



## **ERIE INDEMNITY COMPANY**

### **Investor Supplement Fourth Quarter 2016**

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 2016.

**Erie Indemnity Company**  
**Investor Supplement - Fourth Quarter 2016**  
**Table of Contents**

	<u>Page</u>
Definitions	1
Indemnity Income Statements	2
Indemnity Balance Sheet Information	3
Indemnity Management Fee	4
Property and Casualty Group Direct Written Premium Growth Measures	5
Property and Casualty Group Statutory Basis Combined Ratio - Direct Business	6

**Erie Indemnity Company**  
**Investor Supplement - Fourth Quarter 2016**  
**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 - Fourth Quarter 2016**

<b>Indemnity</b>							
<b>Income Statements</b>							
<i>(dollars in thousands, except per share data)</i>							
	Three Months Ended				Twelve Months Ended		
	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
(Unaudited)							
<b>Operating revenue</b>							
Management fee revenue, net	\$ 372,169	\$ 411,139	\$ 416,665	\$ 367,458	\$ 348,885	\$ 1,567,431	\$ 1,475,511
Service agreement fee revenue	7,444	7,267	7,219	7,270	7,495	29,200	29,997
Total operating revenue	379,613	418,406	423,884	374,728	356,380	1,596,631	1,505,508
<b>Operating expenses</b>							
Commissions	216,837	232,455	235,794	208,714	206,691	893,800	847,880
Salaries and employee benefits	51,777	53,265	55,025	53,289	55,998	213,356	226,713
All other operating expenses	54,314	50,431	47,306	45,060	51,852	197,111	198,374
Total operating expenses	322,928	336,151	338,125	307,063	314,541	1,304,267	1,272,967
Net revenue from operations	56,685	82,255	85,759	67,665	41,839	292,364	232,541
<b>Investment income</b>							
Net investment income	5,663	5,331	4,891	4,662	4,469	20,547	17,791
Net realized investment gains (losses)	643	718	399	(1,088)	617	672	492
Net impairment losses recognized in earnings	(71)	0	0	(345)	(923)	(416)	(1,558)
Equity in earnings (losses) of limited partnerships	7,304	(1,723)	2,114	(670)	81	7,025	16,983
Total investment income	13,539	4,326	7,404	2,559	4,244	27,828	33,708
Interest expense, net	101	—	—	—	—	101	—
Income before income taxes	70,123	86,581	93,163	70,224	46,083	320,091	266,249
Income tax expense	24,337	29,205	31,854	24,329	15,950	109,725	91,571
Net income	\$ 45,786	\$ 57,376	\$ 61,309	\$ 45,895	\$ 30,133	\$ 210,366	\$ 174,678

**Key measures**

Operating income <sup>(1)</sup>	\$ 45,413	\$ 56,910	\$ 61,049	\$ 46,827	\$ 30,332	\$ 210,199	\$ 175,371
Net income per share - diluted	\$ 0.87	\$ 1.09	\$ 1.17	\$ 0.87	\$ 0.57	\$ 4.01	\$ 3.33
Operating income per share - diluted	\$ 0.87	\$ 1.08	\$ 1.17	\$ 0.89	\$ 0.58	\$ 4.01	\$ 3.34

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

**Erie Indemnity Company**  
**Investor Supplement - Fourth Quarter 2016**

<b>Indemnity</b>				
<b>Balance Sheet Information</b>				

*(in thousands)*

	<b>December 31, 2016</b>	<b>September 30, 2016</b>	<b>June 30, 2016</b>	<b>March 31, 2016</b>	<b>December 31, 2015</b>
	(Unaudited)				
<b>Assets</b>					
Cash and cash equivalents	\$ 189,072	\$ 139,813	\$ 124,111	\$ 105,282	\$ 182,889
Receivables from Erie Insurance Exchange and affiliates	378,540	399,975	387,273	352,451	348,055
Investments	771,450	770,324	725,083	701,080	688,476
Note receivable from Erie Family Life Insurance Company	25,000	25,000	25,000	25,000	25,000
Other assets	184,893	149,903	153,359	156,811	162,876
<b>Total assets</b>	<b>\$ 1,548,955</b>	<b>\$ 1,485,015</b>	<b>\$ 1,414,826</b>	<b>\$ 1,340,624</b>	<b>\$ 1,407,296</b>
<b>Liabilities and shareholders' equity</b>					
<b>Liabilities</b>					
Commissions payable	\$ 210,559	\$ 218,267	\$ 217,203	\$ 202,816	\$ 195,542
Agent bonuses	114,772	84,805	58,235	31,940	106,752
Defined benefit pension plans and employee benefit obligations	222,583	179,008	171,529	164,053	173,934
Long-term borrowings	24,766	—	—	—	—
Other liabilities	159,365	164,006	152,665	156,948	161,565
<b>Total liabilities</b>	<b>732,045</b>	<b>646,086</b>	<b>599,632</b>	<b>555,757</b>	<b>637,793</b>
<b>Shareholders' equity</b>	<b>816,910</b>	<b>838,929</b>	<b>815,194</b>	<b>784,867</b>	<b>769,503</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,548,955</b>	<b>\$ 1,485,015</b>	<b>\$ 1,414,826</b>	<b>\$ 1,340,624</b>	<b>\$ 1,407,296</b>

