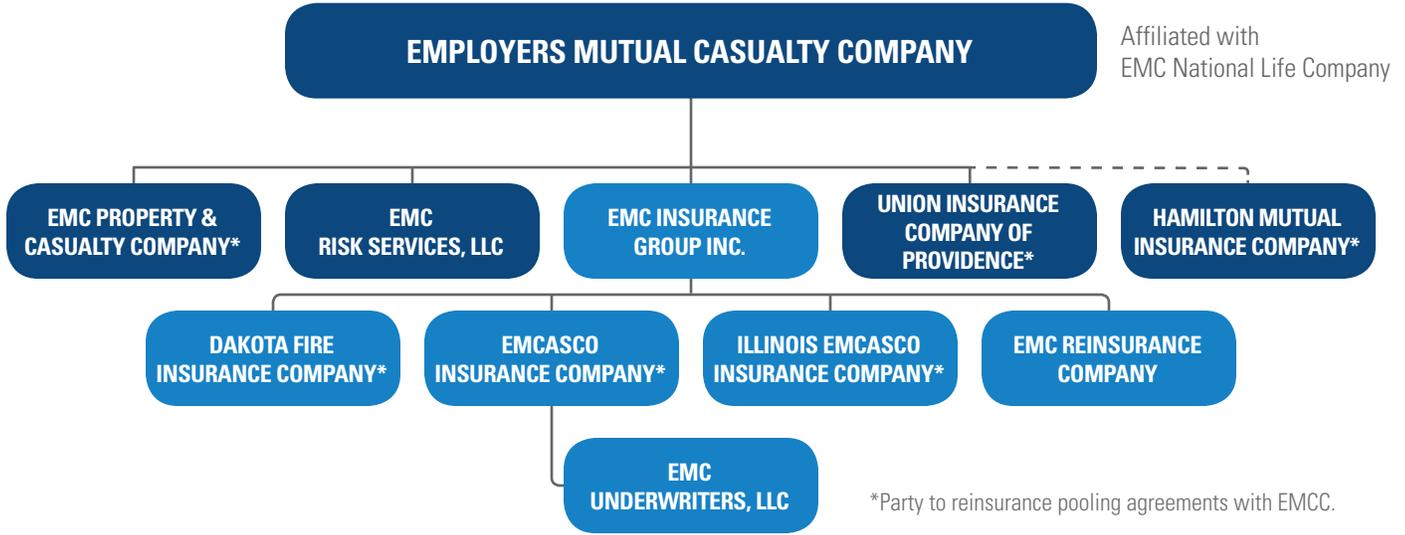


# 2013 ANNUAL REPORT

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FOCUSED ON STOCKHOLDER VALUE



\*Party to reinsurance pooling agreements with EMCC.

# CORPORATE PROFILE

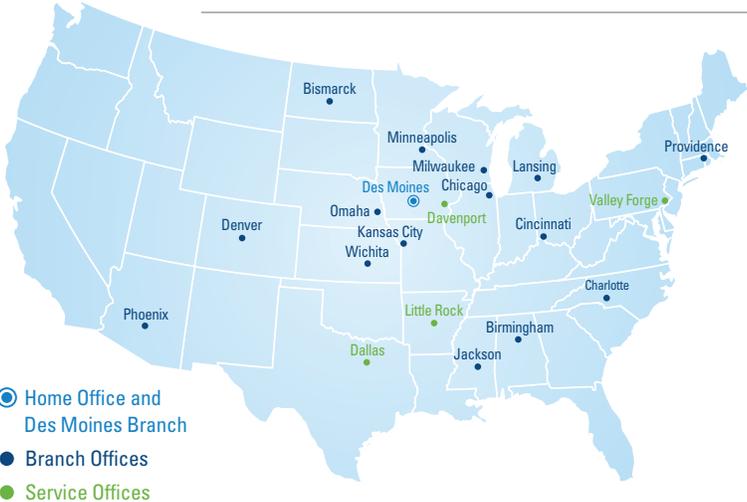
**EMC Insurance Group Inc. (EMCI)** is a publicly held insurance holding company with operations in property and casualty insurance and reinsurance. EMCI was formed in 1974 and became publicly held in 1982. The Company's common stock trades on the NASDAQ OMX Global Select Market tier of the NASDAQ OMX Stock Market under the symbol EMCI. EMCI is a controlled company in that its parent owns greater than 50 percent of its outstanding stock. As of December 31, 2013, EMCI's parent company, Employers Mutual Casualty Company, owned 59 percent of EMCI's outstanding stock and public stockholders owned the remaining 41 percent. EMCI has no employees of its own.

