

**EMC INSURANCE GROUP INC.  
AUDIT COMMITTEE CHARTER**

**PURPOSE**

The purpose of the Audit Committee (the “Committee”) of EMC Insurance Group Inc. (the “Company”) is to assist the Company’s Board of Directors (the “Board”) in fulfilling its oversight responsibilities for (1) the integrity of the Company’s financial statements, (2) the Company’s compliance with legal and regulatory requirements, (3) the independent auditor’s qualifications and independence, and (4) the performance of the Company’s internal audit function and independent auditors. The Committee will also prepare the report required by the rules of the Securities and Exchange Commission to be included in the Company’s annual proxy statement.

**AUTHORITY**

The Committee shall have the authority granted to it in Article V, Section 3 of the Company’s By-Laws. The primary responsibility of the Committee is to oversee the Company’s financial controls and reporting processes on behalf of the Board, and to report the results of its activities to the Board. The Committee’s responsibilities are set forth more fully below. Management of the Company is responsible for preparing the Company’s financial statements, and the external auditors are responsible for auditing those financial statements. The Committee may perform such other duties or activities and may assume such other responsibilities as are consistent with its purpose and as the Board or the Committee deems appropriate. The following shall be the principal recurring processes of the Committee in carrying out its oversight responsibilities:

- Appoint, determine funding for, and oversee the work of the external auditors employed by the Company to conduct the annual audit. The external auditors will report directly to the Committee.
- Resolve any disagreements between management and the external auditors regarding financial reporting.
- Pre-approve all audit and permitted non-audit services to be performed by the Company’s external auditors.
- Retain and determine funding for independent counsel, accountants, or others to advise the Committee or assist in the conduct of an investigation.
- Seek any information it requires from employees--all of whom are directed to cooperate with the Committee's requests.
- Meet with Company officers, external auditors or outside counsel, as necessary.

**COMPOSITION**

The Audit Committee will consist of three or more members of the Board of Directors. The full Board will appoint the Committee members and the Committee chair.

Each Committee member will be both independent and financially literate. At least one member shall be designated as the “Audit Committee financial expert,” as defined by applicable rules and regulations.

No Committee member shall simultaneously serve on the audit committees of more than two other public companies.

## **MEETINGS**

The Committee will meet at least four times a year, with authority to convene additional meetings as circumstances require. All Committee members are expected to attend each meeting, in person or via tele-conference. The Committee will invite members of management, the external auditors or others to attend meetings and provide pertinent information, as necessary. It will meet separately with management, with internal auditors and with external auditors. It will also meet periodically in executive session.

Meetings may occur jointly with meetings of the audit committees of one or more affiliated companies, in which case a chairman of the joint meeting shall be elected by the members of the audit committees in attendance.

Special meetings may be called by any member of the Committee or by the Chief Executive Officer of the Company at any time circumstances dictate the need, pursuant to the notice provisions set forth in the By-Laws of the Company. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes will be prepared.

## **RESPONSIBILITIES**

The Committee will have the following responsibilities:

### **Financial Statements**

- Review significant accounting and reporting issues and understand their impact on the financial statements of the Company. These issues include:
  - Complex or unusual transactions
  - Major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles
  - Review and approval of all related party transactions (as defined by the National Association of Securities Dealers, Inc.) to which the Company is a party (with the exception of those related party transactions that are subject to the review and approval of the Inter-Company Committee of the Board)
  - The effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company
- Review analyses prepared by management and/or the external auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements.
- Review with management and the external auditors the results of each audit, including any difficulties encountered. This review will include any restrictions on the scope of the external

auditor's activities or on access to requested information, and any significant disagreements with management.

- Discuss the annual audited financial statements and quarterly financial statements with management and the external auditors, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations".
- Review disclosures and certifications made by the Chief Executive Officer and the Chief Financial Officer in the Company's Forms 10-K and 10-Q concerning controls and procedures for financial reporting.
- Discuss earnings press releases (particularly use of "pro forma," or "adjusted" non-GAAP, information), as well as financial information and earnings guidance provided to analysts and rating agencies. This review may be general (i.e., the types of information to be disclosed and the type of presentations to be made).

### **Internal Control**

- Review any reports prepared by the internal or external auditors regarding the effectiveness of the Company's internal control system, including information technology security and controls.
- Understand the scope of internal and external auditor reviews of internal controls over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.

### **Internal Audit**

- Review with management and the Chief Audit Officer the charter, plans, activities, staffing and organizational structure of the internal audit function.
- Ensure there are no unjustified restrictions or limitations placed upon, and review and concur in the appointment, replacement or dismissal of, the Chief Audit Officer.
- Review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing*.
- Meet separately with the Chief Audit Officer on a regular basis, to discuss any matters that the Committee or the internal audit department believes should be discussed privately.

### **External Audit**

- Review the external auditor's proposed audit scope and approach, including coordination of audit effort with internal audit.
- Review the performance of the external auditors. In performing this review, the Committee will:
  - Obtain and review, at least annually, a report by the external auditors describing the firm's internal quality-control procedures
  - Assess the external auditor's independence and review any relationships between the external auditor(s) and the Company
  - Take into account the opinions of management and internal audit
  - Review and evaluate the lead partner of the external auditor
  - Present to the Board its conclusions with respect to the external auditor
- Ensure the rotation of the lead and concurring audit partners every five years and other audit partners every seven years, and consider whether there should be regular rotation of the audit firm itself.

- Set clear hiring policies for employees or former employees of the external auditors.
- Meet separately with the external auditors on a regular basis, to discuss any matters that the Committee or the external auditors believe should be discussed privately.

### **Compliance**

- Review any reports prepared by internal audit, General Counsel or the external auditors regarding (i) the effectiveness of the Company's system for monitoring compliance with laws and regulations, and/or (ii) the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
- Establish procedures for: (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal controls, or auditing matters; and (ii) the confidential, anonymous submission by employees of the Company or its affiliates of concerns regarding questionable accounting or auditing matters.
- Review the findings of any examinations by regulatory agencies, as well as any auditor observations.
- Review and discuss with management, the internal auditors, and the external auditors the adequacy and effectiveness of the Company's legal, regulatory and ethical compliance programs, including the Company's Code of Corporate Conduct and/or its Guide to Ethical Corporate Conduct (or similar documents), and its Code of Ethics.
- Obtain regular updates from management and the Company's legal counsel regarding compliance matters.

### **Reporting Responsibilities**

- Report regularly to the Board of Directors about Committee activities and issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the Company's external auditors, and the performance of the internal audit function.
- Provide an open avenue of communication between internal audit, the external auditors, and the Board of Directors.
- Report annually to the stockholders, describing the Committee's composition, its responsibilities and how they were discharged, and any other information required by regulation or rule, including approval of non-audit services.
- Review any other reports the Company issues that relate to Committee responsibilities.

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**Other Responsibilities**

- Discuss with management the Company's major policies with respect to risk assessment and risk management.
- Perform other activities related to this Charter as requested by the Board of Directors.
- Institute and oversee special investigations as needed.
- Maintain financial literacy through formal seminars, self-study programs or professional experience.
- Review and assess annually the adequacy of this Committee Charter, consider any recommended changes to this Charter which might be received, request Board approval for proposed changes, and ensure that appropriate disclosures have been made, as may be required by law or regulation.
- Confirm annually that all responsibilities outlined in this Charter have been carried out.

As Amended August 2006

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