**Erie Indemnity Company**  
**Investor Supplement - Fourth Quarter 2016**

**Indemnity Management Fee**

(dollars in thousands)

	Three Months Ended					Twelve Months Ended	
	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
	(Unaudited)						
<b><u>Direct written premiums of the P&amp;C Group</u></b>							
Private passenger auto	\$ 646,819	\$ 732,688	\$ 707,442	\$ 638,214	\$ 594,455	\$ 2,725,163	\$ 2,515,785
Homeowners	389,318	451,628	450,054	338,899	378,389	1,629,899	1,574,646
Commercial multi-peril	185,304	185,370	207,756	200,174	176,138	778,604	748,460
Workers compensation	103,613	110,366	125,121	130,214	98,848	469,314	448,712
Commercial auto	113,478	114,674	131,725	120,210	104,217	480,087	441,600
All other lines of business	44,148	49,029	54,961	46,921	41,492	195,059	184,842
P&C Group direct written premiums - total	\$ 1,482,680	\$ 1,643,755	\$ 1,677,059	\$ 1,474,632	\$ 1,393,539	\$ 6,278,126	\$ 5,914,045
<b><u>Indemnity operating revenue</u></b>							
Management fee rate	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%
Management fee revenue, gross	\$ 370,669	\$ 410,939	\$ 419,265	\$ 368,658	\$ 348,385	\$ 1,569,531	\$ 1,478,511
Service agreement/other revenue	8,944	7,467	4,619	6,070	7,995	27,100	26,997
Total operating revenue	\$ 379,613	\$ 418,406	\$ 423,884	\$ 374,728	\$ 356,380	\$ 1,596,631	\$ 1,505,508

	Three Months Ended					Twelve Months Ended	
	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
	(Unaudited)						
<b><u>Indemnity operating expenses</u></b>							
Commissions	\$ 216,837	\$ 232,455	\$ 235,794	\$ 208,714	\$ 206,691	\$ 893,800	\$ 847,880
Non-commission operating expenses	106,091	103,696	102,331	98,349	107,850	410,467	425,087
Total operating expenses	\$ 322,928	\$ 336,151	\$ 338,125	\$ 307,063	\$ 314,541	\$ 1,304,267	\$ 1,272,967

	Three Months Ended					Twelve Months Ended	
	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
	(Unaudited)						
<b><u>Gross margin from operations</u></b>							
Net revenue from operations	\$ 56,685	\$ 82,255	\$ 85,759	\$ 67,665	\$ 41,839	\$ 292,364	\$ 232,541
Gross margin %	14.9%	19.7%	20.2%	18.1%	11.7%	18.3%	15.4%

**Erie Indemnity Company**  
**Investor Supplement - Fourth Quarter 2016 (Unaudited)**

<b>P&amp;C Group</b>					
<b>Direct Written Premium Growth Measures</b>					
	<b>December 31, 2016</b>	<b>September 30, 2016</b>	<b>June 30, 2016</b>	<b>March 31, 2016</b>	<b>December 31, 2015</b>
<b>12 month growth rate policies in force</b>					
Total all lines	3.1%	3.3%	3.4%	3.6%	3.6%
Total personal lines	3.3%	3.4%	3.6%	3.7%	3.7%
Total commercial lines	2.3%	2.3%	2.3%	2.7%	2.9%
<b>Retention trends <sup>(1)</sup></b>					
Total all lines	89.8%	89.8%	89.8%	89.9%	89.9%
Total personal lines	90.3%	90.3%	90.4%	90.5%	90.5%
Total commercial lines	86.2%	86.1%	86.1%	86.3%	86.0%
<b>12 month % change average premiums</b>					
Total all lines	2.9%	2.7%	3.1%	3.4%	3.5%
Total personal lines	3.1%	2.9%	2.8%	2.8%	2.7%
Total commercial lines	3.1%	3.1%	4.6%	5.5%	6.0%

