



## **ERIE INDEMNITY COMPANY**

### **Investor Supplement Fourth 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 2018.

**Erie Indemnity Company**  
**Investor Supplement - Fourth Quarter 2018**  
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**Erie Indemnity Company**  
**Investor Supplement - Fourth 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"). Our primary function as attorney-in-fact is to perform policy issuance and renewal services on behalf of the subscribers at the Exchange. We also act as attorney-in-fact on behalf of the Exchange with respect to all claims handling and investment management services, as well as the service provider for all claims handling, life insurance, and investment management services for its insurance subsidiaries, collectively referred to as "administrative services".

**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**  
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(dollars in thousands, except per share data)

**Indemnity**  
**Income Statements**

	Three Months Ended					Twelve Months Ended	
	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
	(Unaudited)						
<b>Operating revenue</b>							
Management fee revenue, policy issuance and renewal services, net <sup>(1)</sup>	\$ 407,656	\$ 451,361	\$ 454,572	\$ 405,978	\$ 394,034	\$ 1,719,567	\$ 1,662,625
Management fee revenue - administrative services, net <sup>(1)</sup>	13,738	13,521	13,299	13,074	N/A	53,632	N/A
Administrative services reimbursement revenue <sup>(2)</sup>	147,694	140,172	146,507	145,963	N/A	580,336	N/A
Service agreement revenue	7,380	7,072	7,080	7,145	7,368	28,677	29,149
Total operating revenue	576,468	612,126	621,458	572,160	401,402	2,382,212	1,691,774
<b>Operating expenses</b>							
Commissions	231,321	256,770	261,573	234,094	226,943	983,758	947,481
Non-commission operating expenses	122,695	118,489	118,055	114,536	115,834	473,775	454,041
Total cost of operations - policy issuance and renewal services <sup>(3)</sup>	354,016	375,259	379,628	348,630	342,777	1,457,533	1,401,522
Cost of operations - administrative services <sup>(2)</sup>	147,694	140,172	146,507	145,963	N/A	580,336	N/A
Total operating expenses	501,710	515,431	526,135	494,593	342,777	2,037,869	1,401,522
Operating income	74,758	96,695	95,323	77,567	58,625	344,343	290,252
<b>Investment income</b>							
Net investment income	8,626	7,659	7,104	6,820	6,437	30,209	24,639
Net realized investment (losses) gains	(1,513)	0	(32)	(465)	(205)	(2,010)	1,334
Net impairment losses recognized in earnings	(935)	0	(646)	0	0	(1,581)	(182)
Equity in (losses) earnings of limited partnerships	(1,183)	772	(219)	(192)	902	(822)	2,801
Total investment income	4,995	8,431	6,207	6,163	7,134	25,796	28,592
Interest expense, net	596	709	602	553	438	2,460	1,238
Other income (expense) <sup>(3)</sup>	3,485	54	58	44	(680)	3,641	(1,911)
Income before income taxes	82,642	104,471	100,986	83,221	64,641	371,320	315,695
Income tax expense	20,328	24,025	21,280	17,463	32,588	83,096	118,696
Net income <sup>(4)</sup>	\$ 62,314	\$ 80,446	\$ 79,706	\$ 65,758	\$ 32,053	\$ 288,224	\$ 196,999
Net income per share - diluted <sup>(4)</sup>	\$ 1.19	\$ 1.54	\$ 1.52	\$ 1.26	\$ 0.61	\$ 5.51	\$ 3.76

N/A = not applicable

- (1) In accordance with new revenue recognition 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 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 increase in net income and earnings per share in 2018 was primarily driven by the lower corporate tax rate of 21% as a result of the Tax Cuts and Jobs Act ("TCJA"), compared to 35% in 2017, and increased operating income. The 2017 fourth quarter and full year Class A diluted earnings per share was reduced by \$0.19 as a result of increased income tax expense from enactment TCJA of \$10.1 million.

