice President and Chief Financial Officer

Thank you, Bruce.

Record storm losses during the second quarter resulted in a second quarter operating loss of \$1.2 million dollars, compared to the record second quarter operating income of 13.8 million dollars reported in the second quarter of 2007. Net loss for the second quarter totaled 940 thousand dollars, compared to net income of 14.0 million dollars in 2007.

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In addition to the record storm losses, the operating and net loss for the second quarter reflect an expected decline in the amount of favorable development experienced on prior years' reserves, and a moderate, but steady, decline in overall premium rate levels. In addition, the net loss reflects \$1.7 million dollars of "other-than-temporary" investment impairment losses recognized on 7 securities in the Company's equity portfolio. These impairment losses were recognized because the Company's equity manager indicated that these securities, which were in an unrealized loss position, would likely be sold before they could recover to their cost basis. As a result, the intent to hold these securities to recovery did not exist.

Net written premiums decreased 2.8 percent to 187.8 million dollars in the first six months of this year. This decrease reflects declines of approximately 2.9% in both the commercial lines and personal lines of business in the property and casualty insurance segment and a 2.4% decline in the reinsurance segment. The decline in the reinsurance segment was primarily driven by premium rate declines and the loss of a few contracts. For the first six months of 2008, new business premium was down 10.3 percent in commercial lines and up 11.8 percent in personal lines, with much of the increase in the personal lines coming in select territories with greater profit potential.

Catastrophe and storm losses in the second quarter more than doubled to a record \$23.5 million dollars, or \$1.12 per share, from \$9.8 million dollars, or \$0.46 per share, in 2007. The previous record for catastrophe and storm losses occurred in the second quarter of 2001, when Midwest storms generated \$11.7 million dollars, or \$0.68 per share, of losses. Over a third of the second quarter storm losses were generated by the powerful storm system that devastated Parkersburg, Iowa. For the first six months of 2008, catastrophe and storm losses totaled \$1.39 per share, compared to \$0.58 per share in 2007.

Investment income increased 3.0 percent to \$12.0 million dollars for the second quarter and 1.3 percent to \$23.9 million dollars for the first six months of 2008. These increases are primarily due to higher average invested asset balances.

The total rate of return on our equity portfolio for the first six months of 2008 was negative 7.39 percent, which compares favorably to the negative 11.91 percent generated by the S&P 500. During the second quarter, our equity portfolio returned 3.19 percent, compared to negative 2.73 percent for the S&P 500. The current annualized yield on our bond portfolio is 5.27 percent and the effective duration is 5.11 years, which is up from 4.76 years at March 31, 2008.

Based on actual results for the first six months of 2008 and our expectations for the remainder of the year, management is reaffirming the 2008 annual operating income guidance of \$1.20 per share to \$ 1.45 per share that was announced on July 3, 2008.

On March 10, 2008, the Company's Board of Directors authorized a \$15 million stock repurchase program. This program became effective immediately and does not have an expiration date. The timing and terms of the purchases are determined by management based on market conditions and are conducted in accordance with the

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applicable rules of the SEC. Common stock purchased under this program is being retired by the Company. As of June 30, 2008, approximately 255,000 shares of stock had been repurchased at a cost of \$7.0 million dollars. Additional repurchases have been made during July, bringing the total, as of July 16, 2008, to approximately 325,000 shares at a cost of \$8.7 million dollars. Employers Mutual has about \$4.5 million dollars remaining in its \$15 million dollar stock purchase program. This program will remain dormant while the Company's repurchase program is active.

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

Operator

We will now be conducting a question and answer session. [Operator Instructions]. Thank you. Our first question comes from Mr. Bob Barnum with KBW. Please proceed with your question.

Bob Barnum with KBW

Thank you and good morning. I have a couple questions more in the competitive landscape -- you have the two accounts or few accounts on the reinsurance side that you lost. Can you give more details as to what type of accounts those were and where they went?

Bruce Kelley, President and CEO

Bob, you are talking about the reinsurance?

Bob Barnum with KBW

The reinsurance, right.

Bruce Kelley, President and CEO

Okay. Ron.

Ron Jean, EVP for Corporate Development

I don't have the specifics with me right now, but my general recollection is that those accounts were, in a couple of cases, were companies that were acquired by another company so the reinsurance has moved to the --

Bob Barnum with KBW

Existing.

Ron Jean, EVP for Corporate Development

To the existing programs.

Bob Barnum with KBW

Okay. And in terms of just the general property/casualty landscape out there, are you seeing rates stabilize? Are they still going down? Can you give us more flavor of what the rate environment looks like?

William Murray, EVP and COO

Bob this is Bill Murray. I don't know that we have seen significant changes in the pricing landscape. Even though for example, we have had significant Midwestern

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storms. It seems to be fairly competitive in the Midwest, as it has been. Through our Branch office structure, obviously we continue to monitor that competitive landscape and hopefully we are responding appropriately if that changes going forward.

Bob Barnum with KBW

Okay, and do you see new players coming to the market at all or has that pretty much subsided at this point?

William Murray, EVP and COO

We still continue to see what we had viewed in the past to be primarily regional companies doing business in maybe a limited number of states. We continue to see those, particularly in some of the higher growth areas in the West, and that adds to the competition of course that we were already experiencing.

Bob Barnum with KBW

Okay. That's it for right now. I will get back to you if I have more. Thank you.

Operator

[Operator Instructions]. There are no further questions at this time.

Anita Novak, Asst. Secy. - Director of Investor Relations

Thank you Melissa. Thank you 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 August 7, 2008 and a transcript of this conference call will be available until July 2009, which can be accessed from our website as well later today. We appreciate your interest in EMC Insurance Group Inc. and all of us wish you an enjoyable day.

Operator

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

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