



## **ERIE INDEMNITY COMPANY**

### **Investor Supplement Second Quarter 2014**

This report is for informational purposes only and includes consolidated financial statements and financial exhibits that are unaudited. This report should be read in conjunction with documents filed with the U.S. Securities and Exchange Commission, including the most recent Annual Report on Form 10-K for 2013.

**Erie Indemnity Company**  
**Investor Supplement - Second Quarter 2014**  
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**Erie Indemnity Company**  
**Investor Supplement - Second Quarter 2014**  
**Basis of Presentation**

**Entity Definitions**

The accompanying consolidated financial statements of Erie Indemnity Company reflect the consolidated results of Indemnity and the Erie Insurance Exchange ("Exchange"), which we refer to collectively as "Erie Insurance Group."

**Indemnity** is a publicly held Pennsylvania business corporation that since 1925 has been the managing Attorney-in-Fact for the subscribers (policyholders) of Exchange. Indemnity shareholder interest represents the Class A and Class B shareholders. All management operations accrue to the Indemnity shareholder interest.

**Exchange** is a subscriber (policyholder) owned Pennsylvania-domiciled reciprocal insurer that writes property and casualty insurance. Exchange refers to the noncontrolling interest held for the interest of the subscribers (policyholders) and includes its interests in Erie Insurance Company ("EIC"), Erie Insurance Company of New York ("ENY"), Erie Insurance Property and Casualty Company ("EPC"), Flagship City Insurance Company ("Flagship") and Erie Family Life Insurance Company ("EFL"). All property and casualty and life insurance results accrue to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest.

The Property and Casualty Group ("P&C Group") is a regional insurance group operating in 11 Midwestern, Mid-Atlantic, and Southeastern states and the District of Columbia. The P&C Group is comprised of Exchange and its wholly owned property and casualty subsidiaries.

EFL is an affiliated life insurance company that underwrites and sells individual and group life insurance policies and fixed annuities.

Operating income (loss) is net income (loss) excluding the after-tax impact of the net realized investment gains (losses) and impairment losses.

**Property and Casualty Group**

Certain operating and statistical measures have been incorporated herein to provide supplemental data that indicate current trends in the P&C Group's business. These measures include revenue, policies in-force and policyholder retention. Policyholder retention is defined as renewal policies in the current period divided by total policies in the prior period.

The P&C Group, along with others in the property and casualty insurance industry, use statutory underwriting ratios as measures of performance. The loss and loss expense ratio is the ratio of losses and loss expenses to earned premiums. The statutory underwriting expense ratio is the ratio of underwriting expenses to written premiums. The combined ratio is the sum of the loss and loss expense ratio, the underwriting expense ratio and the policyholder dividend ratio. A combined ratio below 100% demonstrates underwriting profit; a combined ratio above 100% demonstrates underwriting losses. The catastrophe ratio (a component of the loss ratio) represents the ratio of catastrophe losses to earned premiums.

GAAP combined ratio is the sum of the loss and loss expense ratio, the underwriting expense ratio and, where applicable, the ratio of policyholder dividends to net earned premiums. For GAAP, the loss and loss expense ratio is the ratio of incurred losses and loss expenses to net earned premiums. The underwriting expense ratio is the ratio of policy acquisition and other underwriting costs to net earned premiums. A GAAP combined ratio under 100% generally indicates an underwriting profit. A GAAP combined ratio over 100% generally indicates an underwriting loss.

Loss reserve development is the increase or decrease in incurred losses and loss expenses as a result of the re-estimation of loss and loss expense reserves at successive valuation dates for a given group of claims. Loss reserve development may be related to one or more prior years. In the opinion of the Company's management, discussion of loss reserve development is useful to investors as it allows them to assess the impact between prior year development on incurred claims and claim adjustment expenses, net income, and changes in claims and claim adjustment expense reserve levels from period to period.

**Erie Insurance Group's Quarterly Operations by Interest (Unaudited)**

(dollars in millions, except per share data)