**Employers Mutual Casualty Company (EMCC)** is a mutual insurance company founded in 1911 and is headquartered in Des Moines, Iowa. EMCC employs approximately 2,100 people countrywide and markets its products exclusively through a network of independent insurance agents.

**EMC Insurance Companies (EMC)** EMCI and EMCC, together with each entity's subsidiary and affiliated companies, operate collectively under the trade name EMC Insurance Companies. The companies that comprise EMC write property and casualty insurance in both commercial and personal lines, with a focus on medium-sized commercial accounts. Reinsurance business is also written,

with an emphasis on property business. Products and services are offered through independent insurance agents who are supported by a network of 16 local branch offices. EMC is licensed in all 50 states and the District of Columbia and actively markets insurance products in 40 states; however, the majority of its business is generated in the Midwest.

# LOCAL OFFICES



# LETTER TO OUR STOCKHOLDERS:

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Underwriting profitability continued in 2013, marking our second consecutive year of improved underwriting profitability and a GAAP combined ratio below 100 percent. The 1.7 point improvement to 97.9 percent resulted from the exceptionally good year of our reinsurance segment and property and casualty insurance results in line with expectations. Operating income for the year was \$2.88 per share, which exceeded the high end of our range of operating income guidance, while net income was \$3.33 per share.

## A.M. BEST COMPANY UPGRADE

In April, A.M. Best Company upgraded the financial strength ratings for EMC Insurance Companies pool members and EMC Reinsurance Company to "A" (Excellent) with a stable outlook, from their previous rating of "A-" (Excellent) with a positive outlook. We worked hard through partnership with our independent agents to achieve this upgrade. A.M. Best Company cited our strong level of risk-adjusted capital, consistently favorable development of prior years' loss and loss adjustment expense reserves and favorable core underwriting results as reasons for the upgrade. In addition, they indicated we will continue to derive benefits from strategic actions taken over the past several years associated with pricing, risk selection and claims management. These initiatives were designed to improve our navigation through varying market conditions and enhance underwriting profitability. The upgrade provides evidence that our hard work and recent initiatives have made EMC a better company and should continue to positively impact long-term results.

## PREMIUM GROWTH

**Property and Casualty Insurance Segment** net written premiums increased 9.1 percent in 2013 to \$405.0 million. Within the property and casualty insurance segment, rate level increases on renewal business of 7.4 percent and growth in insured exposures fueled commercial lines net written premium growth of 11.5 percent. Personal lines also achieved rate level increases of 7.4 percent; however, net written premiums decreased 5.7 percent due to our intentional reduction in policy count to lessen exposure concentrations.

Persistent low interest rates have decreased investment income returns and heightened the importance of achieving an underwriting profit. Coming out of the soft cycle in late 2010, we recognized rate levels were inadequate and pushed for more adequate pricing. Our rate level increases continue to outpace the industry average, as they have over the past three years. We attribute this to the diligent efforts of our branch offices and the strong and stable partnerships with independent agents who sell our insurance products, along with the tools developed to support our branch offices, such as our rate compare system. This proprietary system is a unique and powerful online system that rates current exposures of commercial renewal policies at both current and prior period rate levels. It provides a very accurate measure of the actual rate increase obtained by policy, underwriter, line of business or branch and gives us the ability to drill down on aggregate results to whatever level of detail we want in nearly real time. This allows us to better determine the actual rate level change needed on each policy based on past loss experience, current risk exposure and future profit potential.

Retention levels based on policy count remain strong and above the industry average, at an overall retention level of 85 percent. Although retention levels were down slightly in both commercial and personal lines of business from the prior year, the relatively consistent overall retention level demonstrates continued support for ongoing premium rate level increases in our renewal book of business. This indicates we are not pricing ourselves out of the market. We will continue to work with our independent agents to push for more rate level increases in 2014, although we expect the percentage increase to be at a somewhat lower level.

**Reinsurance Segment** net written premiums increased 20.3 percent in 2013 to \$129.0 million, primarily from growth in existing accounts, moderate rate level increases and new business.

## CATASTROPHE AND STORM LOSSES

The United States experienced a very mild hurricane season, although losses from severe storms in the Midwest resulted in an average catastrophe and storm loss year for our Company. Catastrophe and storm losses accounted for

9.4 percentage points of the combined ratio, slightly below the most recent 10-year average of 9.9 percentage points, and lower than expectations set at the beginning of the year. As extreme weather conditions become more commonplace, we continue to adjust risk exposures across our book of business by managing exposures in certain geographic regions and accelerating growth outside our core market in the Midwest to less catastrophe-prone areas. We review our reinsurance programs annually to ensure they provide adequate protection of capital against catastrophic loss at a reasonable cost.

