

# **EMC Insurance Group Inc.**

## **Corporate Governance Guidelines (as effective March 3, 2014)**

EMC Insurance Group Inc. ("Group" or the "Company") is a publicly held company and operates in a regulated industry. These Corporate Governance Guidelines (the "Guidelines") have been adopted by Group's Board of Directors (the "Board") to assist the Board in the performance of its duties and the exercise of its responsibilities. The Board believes that good corporate governance is a source of competitive advantage for Group. Good corporate governance will serve to drive superior performance and maximize the effectiveness of the Board and executive management by efficiently bringing to bear the skills, experience and judgment of the Board.

These Guidelines are the views of the Board as of the date of adoption concerning philosophy, style, and emphasis of governance. The Guidelines are subject to review and modification from time to time by the Board.

Due to Group's status as a controlled company and to Group's involvement (through its wholly-owned subsidiaries) in the EMC Insurance Companies Reinsurance Pooling Agreement, Employers Mutual Casualty Company takes the initiative on many of the issues discussed in this document, but the Company ultimately makes the final decision on such issues.

### THE BOARD'S ROLE AND RESPONSIBILITIES

#### *Board Objective*

The Board's objective is to build long-term value for Group's shareholders. The Board recognizes that in order to achieve this objective it must be sensitive to the interests of all of the Company's stakeholders, including its customers, employees, creditors and the communities in which Group operates.

#### *Board Responsibilities*

The Board is elected by and is accountable to the Shareholders and all corporate powers are exercised under the direction of the Board. The Board will exercise sound, informed and independent business judgment. The Board recognizes that to do so requires individual preparation by each director and group deliberation by the Board. The Board's responsibilities include both decision-making and oversight. Among other things, the Board's decision-making responsibilities include:

Review and approval of the Company's mission, strategies, objectives and policies, as developed by management;

The selection and evaluation of the Chief Executive Officer along with the determination of the terms of his or her compensation package;

Review with the Company's senior management team significant offers or opportunities in the areas of mergers, acquisitions and/or divestitures, as well as other strategic transactions that are not in the ordinary course of business;

The approval of material investments or divestitures, strategic transactions, and other significant transactions that are not in the ordinary course of business; and

Resolving inter-company issues between Group and/or its subsidiaries and Employers Mutual Casualty Company and/or its direct subsidiaries.

Among other things, the Board's oversight responsibilities include monitoring:

The Company's compliance with legal requirements and ethical standards;

The performance of the Company in relation to its mission, strategies, financial and non-financial objectives and competitors;

Management's efforts to identify and address enterprise risk, including credit, liquidity and operational risks;

The Company's success in developing leaders and ensuring a strong management team with sound succession plans;

The performance and effectiveness of the CEO and management; and

The Company's financial reporting processes and internal controls.

In addition, as appropriate, the Board should offer the CEO and management constructive advice and counsel.

#### *Expectations of Individual Directors*

The Board expects each director to:

Understand Group's business and the related risks;

Regularly attend meetings of the Board and of the committees on which he or she serves;

Review and understand the materials provided in advance of meetings and any other materials provided to the Board from time to time;

Monitor general economic, business and management news and trends, developments in Group's competitive environment, and Group's performance;

Actively, objectively and constructively participate in meetings and the strategic decision making processes;

Suggest items for inclusion on the Board's meeting agenda, and, while at meetings, raise subjects that are not on the agenda if the member believes such topics should be discussed;

Share his or her perspective, background, experience, knowledge and insights as they relate to the matters before the Board and its committees; and

Be reasonably available when requested to advise the CEO and management on specific issues not requiring the attention of the full Board but where an individual director's insights might be helpful to the CEO or management.

Board's Expectations of Management

The Board expects management to:

Provide strong, informed and ethical leadership;

Develop strategies and build strong sustainable marketplace positions that build shareholder value over the long-term;

Develop appropriate strategic operating plans;

Maintain effective control of operations and report regularly on its programs to ensure compliance with the highest ethical standards, as well as with legal, regulatory and other requirements;

Report to the Board on a regular basis regarding management's efforts to identify, assess and address enterprise risk, including credit, liquidity and operational risks;

Measure and report performance against peer enterprises;

Provide sound succession planning and management development;

Maintain sound organizational structure;

Inform the Board regularly of the status of key initiatives and changes in Group's performance or the environment in which it operates;

Timely address and resolve issues discussed at Board and Board committee meetings;

Be reasonably available to meet with the Board or individual members of the Board; and

Provide access to information about Group, including books, records, and minutes.

Management, acting through the CEO, will inform the Board of material developments as soon as practical, and not wait until regularly scheduled Board meetings.