	Indemnity shareholder interest		Noncontrolling interest (Exchange)		Eliminations of related party transactions		Erie Insurance Group	
	Three months ended June 30,		Three months ended June 30,		Three months ended June 30,		Three months ended June 30,	
	2014	2013	2014	2013	2014	2013	2014	2013
<b>Management operations:</b>								
Management fee revenue, net	\$ 366	\$ 336	\$ —	\$ —	\$ (366)	\$ (336)	\$ —	\$ —
Service agreement revenue	8	8	—	—	—	—	8	8
Total revenue from management operations	374	344	—	—	(366)	(336)	8	8
Cost of management operations	306	285	—	—	(306)	(285)	—	—
<i>Income from management operations before taxes</i>	68	59	—	—	(60)	(51)	8	8
<b>Property and casualty insurance operations:</b>								
Net premiums earned	—	—	1,298	1,196	—	—	1,298	1,196
Losses and loss expenses	—	—	1,101	837	(2)	(2)	1,099	835
Policy acquisition and underwriting expenses	—	—	380	348	(64)	(53)	316	295
<i>(Loss) income from property and casualty insurance operations before taxes</i>	—	—	(183)	11	66	55	(117)	66
<b>Life insurance operations:</b> <sup>(1)</sup>								
Total revenue	—	—	46	46	(1)	(1)	45	45
Total benefits and expenses	—	—	36	33	0	0	36	33
<i>Income from life insurance operations before taxes</i>	—	—	10	13	(1)	(1)	9	12
<b>Investment operations:</b> <sup>(1)</sup>								
Net investment income	4	3	89	81	(5)	(3)	88	81
Net realized gains on investments	0	0	133	58	—	—	133	58
Net impairment losses recognized in earnings	0	0	0	0	—	—	0	0
Equity in earnings of limited partnerships	3	5	23	33	—	—	26	38
<i>Income from investment operations before taxes</i>	7	8	245	172	(5)	(3)	247	177
<b>Income from operations before income taxes and noncontrolling interest</b>	75	67	72	196	—	—	147	263
Provision for income taxes	26	23	18	63	—	—	44	86
<b>Net income</b>	<b>\$ 49</b>	<b>\$ 44</b>	<b>\$ 54</b>	<b>\$ 133</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 103</b>	<b>\$ 177</b>

(1) Earnings on life insurance related invested assets are integral to the evaluation of the life insurance operations because of the long duration of life products. On that basis, for presentation purposes, the life insurance operations in the table above include life insurance related investment results.

<b>Operating income</b>	\$ 49	\$ 44
<b>Net income per share - diluted</b>	\$ 0.94	\$ 0.84
<b>Operating income per share - diluted</b>	\$ 0.94	\$ 0.84

**Key measures**

<b>Gross margin % - Indemnity</b>	18.2%	17.3%
<b>GAAP combined ratio</b>	114.0%	99.1%

**Erie Insurance Group's Year to Date Operations by Interest (Unaudited)**

(dollars in millions, except per share data)

	Indemnity shareholder interest		Noncontrolling interest (Exchange)		Eliminations of related party transactions		Erie Insurance Group	
	Six months ended June 30,		Six months ended June 30,		Six months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013	2014	2013	2014	2013
<b>Management operations:</b>								
Management fee revenue, net	\$ 685	\$ 632	\$ —	\$ —	\$ (685)	\$ (632)	\$ —	\$ —
Service agreement revenue	15	15	—	—	—	—	15	15
Total revenue from management operations	700	647	—	—	(685)	(632)	15	15
Cost of management operations	574	539	—	—	(574)	(539)	—	—
<i>Income from management operations before taxes</i>	126	108	—	—	(111)	(93)	15	15
<b>Property and casualty insurance operations:</b>								
Net premiums earned	—	—	2,566	2,352	—	—	2,566	2,352
Losses and loss expenses	—	—	2,108	1,654	(3)	(3)	2,105	1,651
Policy acquisition and underwriting expenses	—	—	745	676	(117)	(97)	628	579
<i>(Loss) income from property and casualty insurance operations before taxes</i>	—	—	(287)	22	120	100	(167)	122
<b>Life insurance operations:</b> <sup>(1)</sup>								
Total revenue	—	—	96	92	(1)	(1)	95	91
Total benefits and expenses	—	—	73	68	0	0	73	68
<i>Income from life insurance operations before taxes</i>	—	—	23	24	(1)	(1)	22	23
<b>Investment operations:</b> <sup>(1)</sup>								
Net investment income	8	7	173	160	(8)	(6)	173	161
Net realized gains on investments	1	0	183	304	—	—	184	304
Net impairment losses recognized in earnings	0	0	0	0	—	—	0	0
Equity in earnings of limited partnerships	9	8	67	66	—	—	76	74
<i>Income from investment operations before taxes</i>	18	15	423	530	(8)	(6)	433	539
<b>Income from operations before income taxes and noncontrolling interest</b>	144	123	159	576	—	—	303	699
Provision for income taxes	49	42	42	190	—	—	91	232
<b>Net income</b>	<b>\$ 95</b>	<b>\$ 81</b>	<b>\$ 117</b>	<b>\$ 386</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 212</b>	<b>\$ 467</b>

(1) Earnings on life insurance related invested assets are integral to the evaluation of the life insurance operations because of the long duration of life products. On that basis, for presentation purposes, the life insurance operations in the table above include life insurance related investment results.