**Erie Indemnity Company**  
**Investor Supplement - Fourth Quarter 2018**

<b>Indemnity Balance Sheet Information</b>					
<i>(in thousands)</i>	<u>December 31, 2018</u>	<u>September 30, 2018</u>	<u>June 30, 2018</u>	<u>March 31, 2018</u>	<u>December 31, 2017</u>
		(Unaudited)			
<b>Assets</b>					
Cash and cash equivalents	\$ 266,417	\$ 244,688	\$ 198,412	\$ 119,627	\$ 215,721
Receivables from Erie Insurance Exchange and affiliates	449,873	463,620	445,211	415,343	418,328
Investments	795,197	753,794	757,567	786,501	803,835
Note receivable from Erie Family Life Insurance Company	—	25,000	25,000	25,000	25,000
Other assets	266,840	272,401	226,085	227,005	202,975
<b>Total assets</b>	<b><u>\$ 1,778,327</u></b>	<b><u>\$ 1,759,503</u></b>	<b><u>\$ 1,652,275</u></b>	<b><u>\$ 1,573,476</u></b>	<b><u>\$ 1,665,859</u></b>
<b>Liabilities and shareholders' equity</b>					
<b>Liabilities</b>					
Commissions payable	\$ 241,573	\$ 257,015	\$ 253,328	\$ 240,848	\$ 228,124
Agent bonuses	103,462	79,308	56,482	30,232	122,528
Defined benefit pension plans <sup>(1)</sup>	116,866	154,736	145,667	176,598	207,530
Contract liability <sup>(2)</sup>	51,727	51,989	50,589	48,861	N/A
Current and long-term borrowings	99,730	99,727	99,725	74,726	74,728
Other liabilities <sup>(1)</sup>	191,297	195,705	166,296	162,056	175,605
<b>Total liabilities</b>	<b><u>804,655</u></b>	<b><u>838,480</u></b>	<b><u>772,087</u></b>	<b><u>733,321</u></b>	<b><u>808,515</u></b>
<b>Shareholders' equity</b>	<b><u>973,672</u></b>	<b><u>921,023</u></b>	<b><u>880,188</u></b>	<b><u>840,155</u></b>	<b><u>857,344</u></b>
<b>Total liabilities and shareholders' equity</b>	<b><u>\$ 1,778,327</u></b>	<b><u>\$ 1,759,503</u></b>	<b><u>\$ 1,652,275</u></b>	<b><u>\$ 1,573,476</u></b>	<b><u>\$ 1,665,859</u></b>

N/A = not applicable

(1) All historical periods have been restated to conform to current period presentation.

(2) In accordance with new revenue recognition 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 not yet earned related to the administrative services to be provided in subsequent periods.

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

**Property and Casualty Group**  
**Direct Written Premium Growth Measures**

	Three Months Ended					Twelve Months Ended	
	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
	(Unaudited)						
<b><u>Direct written premiums of the P&amp;C Group</u></b>							
Private passenger auto	\$ 754,495	\$ 859,967	\$ 830,781	\$ 766,695	\$ 705,209	\$ 3,211,938	\$ 2,977,572
Homeowners	420,690	487,377	482,597	362,435	401,475	1,753,099	1,679,485
Commercial multi-peril	206,188	205,151	226,578	219,617	193,271	857,534	807,084
Workers compensation	112,040	119,587	135,424	141,124	104,030	508,175	473,606
Commercial auto	136,816	138,028	152,969	141,290	121,423	569,103	514,581
All other lines of business	47,897	53,817	59,650	51,633	45,531	212,997	204,173
<b>P&amp;C Group direct written premiums - total</b>	<b>\$ 1,678,126</b>	<b>\$ 1,863,927</b>	<b>\$ 1,887,999</b>	<b>\$ 1,682,794</b>	<b>\$ 1,570,939</b>	<b>\$ 7,112,846</b>	<b>\$ 6,656,501</b>

**Property and Casualty Group**  
**Direct Written Premium Growth Measures**

	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
<b>12 month growth rate policies in force</b>					
Total all lines	3.3%	3.5%	3.5%	3.5%	3.5%
Total personal lines	3.4%	3.6%	3.7%	3.6%	3.6%
Total commercial lines	2.7%	2.5%	2.6%	2.4%	2.7%
<b>Retention trends <sup>(1)</sup></b>					
Total all lines	90.1%	89.9%	89.8%	89.6%	89.6%
Total personal lines	90.6%	90.4%	90.3%	90.1%	90.1%
Total commercial lines	86.6%	86.4%	86.5%	86.4%	86.3%
<b>12 month % change average premiums</b>					
Total all lines	3.5%	3.2%	2.8%	2.6%	2.4%
Total personal lines	3.3%	3.2%	3.1%	3.1%	3.2%
Total commercial lines	4.6%	3.8%	2.8%	1.9%	1.1%

(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 - Fourth Quarter 2018 (Unaudited)**