*(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 2016 (Unaudited)**

<b>P&amp;C Group</b>									
<b>Statutory Basis Combined Ratio - Direct Business</b>									
<b>Three months ended December 31, 2016</b>					<b>Three months ended December 31, 2015</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	116.4%	(4.8)%	0.6%	120.6%		114.0%	0.6%	0.1%	113.3%
Homeowners	76.1%	0.4%	6.9%	68.8%		69.5%	(0.2)%	1.8%	67.9%
Other personal lines	58.9%	(20.1)%	0.3%	78.7%		46.9%	(10.5)%	0.3%	57.1%
<b>Total personal lines</b>	<b>100.6%</b>	<b>(3.1)%</b>	<b>2.9%</b>	<b>100.8%</b>		<b>96.0%</b>	<b>0.1%</b>	<b>0.7%</b>	<b>95.2%</b>
Commercial multi-peril	88.2%	3.2%	3.0%	82.0%		88.9%	0.4%	(1.2)%	89.7%
Commercial auto	102.6%	(0.8)%	0.6%	102.8%		90.3%	(9.1)%	(0.6)%	100.0%
Workers compensation <sup>(1)</sup>	126.3%	6.8%	0.0%	119.5%		163.9%	53.5%	0.0%	110.4%
Other commercial lines	53.7%	(6.7)%	0.4%	60.0%		56.6%	(9.1)%	(4.4)%	70.1%
<b>Total commercial lines</b>	<b>99.3%</b>	<b>2.4%</b>	<b>1.4%</b>	<b>95.5%</b>		<b>106.2%</b>	<b>10.9%</b>	<b>(1.0)%</b>	<b>96.3%</b>
<b>Grand total - direct business only</b>	<b>100.2%</b>	<b>(1.5)%</b>	<b>2.5%</b>	<b>99.2%</b>		<b>99.0%</b>	<b>3.3%</b>	<b>0.2%</b>	<b>95.5%</b>
<b>Twelve months ended December 31, 2016</b>					<b>Twelve months ended December 31, 2015</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	108.0%	(2.9)%	1.0%	109.9%		108.3%	(0.5)%	0.5%	108.3%
Homeowners	82.5%	0.5%	10.1%	71.9%		83.7%	(1.3)%	11.0%	74.0%
Other personal lines	64.6%	(12.7)%	0.5%	76.8%		55.9%	(18.2)%	0.1%	74.0%
<b>Total personal lines</b>	<b>97.7%</b>	<b>(1.8)%</b>	<b>4.4%</b>	<b>95.1%</b>		<b>98.1%</b>	<b>(1.1)%</b>	<b>4.5%</b>	<b>94.7%</b>
Commercial multi-peril	77.9%	(4.8)%	3.6%	79.1%		84.8%	(3.9)%	4.1%	84.6%
Commercial auto	100.6%	(1.2)%	1.5%	100.3%		97.2%	(5.1)%	1.0%	101.3%
Workers compensation <sup>(1)</sup>	102.0%	0.7%	0.0%	101.3%		104.5%	9.4%	0.0%	95.1%
Other commercial lines	63.1%	(8.2)%	0.4%	70.9%		66.4%	(6.3)%	0.9%	71.8%
<b>Total commercial lines</b>	<b>88.9%</b>	<b>(2.7)%</b>	<b>2.0%</b>	<b>89.6%</b>		<b>91.7%</b>	<b>(1.0)%</b>	<b>2.1%</b>	<b>90.6%</b>
<b>Grand total - direct business only</b>	<b>95.1%</b>	<b>(2.1)%</b>	<b>3.7%</b>	<b>93.5%</b>		<b>96.2%</b>	<b>(1.0)%</b>	<b>3.8%</b>	<b>93.4%</b>

*(1) In 2016, the workers compensation discount rate was eliminated. This change in accounting principle was recorded to surplus and had no impact on the combined ratio for the twelve months ended December 31, 2016. The unwinding of the discount did, however, contribute 2.0 points to the workers compensation combined ratio in the fourth quarter of 2016. In December 2015, the workers compensation discount rate was reduced from 2.5% to 1%, contributing 40.8 points to the workers compensation combined ratio in the fourth quarter of 2015 and 10.4 points for the year ended December 31, 2015.*