### EMC CULTURE

For the second consecutive year, EMC Insurance Companies was listed as one of the 40 best companies for leaders by *Chief Executive* magazine. EMC ranks 26th in 2014, jumping from 35th in 2013. The annual ranking is based on a worldwide survey of organizations conducted by the magazine. We are very proud to rank 26th and focus on creating a culture that emphasizes leadership development, nurtures talent and establishes teams at all levels of our organization.

### CAPITAL MANAGEMENT

During the fourth quarter, we increased the quarterly cash dividend by 2 cents, or 9.5 percent, demonstrating the confidence we have in the long-term outlook and strength of our financial position. Investment income declined 2.5 percent during the year, which is attributable to the prolonged low interest rate environment, but was mitigated by an increase in dividend income in our equity portfolio. While growth in investment income is important, growth and stability in stockholders' equity remains the primary goal

of our investment philosophy. Our balance sheet boasts an investment portfolio with over \$1.2 billion of invested assets, which produced \$43.0 million of investment income during the year. This helped grow our stockholders' equity balance to \$455.2 million, up 13.5 percent from the prior year.

We are well-capitalized and maintain financial leverage and capital adequacy levels that are relatively conservative and exceed amounts required by A.M. Best Company for an "A" rating. This will provide the capital necessary to expand our business over a long-term period and withstand the volatility in the property and casualty insurance industry. We remain committed to increasing long-term stockholder value by providing an attractive return to our stockholders through a strong dividend, increasing book value and stock appreciation.

### FOCUSED ON THE FUTURE

While we are pleased to report improvement in our underwriting profitability and our second consecutive year with a combined ratio below 100 percent, we know that we can do better. We remain focused on our strategy of careful risk selection at an adequate price. We believe there is considerable opportunity for a well-capitalized near national insurance carrier to grow profitably in the years ahead. We will strive to be the carrier our independent agents prefer to do business with by understanding the needs of our policyholders, and in turn, providing them with *Count on EMC*® service. Furthermore, we are focused on increasing the value of our stockholders' investment.

Thank you for your continued interest in EMC Insurance Group Inc.

Sincerely,



Bruce G. Kelley  
J.D., CPCU, CLU  
President & Chief  
Executive Officer



Ronald W. Jean  
M.S., FCAS, MAAA  
Executive Vice President  
for Corporate Development



Kevin J. Hovick  
CPCU  
Executive Vice President  
& Chief Operating Officer

# FINANCIAL HIGHLIGHTS

	2013	2012	2011	2010	2009	2008	2007
(\$ in thousands)							
Revenues	\$ 559,354	\$ 503,851	\$ 463,341	\$ 439,394	\$ 432,526	\$ 438,348	\$ 442,086
Realized Investment Gains (Losses)	\$ 8,997	\$ 8,017	\$ 9,303	\$ 3,869	\$ 17,922	\$ (24,456)	\$ 3,724
Income (Loss) Before Income Taxes	\$ 60,853	\$ 51,634	\$ (10,992)	\$ 42,449	\$ 61,427	\$ (11,240)	\$ 58,639
Net Income (Loss)	\$ 43,519	\$ 37,966	\$ (2,737)	\$ 31,349	\$ 44,657	\$ (2,323)	\$ 42,296
(per share)							
Net Income (Loss)	\$ 3.33	\$ 2.95	\$ (0.21)	\$ 2.40	\$ 3.38	\$ (0.17)	\$ 3.07
Catastrophe and Storm Losses	\$ 2.41	\$ 2.70	\$ 4.04	\$ 2.10	\$ 1.55	\$ 2.52	\$ 1.37
Dividends Paid	\$ 0.86	\$ 0.81	\$ 0.77	\$ 0.73	\$ 0.72	\$ 0.72	\$ 0.69
Book Value	\$ 34.21	\$ 31.08	\$ 27.37	\$ 28.07	\$ 25.67	\$ 20.94	\$ 25.83
(\$ in thousands)							
Average Return on Equity (ROE)	10.2%	10.1%	(0.8)%	9.0%	14.5%	(0.7)%	12.8%
Total Assets	\$ 1,378,933	\$ 1,290,709	\$ 1,224,031	\$ 1,182,006	\$ 1,159,997	\$ 1,103,022	\$ 1,198,254
Stockholders' Equity	\$ 455,210	\$ 401,209	\$ 352,341	\$ 362,853	\$ 336,627	\$ 277,840	\$ 355,893