<b>Property and Casualty Group</b>									
<b>Statutory Basis Combined Ratio - Direct Business</b>									
<b>Three months ended December 31, 2018</b>					<b>Three months ended December 31, 2017</b>				
	Prior Year		Current			Prior Year		Current	
	Reserve		Accident			Reserve		Accident	
	Development		Year			Development		Year	
	Deficiency		Excluding			Deficiency		Excluding	
	Calendar	(Redundancy)	Catastrophe	Catastrophes		Calendar	(Redundancy)	Catastrophe	Catastrophes
	Year	[Direct business]	Losses			Year	[Direct business]	Losses	
Private passenger auto	121.0%	0.5 %	0.1 %	120.4%		117.0%	(1.7)%	0.1%	118.6%
Homeowners	88.8%	(0.3)%	6.7 %	82.4%		79.6%	1.6 %	8.2%	69.8%
Other personal lines	78.7%	4.0 %	2.3 %	72.4%		54.6%	(25.4)%	0.9%	79.1%
<b>Total personal lines</b>	<b>109.1%</b>	<b>0.3 %</b>	<b>2.4 %</b>	<b>106.4%</b>		<b>102.6%</b>	<b>(0.9)%</b>	<b>3.0%</b>	<b>100.5%</b>
Commercial multi-peril	83.3%	2.1 %	3.0 %	78.2%		69.3%	0.7 %	1.6%	67.0%
Commercial auto	120.1%	4.6 %	0.2 %	115.3%		104.5%	(2.6)%	0.5%	106.6%
Workers compensation <sup>(1)</sup>	70.9%	(35.4)%	0.0 %	106.3%		73.8%	(5.0)%	0.0%	78.8%
Other commercial lines	123.7%	13.8 %	(0.5)%	110.4%		42.8%	(1.3)%	0.1%	44.0%
<b>Total commercial lines</b>	<b>92.8%</b>	<b>(5.9)%</b>	<b>1.3 %</b>	<b>97.4%</b>		<b>78.1%</b>	<b>(1.7)%</b>	<b>0.8%</b>	<b>79.0%</b>
<b>Grand total - direct business only</b>	<b>104.4%</b>	<b>(1.5)%</b>	<b>2.1 %</b>	<b>103.8%</b>		<b>95.5%</b>	<b>(1.1)%</b>	<b>2.3%</b>	<b>94.3%</b>
<b>Twelve months ended December 31, 2018</b>					<b>Twelve months ended December 31, 2017</b>				
	Prior Year		Current			Prior Year		Current	
	Reserve		Accident			Reserve		Accident	
	Development		Year			Development		Year	
	Deficiency		Excluding			Deficiency		Excluding	
	Calendar	(Redundancy)	Catastrophe	Catastrophes		Calendar	(Redundancy)	Catastrophe	Catastrophes
	Year	[Direct business]	Losses			Year	[Direct business]	Losses	
Private passenger auto	112.2%	0.1 %	0.6 %	111.5%		107.8%	(1.1)%	0.6%	108.3%
Homeowners	102.7%	1.9 %	20.6 %	80.2%		88.7%	0.8 %	16.7%	71.2%
Other personal lines	69.5%	(5.8)%	1.4 %	73.9%		75.1%	(0.4)%	0.2%	75.3%
<b>Total personal lines</b>	<b>108.2%</b>	<b>0.6 %</b>	<b>7.6 %</b>	<b>100.0%</b>		<b>100.4%</b>	<b>(0.4)%</b>	<b>6.4%</b>	<b>94.4%</b>
Commercial multi-peril	85.7%	(0.3)%	5.4 %	80.6%		78.5%	0.2 %	5.5%	72.8%
Commercial auto	107.8%	0.2 %	0.5 %	107.1%		99.3%	(1.7)%	0.9%	100.1%
Workers compensation <sup>(1)</sup>	66.6%	(33.3)%	0.0 %	99.9%		84.1%	(6.0)%	0.0%	90.1%
Other commercial lines	120.1%	24.3 %	0.8 %	95.0%		53.8%	(13.2)%	0.4%	66.6%
<b>Total commercial lines</b>	<b>89.1%</b>	<b>(6.8)%</b>	<b>2.5 %</b>	<b>93.4%</b>		<b>83.8%</b>	<b>(2.7)%</b>	<b>2.6%</b>	<b>83.9%</b>
<b>Grand total - direct business only</b>	<b>102.7%</b>	<b>(1.5)%</b>	<b>6.1 %</b>	<b>98.1%</b>		<b>95.6%</b>	<b>(1.1)%</b>	<b>5.3%</b>	<b>91.4%</b>

(1) In the fourth quarter of 2018, there were five settled Workers Compensation claims, which contributed \$23.5 million, or 18.3 points in the fourth quarter and 4.7 points for the year, in favorable prior year development.