BOARD SELECTION AND COMPOSITION

Board Size

The Board of Directors shall consist of five directors as set forth in the Company's By-Laws.

### Number of Independent Directors

Independent directors will constitute a majority of the Board.

### Definition of Independent Director

The independence of directors shall be determined according to the rules and standards established by the Securities and Exchange Commission ("SEC"), the National Association of Securities Dealers, Inc. ("NASD") and all other applicable U.S. federal and state laws and regulations.

### Nomination and Selection of Directors

The Board, as a whole, will be responsible for nominating individuals for election to the Board at the annual meeting of the Shareholders and the persons to be elected by the Board to fill any vacancies on the Board that may occur between the annual meetings. The Corporate Governance and Nominating Committee shall be responsible for identifying, screening, personally interviewing and recommending candidates to the entire Board. In nominating candidates, the Board shall take into account such factors as it deems appropriate. These factors may include integrity, honesty, high ethical standards, business acumen, sound business judgment, intelligence, personal character, the interplay of the candidate's relevant experience with the experience of other Board members, the impact of a particular candidate on the diversity of the Board as a whole, the willingness of the candidate to understand the Company and the insurance industry and to regularly attend and fully participate in meetings of the Board, and the likelihood that he or she will be willing and able to serve on the Board for a sustained period. The Corporate Governance and Nominating Committee will receive and review any shareholder recommendations for director nominations, provided that such recommendations are submitted to the Company in accordance with the requirements and procedures set forth in the Company's By-Laws.

### Voting for Directors

The shareholders shall vote at a meeting of shareholders to elect the directors. Cumulative voting is not allowed. In an uncontested election (*i.e.*, an election where the only nominees are those recommended by the Board), the vote required for election shall be the affirmative vote of a majority of the votes cast in favor of or against the election of a nominee. In a contested election, directors shall be elected by a plurality of the votes cast at a meeting of shareholders by the holders of shares entitled to vote in the election.

Any nominee for director in an uncontested election who receives a greater number of votes "withheld" from his or her election than votes "for" such election (a "Majority Withheld Vote") shall promptly tender his or her resignation for consideration by the Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee will promptly consider the best interests of the Company and its stockholders and recommend to a committee of independent directors of the Board whether to accept the tendered resignation or to take some other action, such as rejecting the resignation and addressing the apparent underlying cause of the withheld votes.

The Board will create a committee of all the independent directors who did not receive a Majority Withheld Vote to consider the Corporate Governance and Nominating Committee's recommendation and take action within 90 days following the uncontested election. Thereafter,

the committee of independent directors will promptly disclose its decision and an explanation of how the decision was reached in a Current Report on Form 8-K filed with the SEC.

Except as provided below, a director receiving a Majority Withheld Vote shall remain active and engaged in Board activities during this Corporate Governance and Nominating Committee and Board process.

If one or more members of the Corporate Governance and Nominating Committee receive a Majority Withheld Vote, the Board will create a committee of independent directors who did not receive a Majority Withheld Vote to consider the resignation offers of all directors receiving a Majority Withheld Vote and determine whether to accept the tendered resignation(s) or to take some other action and promptly disclose their decision in a Current Report on Form 8-K.

Any director who receives a Majority Withheld Vote and tenders his or her resignation pursuant to this provision will not participate in the committee action regarding whether to accept the tendered resignation offer or take some other action. However, if the only directors who did not receive a Majority Withheld Vote in the same election constitute three or fewer independent directors, then all independent directors may participate in the committee action regarding whether to accept the resignation offer(s) or to take some other action.

#### Board Leadership

The Company will have a separate Chair of the Board and Chief Executive Officer. If the Chair is not an independent director, the independent directors will select an independent director to act as the "Lead Director" when it meets in executive session or when the Board Chair is unable to lead the Board's deliberations. The Lead Director will also serve as a liaison between the Board and the CEO.

#### Director Retirement

No person shall be nominated for or elected a director of the Company after he or she has attained the age of 75.

#### Directors' Questionnaire

Each director annually completes a questionnaire for use in the Company's proxy statement. Among other things, the questionnaire includes questions about conflicts of interest, the director's status as an independent director or an insider, related party transactions, criminal proceedings, the director's employment status and service on the boards of other publicly-held companies and/or not-for-profit entities. This information is also provided to the Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee annually reviews the membership of the Board and each committee to determine that the needs of the Company and the committees are being met.