## COMMON STOCK PERFORMANCE

	2013			2012		
	High	Low	Dividend	High	Low	Dividend
1st Quarter	\$ 27.40	\$ 23.18	\$ 0.21	\$ 24.28	\$ 19.48	\$ 0.20
2nd Quarter	\$ 29.29	\$ 25.27	\$ 0.21	\$ 21.25	\$ 19.08	\$ 0.20
3rd Quarter	\$ 30.77	\$ 25.43	\$ 0.21	\$ 22.32	\$ 19.05	\$ 0.20
4th Quarter	\$ 35.48	\$ 27.04	\$ 0.23	\$ 24.04	\$ 19.85	\$ 0.21
Close at Dec. 31	\$ 30.62			\$ 23.88		

## CAUTIONARY STATEMENT

**FORWARD-LOOKING STATEMENTS:** The Private Securities Litigation Reform Act of 1995 provides issuers the opportunity to make cautionary statements regarding forward-looking statements. Accordingly, any forward-looking statement contained in this report is based on management's current beliefs, assumptions and expectations of the Company's future performance, taking into account all information currently available to management. These beliefs, assumptions and expectations can change as the result of many possible events or factors, not all of which are known to management. If a change occurs, the Company's business, financial condition, liquidity, results of operations, plans and objectives may vary materially from those expressed in the forward-looking statements. The risks and uncertainties that may affect the actual results of the Company include, but are not limited to, the following:

- catastrophic events and the occurrence of significant severe weather conditions;
- the adequacy of loss and settlement expense reserves;
- state and federal legislation and regulations;
- changes in the property and casualty insurance industry, interest rates or the performance of financial markets and the general economy;
- rating agency actions;
- "other-than-temporary" investment impairment losses; and
- other risks and uncertainties inherent to the Company's business, including those discussed under the heading "Risk Factors" in the Company's Annual Report on Form 10-K.

Management intends to identify forward-looking statements when using the words "believe," "expect," "anticipate," "estimate," "project," or similar expressions. Undue reliance should not be placed on these forward-looking statements.

## **COMMON STOCK**

EMC Insurance Group Inc.'s common stock trades on the NASDAQ OMX Global Select Market tier of the NASDAQ OMX Stock Market under the symbol EMCI. As of February 24, 2014, the number of registered stockholders was 792.

There are certain regulatory restrictions relating to the payment of dividends by the Company's insurance subsidiaries (see Note 6 of Notes to Consolidated Financial Statements in the Company's 2013 Form 10-K). It is the present intention of the Company's Board of Directors to declare quarterly cash dividends, but the amount and timing thereof, if any, are determined by the Board of Directors at its discretion.

## **DIVIDEND REINVESTMENT AND COMMON STOCK PURCHASE PLAN**

A dividend reinvestment and common stock purchase plan provides stockholders with the option of receiving additional shares of common stock instead of cash dividends. Participants may also purchase additional shares of common stock without incurring broker commissions by making optional cash contributions to the plan, and sell shares of common stock through the plan (see Note 13 of Notes to Consolidated Financial Statements in the Company's 2013 Form 10-K). Effective March 14, 2012, the Company temporarily suspended the issuance of shares of common stock under the dividend reinvestment and common stock purchase plan due to the late filing of an amendment to a Current Report on Form 8-K with the Securities and Exchange Commission. On March 29, 2013, the Company filed a Form S-3 Registration Statement with the Securities and Exchange Commission registering 661,185 shares of common stock for use in this plan. The plan was reinstated during the third quarter of 2013. More information about the plan can be obtained by calling American Stock Transfer & Trust Company, LLC, the Company's stock transfer agent and plan administrator.

