



## **ERIE INDEMNITY COMPANY**

### **Investor Supplement Second Quarter 2018**

This report is for informational purposes only and includes 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 2017.

**Erie Indemnity Company**  
**Investor Supplement - Second Quarter 2018**  
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**Erie Indemnity Company**  
**Investor Supplement - Second Quarter 2018**  
**Definitions**

**Indemnity** is a publicly held Pennsylvania business corporation that has since its incorporation in 1925 served as the attorney-in-fact for the subscribers (policyholders) at the Erie Insurance Exchange ("Exchange"). Indemnity functions solely as the management company and all insurance operations are performed by the Exchange.

**Exchange**, which also commenced business in 1925, is a Pennsylvania-domiciled reciprocal insurer that writes property and casualty insurance.

**Property and Casualty Group**

The Property and Casualty Group ("P&C Group") is a regional insurance group operating in 12 Midwestern, Mid-Atlantic, and Southeastern states and the District of Columbia. The P&C Group is comprised of the Exchange and its wholly owned property and casualty subsidiaries. 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.

- 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 group of claims. Loss reserve development may be related to one or more prior years. The prior year reserve development ratio represents the ratio of prior years' incurred losses and loss expenses to earned premiums.
- The catastrophe ratio (a component of the loss ratio) represents the ratio of catastrophe losses to earned premiums.
- The current accident year ratio represents the total amount of losses to earned premiums during the current calendar year.

**Erie Indemnity Company**  
**Investor Supplement - Second Quarter 2018 (Unaudited)**

	<b>Indemnity</b>						
	<b>Income Statements</b>						
	Three months ended					Six months ended	
<i>(dollars in thousands, except per share data)</i>	<b>June 30, 2018</b>	<b>March 31, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>	<b>June 30, 2017</b>	<b>June 30, 2018</b>	<b>June 30, 2017</b>
<b>Operating revenue</b>							
Management fee revenue - policy issuance and renewal services, net <sup>(1)</sup>	\$ 454,572	\$ 405,978	\$ 394,034	\$ 435,214	\$ 441,319	\$ 860,550	\$ 833,377
Management fee revenue - administrative services, net <sup>(1)</sup>	13,299	13,074	N/A	N/A	N/A	26,373	N/A
Administrative services reimbursement revenue <sup>(2)</sup>	146,507	145,963	N/A	N/A	N/A	292,470	N/A
Service agreement revenue	7,080	7,145	7,368	7,278	7,245	14,225	14,503
Total operating revenue	621,458	572,160	401,402	442,492	448,564	1,193,618	847,880
<b>Operating expenses</b>							
Commissions	261,573	234,094	226,943	248,677	251,383	495,667	471,861
Non-commission operating expenses	118,055	114,536	115,834	112,576	113,733	232,591	225,631
Total cost of operations - policy issuance and renewal services <sup>(3)</sup>	379,628	348,630	342,777	361,253	365,116	728,258	697,492
Cost of operations - administrative services <sup>(2)</sup>	146,507	145,963	N/A	N/A	N/A	292,470	—
Total operating expenses	526,135	494,593	342,777	361,253	365,116	1,020,728	697,492
Operating income	95,323	77,567	58,625	81,239	83,448	172,890	150,388
<b>Investment income</b>							
Net investment income	7,104	6,820	6,437	5,982	6,239	13,924	12,220
Net realized investment (losses) gains	(32)	(465)	(205)	899	124	(497)	640
Net impairment losses recognized in earnings	(646)	0	0	0	(61)	(646)	(182)
Equity in (losses) earnings of limited partnerships	(219)	(192)	902	1,537	149	(411)	362
Total investment income	6,207	6,163	7,134	8,418	6,451	12,370	13,040
Interest expense, net	602	553	438	377	257	1,155	423
Other income (expense) <sup>(3)</sup>	58	44	(680)	(415)	(407)	102	(816)
Income before income taxes	100,986	83,221	64,641	88,865	89,235	184,207	162,189
Income tax expense	21,280	17,463	32,588	30,322	30,708	38,743	55,786
Net income	\$ 79,706	\$ 65,758	\$ 32,053	\$ 58,543	\$ 58,527	\$ 145,464	\$ 106,403
Net income per share - diluted <sup>(4)</sup>	\$ 1.52	\$ 1.26	\$ 0.61	\$ 1.12	\$ 1.12	\$ 2.78	\$ 2.03

N/A = not applicable

- (1) In accordance with new revenue recognition accounting guidance, effective January 1, 2018, we allocate our management fee revenue between the two performance obligations we have in the subscriber's agreement, policy issuance and renewal services and administrative services.
- (2) In accordance with the new revenue recognition accounting guidance, effective January 1, 2018, we present expenses we incur and the related reimbursements we receive for administrative services gross in our Statements of Operations.
- (3) All historical periods have been restated to reflect the reclassification of other than service net benefit costs in accordance with new accounting guidance, which was retrospectively adopted on January 1, 2018.
- (4) The 2017 fourth quarter Class A diluted earnings per share was reduced by \$0.19 as a result of increased income tax expense from the enactment of the Tax Cuts and Jobs Act of \$10.1 million.