#### Service on Other For Profit Company Boards

The Board believes that individuals should limit the number of boards on which they serve in order to give proper attention to their responsibility to each board. Directors will notify the Board Secretary of proposed memberships on other for profit boards of directors (or similar governing bodies). The Secretary will then seek and obtain approval of the Corporate Governance and Nominating Committee. The committee shall review the requirements of such membership with the director. If the director is nominated to another for profit board, he or she

shall inform the Board Secretary, who shall inform the Corporate Governance and Nominating Committee of such nomination. As a general policy, the Board believes that directors should limit their service to not more than three other boards of for profit companies, but exceptions to this policy will be made in appropriate cases. Where a director seeks to serve on more than three other boards, the Corporate Governance and Nominating Committee will consider the request and submit its recommendation to the Board for consideration and decision. All memberships on other boards by the CEO will be considered by the full Board based upon the Corporate Governance and Nominating Committee's recommendation.

#### *Service on Boards of Competing or Interlocking Enterprises*

A director will not serve as a director of any public company that is competitive with the business of the Company. Federal law regulates so-called "interlocking" directorates. Directors should seek legal guidance concerning such memberships.

#### *Director Orientation Program*

The Board and management, through the Secretary of the Company, will provide an orientation program for new directors (and, as appropriate, a continuing education program for returning directors) that includes, as advisable, management meetings, facility visits, and materials, such as the Company's organizational and governance documents, recent Board committee minutes, recent SEC filings, strategic and operating plans, financial information, and information about the Company's businesses, products, services and the industries in which the Company operates.

#### *Continuing Education*

The Company endeavors to provide directors with relevant updates on property and casualty industry standards and trends, corporate governance practices and the legal requirements of Board members. In addition, directors are expected to participate in relevant educational opportunities (including, but not limited to, webinars presented and/or sponsored by the Company, Employers Mutual Casualty Company and/or their subsidiaries and affiliates) to enhance their effectiveness on the Board. The Company will pay for courses the directors and the Company deem appropriate to assist the directors in their roles as Board members.

#### *Conflict of Interest*

If an actual or potential conflict of interest, such as a consulting arrangement, develops because of a change in the business of the Company or an affiliate or subsidiary, or in a director's circumstances, the director should disclose the matter to the Board Secretary, who will notify the Corporate Governance and Nominating Committee. If a director has a personal interest in a matter before the Board, the interest shall be disclosed to the full Board, and the director shall recuse himself or herself from participation in the discussion, and shall not vote on the matter.

### BOARD OPERATIONS

#### *Number of Regular Meetings*

The Board will hold at least four regular meetings each year.

#### *Meeting Schedule*

The CEO will prepare and propose a Board meeting schedule for the ensuing year for consideration by the Board at its second meeting following the Annual Meeting of Shareholders.

### Executive Sessions

At two of the regularly scheduled meetings each year, the Board will meet with only the non-management directors present. These meetings will be chaired either by the Chair (if he or she is an Independent Director) or by the Lead Director (if the Chair is not an independent director). If not all of the non-management directors are independent directors, the independent directors will meet separately in executive session at least once a year in connection with the Annual Meeting of Shareholders.

### Investor Concerns

In order for interested parties to be able to make their concerns about corporate governance violations or fraud known, the Board has set up the following procedures. Interested parties may submit their concerns via telephone to a toll-free number published on the "Investors" page of the Company's website. The line is operated by an independent company and is available twenty-four hours a day, seven days a week. Calls may be made anonymously. Call specialists issue the caller a report number and a date to call back. This second call provides an opportunity for the caller to provide additional information or for the call specialist to request additional information. Following the first call, the call specialist provides a detailed summary of the call to the Company's Director of Internal Audit, who investigates the matter and, if the claims are substantiated, submits the matter to the proper Board committee.

### Meeting Materials

Management will make every effort to provide to each director or appropriate committee member, in writing or by means of a secure electronic medium, an agenda for each Board or committee meeting at least five business days prior to such meeting, together with (a) written materials pertaining to matters to be presented for Board decision at such meeting; (b) summary financial information needed to understand the performance of the Company; (c) minutes of the most recent Board meeting and any of the committee meetings held since the distribution of materials for the most recent Board meeting; and (d) other written materials available in advance of the meeting. Written materials should be designed to provide a foundation for the Board's discussion of key issues and allow the Board to make the most efficient use of its meeting time. Directors may request additional information or changes in the scope, amount or format of the information provided, and the CEO will make every effort to provide such additional information or make such changes.