<b>Operating income</b>	\$ 94	\$ 81
<b>Net income per share - diluted</b>	\$ 1.82	\$ 1.54
<b>Operating income per share - diluted</b>	\$ 1.81	\$ 1.54

**Key measures**

<b>Gross margin % - Indemnity</b>	18.0%	16.7%
<b>GAAP combined ratio</b>	111.1%	99.0%

**Erie Indemnity Company**  
**Investor Supplement - Second Quarter 2014 (Unaudited)**

**Balance Sheet Information - Indemnity**

*(in millions)*

	<b>June 30, 2014</b>	<b>March 31, 2014</b>	<b>December 31, 2013</b>	<b>September 30, 2013</b>	<b>June 30, 2013</b>
<b>Assets</b>					
<b>Investments</b>					
Available-for-sale securities, at fair value:					
Fixed maturities	\$ 497	\$ 502	\$ 526	\$ 499	\$ 438
Equity securities	26	35	50	48	48
Limited partnerships	141	145	146	158	166
Other invested assets	1	1	1	1	1
<b>Total investments</b>	<b>665</b>	<b>683</b>	<b>723</b>	<b>706</b>	<b>653</b>
Cash and cash equivalents	63	44	49	33	39
Deferred income taxes	1	—	2	42	43
Other assets	112	113	114	107	115
Receivables from Exchange and other affiliates	339	301	300	320	309
Note receivable from EFL	25	25	25	25	25
<b>Total assets</b>	<b>\$ 1,205</b>	<b>\$ 1,166</b>	<b>\$ 1,213</b>	<b>\$ 1,233</b>	<b>\$ 1,184</b>
<b>Liabilities and shareholders' equity</b>					
<b>Liabilities</b>					
Other liabilities	\$ 450	\$ 424	\$ 479	\$ 576	\$ 537
<b>Total liabilities</b>	<b>450</b>	<b>424</b>	<b>479</b>	<b>576</b>	<b>537</b>
<b>Shareholders' equity</b>	<b>755</b>	<b>742</b>	<b>734</b>	<b>657</b>	<b>647</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,205</b>	<b>\$ 1,166</b>	<b>\$ 1,213</b>	<b>\$ 1,233</b>	<b>\$ 1,184</b>

**Erie Indemnity Company**  
**Investor Supplement - Second Quarter 2014 (Unaudited)**

**Indemnity Management Operations**

*(dollars in millions)*

	Three Months Ended					Six Months Ended	
	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	June 30, 2014	June 30, 2013
<b><u>Direct written premiums of the P&amp;C Group</u></b>							
Private passenger auto	\$ 616	\$ 557	\$ 521	\$ 592	\$ 579	\$ 1,173	\$ 1,106
Homeowners	406	301	330	376	367	707	637
Commercial multi-peril	185	176	150	153	169	361	332
Commercial auto	111	99	84	86	99	210	189
Workers compensation	109	106	83	86	97	215	197
All other lines of business	47	40	35	39	43	87	80
P&C Group direct written premiums - total	1,474	1,279	1,203	1,332	1,354	2,753	2,541
<b><u>Indemnity management operations revenue</u></b>							
Management fee rate	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%
Management fee revenue, gross	\$ 368	\$ 320	\$ 301	\$ 333	\$ 338	\$ 688	\$ 635
Service fee/other	6	6	8	8	6	12	12
Total revenue from management operations	\$ 374	\$ 326	\$ 309	\$ 341	\$ 344	\$ 700	\$ 647

	Three Months Ended					Six Months Ended	
	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	June 30, 2014	June 30, 2013
<b><u>Indemnity cost of management operations</u></b>							
Commissions	\$ 205	\$ 174	\$ 172	\$ 187	\$ 187	\$ 379	\$ 351
Non-commission expense	101	94	96	94	98	195	188
Total cost of management operations	\$ 306	\$ 268	\$ 268	\$ 281	\$ 285	\$ 574	\$ 539

	Three Months Ended					Six Months Ended	
	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	June 30, 2014	June 30, 2013
<b><u>Gross margin from management operations</u></b>							
Income from management operations	\$ 68	\$ 58	\$ 41	\$ 60	\$ 59	\$ 126	\$ 108
Gross margin %	18.2%	17.9%	13.2%	17.7%	17.3%	18.0%	16.7%

<b>P&amp;C Group</b> <b>Direct Written Premium Growth Measures</b>
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	<b>June 30, 2014</b>	<b>March 31, 2014</b>	<b>December 31, 2013</b>	<b>September 30, 2013</b>	<b>June 30, 2013</b>
<b>12 month growth rate policies in force</b>					
Total all lines	4.5%	4.7%	4.8%	4.7%	4.4%
Total personal lines	4.5%	4.6%	4.8%	4.7%	4.4%
Total commercial lines	4.7%	4.9%	5.2%	5.0%	4.6%
<b>Retention trends</b>					
Total all lines	90.6%	90.6%	90.6%	90.7%	90.9%
Total personal lines	91.1%	91.1%	91.2%	91.3%	91.5%
Total commercial lines	86.9%	87.1%	86.7%	86.5%	86.4%
<b>12 month % change average premiums</b>					
Total all lines	4.2%	4.2%	4.5%	4.7%	4.8%
Total personal lines	3.7%	3.8%	3.8%	3.9%	3.9%
Total commercial lines	5.4%	5.2%	6.3%	6.7%	7.1%