**Erie Indemnity Company**  
**Investor Supplement - Second Quarter 2018 (Unaudited)**

**Indemnity**  
**Balance Sheet Information**

(in thousands)

**Assets**

Cash and cash equivalents  
Receivables from Erie Insurance Exchange and affiliates  
Investments  
Note receivable from Erie Family Life Insurance Company  
Other assets

**Total assets**

**Liabilities and shareholders' equity**

**Liabilities**

Commissions payable  
Agent bonuses  
Defined benefit pension plans and employee benefit obligations  
Contract liability <sup>(1)</sup>  
Long-term borrowings  
Other liabilities

**Total liabilities**

**Shareholders' equity**

**Total liabilities and shareholders' equity**

	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
	\$ 198,412	\$ 119,627	\$ 215,721	\$ 184,628	\$ 144,709
	445,211	415,343	418,328	428,500	411,422
	757,567	786,501	803,835	798,717	797,912
	25,000	25,000	25,000	25,000	25,000
	226,085	227,005	202,975	194,584	188,182
	<b>\$ 1,652,275</b>	<b>\$ 1,573,476</b>	<b>\$ 1,665,859</b>	<b>\$ 1,631,429</b>	<b>\$ 1,567,225</b>
	\$ 253,328	\$ 240,848	\$ 228,124	\$ 236,056	\$ 232,905
	56,482	30,232	122,528	93,448	62,845
	145,861	176,911	207,953	208,858	220,434
	50,589	48,861	N/A	N/A	N/A
	99,725	74,726	74,728	49,734	49,742
	166,102	161,743	175,182	168,183	148,085
	<b>772,087</b>	<b>733,321</b>	<b>808,515</b>	<b>756,279</b>	<b>714,011</b>
	<b>880,188</b>	<b>840,155</b>	<b>857,344</b>	<b>875,150</b>	<b>853,214</b>
	<b>\$ 1,652,275</b>	<b>\$ 1,573,476</b>	<b>\$ 1,665,859</b>	<b>\$ 1,631,429</b>	<b>\$ 1,567,225</b>

N/A = not applicable

(1) In accordance with new revenue recognition accounting guidance, effective January 1, 2018, we allocate our management fee revenue between the two performance obligations we have in the subscriber's agreement, policy issuance and renewal services and administrative services. Contract liability represents the portion of revenue not yet earned related to the administrative services to be provided in subsequent periods.

**Erie Indemnity Company**  
**Investor Supplement - Second Quarter 2018 (Unaudited)**

<b>Property and Casualty Group</b>						
<b>Direct Written Premium Growth Measures</b>						
	Three months ended				Six months ended	
	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	June 30, 2018
<i>(dollars in thousands)</i>						
<b>Direct written premiums of the P&amp;C Group</b>						
Private passenger auto	\$ 830,781	\$ 766,695	\$ 705,209	\$ 796,221	\$ 772,974	\$1,597,476
Homeowners	482,597	362,435	401,475	465,057	463,200	845,032
Commercial multi-peril	226,578	219,617	193,271	192,506	214,948	446,195
Workers compensation	135,424	141,124	104,030	109,320	124,742	276,548
Commercial auto	152,969	141,290	121,423	125,529	139,229	294,259
All other lines of business	59,650	51,633	45,531	51,021	57,784	111,283
<b>P&amp;C Group direct written premiums - total</b>	<b>\$ 1,887,999</b>	<b>\$ 1,682,794</b>	<b>\$ 1,570,939</b>	<b>\$ 1,739,654</b>	<b>\$ 1,772,877</b>	<b>\$ 3,570,793</b>
						<b>\$ 3,345,908</b>

<b>Property and Casualty Group</b>					
<b>Direct Written Premium Growth Measures</b>					
	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
<b>12 month growth rate policies in force</b>					
Total all lines	3.5%	3.5%	3.5%	3.4%	3.2%
Total personal lines	3.7%	3.6%	3.6%	3.5%	3.3%
Total commercial lines	2.6%	2.4%	2.7%	2.7%	2.6%
<b>Retention trends <sup>(1)</sup></b>					
Total all lines	89.8%	89.6%	89.6%	89.6%	89.6%
Total personal lines	90.3%	90.1%	90.1%	90.1%	90.1%
Total commercial lines	86.5%	86.4%	86.3%	86.3%	86.2%
<b>12 month % change average premiums</b>					
Total all lines	2.8%	2.6%	2.4%	2.6%	2.7%
Total personal lines	3.1%	3.1%	3.2%	3.2%	3.4%
Total commercial lines	2.8%	1.9%	1.1%	1.6%	1.7%