### CEO Evaluation

Each year the Chair of the Board of Directors for Employers Mutual Casualty Company ("EMCC"), along with the Senior Executive Compensation and Stock Option Committee of EMCC's board and the Compensation Committee of the Company's Board (collectively "the Compensation Committees") and the Corporate Governance and Nominating Committee of EMCC's board will develop and recommend to the Board criteria that will be used to evaluate the CEO's performance. These criteria will include, among other things, the Company's performance against its strategic and operating plans, as well as achievements in management development and succession planning. At the completion of each year, the Chair of EMCC's Board conducts a performance evaluation of the CEO and meets with EMCC's Corporate Governance and Nominating Committee and the Compensation Committees to discuss the evaluation.

### Board Evaluation

The Corporate Governance and Nominating Committee has the responsibility to oversee the evaluation of the Board and its committees. That committee will conduct an annual evaluation in accordance with the provisions of the Corporate Governance and Nominating Committee Charter. The evaluation process may include, as appropriate, the receipt and review of (i) survey results; (ii) self-evaluation comments from all Board members; and/or (iii) peer review evaluations of each director and/or committee member by the remaining directors and/or committee members. The Corporate Governance and Nominating Committee may also, in its discretion, retain an outside party to assist with such evaluations.

## BOARD COMMITTEES

### Standing Committees

The Board will normally have four standing committees – Audit Committee, Compensation Committee, Corporate Governance and Nominating Committee and the Inter-Company Committee. The Board may expand or reduce the number of standing committees, change committee responsibilities or form *ad hoc* committees. Each standing committee will have a charter that is adopted by the Board and will be posted on the Company's website. Each committee chair shall report regularly to the Board on committee meetings and other committee activities.

### Executive Committee

The Board shall also have an Executive Committee whose purpose shall be to meet on an as-needed basis when the Board is not in session. Such committee shall have the power to act on behalf of the Board, with the exception of certain actions which, under Iowa law and the Company's By-Laws, require action by the Board.

### Committee Composition

The size, membership, and chairs of each committee will be determined by the Board as recommended by the Corporate Governance and Nominating Committee. However, the By-Laws require that each committee shall have at least three members. The chair and members of each of the committees, with the exception of the Executive Committee, shall be Independent Directors. Furthermore, each of the members of the Audit Committee shall be financially literate, with at least one member designated as the "Audit Committee financial expert" as defined by applicable rules and regulations.

### Committee Meetings and Materials

The chair of each committee, in consultation with committee members, will determine the frequency and length of the committee meetings consistent with any requirements set forth in the committee's charter. The chair of each committee, in consultation with the appropriate members of the committee and management, will develop the committee's agenda. The notice, agenda and materials for each standing committee will be furnished to each director and each director is invited to observe all standing committee meetings.

### Management Attendance at Committee Meetings

The chair of each committee in consultation with the CEO will determine which members of management will attend each committee meeting.

### Committee Reports to the Board

At each regularly scheduled Board meeting the chairs of each committee will make a presentation to the Board regarding the activities of his or her committee since the last regularly scheduled Board meeting. The presentation is to inform directors about the activities, policies and practices of committees on which they do not serve, and to allow discussion of relevant issues by the full Board.

### Ad Hoc Committees

In the event the Board chooses to form an *ad hoc* committee, the Board will determine the size, membership, and chair of each such committee. Generally, the chairs and most members of such committees will be Independent Directors. The Board may appoint members of management as ex officio members of such *ad hoc* committees.

### Independent Advisors

Each committee has the sole power to hire and determine the engagement terms and authorize the Company to pay the fees of independent legal, financial or other advisors as they deem necessary to fulfill such committee's responsibilities.

### DIRECTORS' COMPENSATION

The Board will determine directors' compensation.

### COMMUNICATIONS

Management speaks for the Company. Inquiries from investors, analysts, the press, customers, suppliers or others should be referred to the CEO or other appropriate members of management.

### GUIDE TO ETHICAL CORPORATE CONDUCT

The Company has adopted the EMC Insurance Companies Guide to Ethical Corporate Conduct (the "Guide") which applies to all directors, officers, and employees of the Company and its subsidiaries and affiliates.

Each year directors are required to sign and submit an "Annual Acknowledgment and Disclosure Form" that confirms the director has read and understands the Guide, which includes a Conflicts of Interest Policy, and agrees to abide by its requirements. The director is also required to affirm that, to the best of his or her knowledge, neither the director nor any of his or her immediate family have a conflict that would interfere with the director's ability to impartially discharge his or her duties, and that if the situation changes, the director will immediately disclose the facts relating thereto (and in no event shall the delay be greater than 3 days) to the Chair of the Board of Directors of the Company and to the Chief Executive Officer and the Director of Internal Audit of Employers Mutual Casualty Company, the Company's controlling shareholder.