## **STOCKHOLDER SERVICES**

### ***Corporate Headquarters***

717 Mulberry Street  
Des Moines, IA 50309  
Phone: 515.280.2511

### ***Transfer Agent***

American Stock Transfer & Trust Company, LLC  
6201 15th Avenue  
Brooklyn, NY 11219  
Phone: 866.666.1597  
www.amstock.com

### ***SEC Counsel***

Nyemaster Goode, P.C.  
700 Walnut Street, Suite 1600  
Des Moines, IA 50309

### ***Insurance Counsel***

Bradshaw, Fowler, Proctor and Fairgrave, P.C.  
801 Grand Avenue, Suite 3700  
Des Moines, IA 50309

### ***Independent Registered Public Accounting Firm***

Ernst & Young LLP  
801 Grand Avenue, Suite 3000  
Des Moines, IA 50309

### ***Information Availability***

Interested parties can request news releases, annual reports, Forms 10-Q and 10-K, quarterly financial brochures and other information at no cost by contacting:

### ***Investor Relations***

Steve Walsh, CPA  
EMC Insurance Group Inc.  
717 Mulberry Street  
Des Moines, IA 50309  
Phone: 515.345.2515  
Fax: 515.345.2895  
Email: EMCIns.Group@EMCIns.com  
Website: www.emcins.com/ir

## **ANNUAL MEETING**

We welcome attendance at our annual meeting on May 22, 2014, at 1:30 p.m. CDT.

EMC Insurance Companies  
700 Walnut Street  
Des Moines, IA 50309

# EMCI BOARD OF DIRECTORS

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## CHAIRMAN OF THE BOARD

### Stephen A. Crane

68, A, C, E, N

*Chair – Corp. Gov./Nominating Committee*

*Independent Consultant*

*Retired Chief Executive Officer*

*AlphaStar Insurance Group Ltd.*

## DIRECTORS

### Jonathan R. Fletcher

40, C, I, N

*Chair – Compensation Committee*

*Managing Director and Portfolio Manager*

*BTC Capital Management, Inc.*

*(finance, investments)*

### Robert L. Howe\*, CFE, CIE, CGFM, AIR

71, A, C, I, N

*Chair – Inter-Company Committee*

*Consultant, Insurance Strategies Consulting, LLC*

*Retired Deputy Commissioner and Chief Examiner,*

*Iowa Insurance Division*

### Bruce G. Kelley, J.D., CPCU, CLU

60, E

*Chair – Executive Committee*

*President and Chief Executive Officer*

*EMC Insurance Group Inc.*

### Gretchen H. Tegeler

58, E, A, I

*Chair – Audit Committee*

*Executive Director*

*Taxpayers Association of Central Iowa*

## INDEPENDENT DIRECTORS

Stephen A. Crane

Jonathan R. Fletcher

Robert L. Howe

Gretchen H. Tegeler

## BOARD COMMITTEES

A Audit Committee

C Compensation Committee

E Executive Committee

I Inter-Company Committee

N Corporate Governance and Nominating Committee

EMCI's Board-designated financial expert \*

### In Memory of:

George C. Carpenter III, Des Moines, IA

*The Board of Directors and Officers of EMCI mourn the passing of George C. Carpenter III, who served as a director since 1981, most recently as Chairman of the Board until his retirement in May of 2013.*

# EMCI OFFICERS

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### Karey S. Anderson, CFA

*Assistant Secretary*

### Jason R. Bogart, CPCU, ARM

*Senior Vice President, Branch Operations*

### Bradley J. Fredericks, M.B.A., FLMI

*Assistant Vice President*

### Rodney D. Hanson, CPCU

*Senior Vice President, Productivity and Technology*

### Richard W. Hoffmann, J.D.

*Vice President, General Counsel & Secretary*

### Kevin J. Hovick, CPCU

*Executive Vice President and COO*

### Ronald W. Jean, M.S., FCAS, MAAA

*Executive Vice President for Corporate Development*

### Scott R. Jean, FCAS, MAAA

*Vice President & Chief Actuary*

### Bruce G. Kelley, J.D., CPCU, CLU

*President and CEO*

### Robert L. Link, CAM, CM

*Senior Vice President & Assistant Secretary*

### Mick A. Lovell, CPCU

*Vice President, Director of Business Development*

### Elizabeth A. Nigut, J.D.

*Vice President, Human Resources*

### Ronald A. Paine, CPA, CIA

*Senior Vice President, Internal Audit*

### Carla A. Prather

*Assistant Vice President & Controller*

### Mark E. Reese, CPA

*Senior Vice President & CFO*

### Kelvin B. Sederburg, ACAS, MAAA

*Vice President & Appointed Actuary*

### Lisa A. Simonetta, J.D.

*Senior Vice President, Claims*

### Lisa A. Stange, M.B.A., CFA, FLMI

*Vice President, Chief Investment Officer & Treasurer*



**EMC Insurance Group Inc.**

Dakota Fire Insurance Company

EMC Reinsurance Company

EMC Underwriters, LLC

EMCASCO Insurance Company

Illinois EMCASCO Insurance Company