P&C Group								
Reported Combined Ratio (Statutory Basis) - Direct Business								
Three Months ended June 30, 2014					Three Months ended June 30, 2013			
	Prior Year		Current		Prior Year		Current	
	Reserve		Accident		Reserve		Accident	
	Development		Year		Development		Year	
	Deficiency				Deficiency			
	(Redundancy)	Catastrophe	Excluding		(Redundancy)	Catastrophe	Excluding	
	[Direct business]	Losses	Catastrophes		[Direct business]	Losses	Catastrophes	
	Calendar				Calendar			
	Year				Year			
Private passenger auto	110.3 %	(2.3)%	14.0%	98.6%	101.0%	(0.6)%	0.8%	100.8%
Homeowners	115.3 %	1.3 %	37.6%	76.4%	88.8%	2.5 %	12.0%	74.3%
Other personal lines	74.1 %	(7.1)%	1.4%	79.8%	55.6%	(15.0)%	1.6%	69.0%
<b>Total personal lines</b>	<b>111.6%</b>	<b>(1.0)%</b>	<b>22.7%</b>	<b>89.9%</b>	<b>95.9%</b>	<b>0.3%</b>	<b>4.9%</b>	<b>90.7%</b>
Commercial multi-peril	114.8 %	1.2 %	15.0%	98.6%	98.1%	9.8 %	1.9%	86.4%
Commercial auto	110.6 %	(0.4)%	8.7%	102.3%	107.6%	5.1 %	(0.1)%	102.6%
Workers compensation	113.7 %	0.7 %	0.0%	113.0%	103.1%	(2.5)%	0.0%	105.6%
Other commercial lines	63.1 %	(13.9)%	0.7%	76.3%	75.9%	4.1 %	0.2%	71.6%
<b>Total commercial lines</b>	<b>110.1%</b>	<b>(0.3)%</b>	<b>8.7%</b>	<b>101.7%</b>	<b>100.3%</b>	<b>5.2%</b>	<b>0.8%</b>	<b>94.3%</b>
<b>Grand total - direct business only</b>	<b>111.2%</b>	<b>(0.8)%</b>	<b>18.7%</b>	<b>93.3%</b>	<b>97.1%</b>	<b>1.7%</b>	<b>3.7%</b>	<b>91.7%</b>
Six Months ended June 30, 2014					Six Months ended June 30, 2013			
	Prior Year		Current		Prior Year		Current	
	Reserve		Accident		Reserve		Accident	
	Development		Year		Development		Year	
	Deficiency				Deficiency			
	(Redundancy)	Catastrophe	Excluding		(Redundancy)	Catastrophe	Excluding	
	[Direct business]	Losses	Catastrophes		[Direct business]	Losses	Catastrophes	
	Calendar				Calendar			
	Year				Year			
Private passenger auto	107.3 %	(0.4)%	7.3%	100.4%	101.1%	0.1 %	0.7%	100.3%
Homeowners	116.9%	0.5 %	29.9%	86.5%	91.5%	0.3 %	9.3%	81.9%
Other personal lines	58.5 %	(18.2)%	1.5%	75.2%	72.6%	(0.1)%	1.3%	71.4%
<b>Total personal lines</b>	<b>110.2%</b>	<b>(0.3)%</b>	<b>15.7%</b>	<b>94.8%</b>	<b>97.2%</b>	<b>0.2%</b>	<b>3.8%</b>	<b>93.2%</b>
Commercial multi-peril	115.3 %	(1.6)%	12.2%	104.7%	92.4%	2.1 %	2.2%	88.1%
Commercial auto	112.9%	6.7 %	4.7%	101.5%	101.2%	1.1 %	0.3%	99.8%
Workers compensation	92.2 %	(15.6)%	0.0%	107.8%	109.5%	8.1 %	0.0%	101.4%
Other commercial lines	75.5 %	0.3 %	1.1%	74.1%	79.9%	8.3 %	0.2%	71.4%
<b>Total commercial lines</b>	<b>106.3%</b>	<b>(2.9)%</b>	<b>6.6%</b>	<b>102.6%</b>	<b>98.1%</b>	<b>3.8%</b>	<b>1.0%</b>	<b>93.3%</b>
<b>Grand total - direct business only</b>	<b>109.1%</b>	<b>(1.1)%</b>	<b>13.1%</b>	<b>97.1%</b>	<b>97.4%</b>	<b>1.2%</b>	<b>3.0%</b>	<b>93.2%</b>