*(1) Policyholder retention rates are impacted when a policyholder cancels an existing policy and enters into a new policy due to various factors, including buying a new home or changing the policy type. When this occurs, the cancelled policy reduces the reported retention rate.*

Erie Indemnity Company  
Investor Supplement - Second Quarter 2018 (Unaudited)

**Property and Casualty Group**  
**Statutory Basis Combined Ratio - Direct Business**

	Three months ended June 30, 2018				Three months ended June 30, 2017			
	Calendar Year	Prior Year Reserve Development Deficiency (Redundancy) [Direct business]	Catastrophe Losses	Current Accident Year Excluding Catastrophes	Calendar Year	Prior Year Reserve Development Deficiency (Redundancy) [Direct business]	Catastrophe Losses	Current Accident Year Excluding Catastrophes
Private passenger auto	108.7%	(0.3)%	1.1%	107.9%	107.0%	(1.9)%	1.2%	107.7%
Homeowners	115.8%	2.4 %	33.0%	80.4%	90.5%	(0.1)%	19.5%	71.1%
Other personal lines	67.2%	(8.6)%	1.3%	74.5%	97.5%	15.8 %	0.0%	81.7%
<b>Total personal lines</b>	<b>110.5%</b>	<b>0.5 %</b>	<b>12.3%</b>	<b>97.7%</b>	<b>100.8%</b>	<b>(0.9)%</b>	<b>7.8%</b>	<b>93.9%</b>
Commercial multi-peril	81.2%	(2.8)%	8.0%	76.0%	72.5%	(2.0)%	7.7%	66.8%
Commercial auto	104.4%	0.8 %	1.0%	102.6%	102.1%	2.1 %	1.4%	98.6%
Workers compensation	70.3%	(31.7)%	0.0%	102.0%	95.5%	(7.5)%	0.0%	103.0%
Other commercial lines	103.8%	23.0 %	1.3%	79.5%	80.4%	8.8 %	0.6%	71.0%
<b>Total commercial lines</b>	<b>86.3%</b>	<b>(7.3)%</b>	<b>3.7%</b>	<b>89.9%</b>	<b>86.6%</b>	<b>(1.6)%</b>	<b>3.6%</b>	<b>84.6%</b>
<b>Grand total - direct business only</b>	<b>103.4%</b>	<b>(1.7)%</b>	<b>9.8%</b>	<b>95.3%</b>	<b>96.7%</b>	<b>(1.1)%</b>	<b>6.6%</b>	<b>91.2%</b>
	Six months ended June 30, 2018				Six months ended June 30, 2017			
	Calendar Year	Prior Year Reserve Development Deficiency (Redundancy) [Direct business]	Catastrophe Losses	Current Accident Year Excluding Catastrophes	Calendar Year	Prior Year Reserve Development Deficiency (Redundancy) [Direct business]	Catastrophe Losses	Current Accident Year Excluding Catastrophes
Private passenger auto	108.5%	0.2 %	0.7%	107.6%	105.7%	(0.5)%	0.8%	105.4%
Homeowners	114.5%	2.1 %	29.7%	82.7%	96.3%	0.9 %	20.8%	74.6%
Other personal lines	66.2%	(8.4)%	1.2%	73.4%	78.0%	1.3 %	0.2%	76.5%
<b>Total personal lines</b>	<b>109.9%</b>	<b>0.8 %</b>	<b>10.9%</b>	<b>98.2%</b>	<b>101.8%</b>	<b>0.0 %</b>	<b>8.1%</b>	<b>93.7%</b>
Commercial multi-peril	85.1%	(2.3)%	7.5%	79.9%	83.8%	(1.7)%	8.2%	77.3%
Commercial auto	102.5%	(1.3)%	0.6%	103.2%	99.2%	0.3 %	1.3%	97.6%
Workers compensation	84.4%	(14.6)%	0.0%	99.0%	91.5%	(10.9)%	0.0%	102.4%
Other commercial lines	97.5%	12.0 %	0.8%	84.7%	73.2%	(1.2)%	0.4%	74.0%
<b>Total commercial lines</b>	<b>90.4%</b>	<b>(4.2)%</b>	<b>3.4%</b>	<b>91.2%</b>	<b>89.1%</b>	<b>(3.5)%</b>	<b>3.8%</b>	<b>88.8%</b>
<b>Grand total - direct business only</b>	<b>104.3%</b>	<b>(0.7)%</b>	<b>8.7%</b>	<b>96.3%</b>	<b>98.1%</b>	<b>(1.0)%</b>	<b>6.8%</b>	<b>92.3%</b>