



July 31, 2014

Erie Indemnity Reports Second Quarter 2014 Results

Net Income per Diluted Share Up 11.0 percent, Earnings Up 10.0 percent

[Earnings release tables](#)

[Investor supplement](#)

ERIE, Pa., July 31, 2014 /PRNewswire/ -- Erie Indemnity Company (NASDAQ: ERIE) today announced financial results for the quarter ending June 30, 2014.



"This continues to be a positive year for ERIE, thanks to our hard-working team of Agents and Employees," says Terry Cavanaugh, president and chief executive officer. "Our growth and the recognition we received once again this year from organizations like J.D. Power and the Ward Group reflect our commitment and dedication to exceptional service."

Net income attributable to Indemnity was \$49 million, or \$0.94 per diluted share, in the second quarter of 2014, compared to \$44 million, or \$0.84 per diluted share, in the second quarter of 2013. Net income attributable to Indemnity was \$95 million, or \$1.82 per diluted share, in the first six months of 2014, compared to \$81 million, or \$1.54 per diluted share, in the first six months of 2013. For both the second quarter and first six months of 2014, the growth was driven by increased revenue from management operations and lower expense growth.

2Q 2014 Highlights - Results of the Erie Insurance Group's Operations⁽¹⁾

	Indemnity shareholder interest		Noncontrolling interest (Exchange)		Elimination of related party transactions		Erie Insurance Group	
	2Q'14	2Q'13	2Q'14	2Q'13	2Q'14	2Q'13	2Q'14	2Q'13
<i>(dollars in millions)</i>								
Management operations	\$ 68	\$ 59	\$ —	\$ —	\$ (60)	\$ (51)	\$ 8	\$ 8
Property and casualty insurance operations ⁽²⁾	—	—	(183)	11	66	55	(117)	66
Life insurance operations ⁽²⁾	—	—	10	13	(1)	(1)	9	12
Investment operations	7	8	245	172	(5)	(3)	247	177
Income from operations before income taxes and noncontrolling interest	75	67	72	196	—	—	147	263
Provision for income taxes	26	23	18	63	—	—	44	86
Net income	\$ 49	\$ 44	\$ 54	\$ 133	\$ —	\$ —	\$ 103	\$ 177

⁽¹⁾ The consolidated financial statements of Erie Indemnity Company ("Indemnity") reflect the consolidated results of Indemnity and the Erie Insurance Exchange ("Exchange"), which we refer to collectively as the "Erie Insurance Group." Indemnity, or Indemnity shareholder interest, refers to the interest in Erie Indemnity Company owned by the Class A and Class B shareholders. The Exchange refers to the noncontrolling interest held for the interest of the subscribers (policyholders), and includes its interest in its property and casualty subsidiaries and Erie Family Life Insurance Company ("EFL").

⁽²⁾ All property and casualty and life insurance results accrue to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest.

Management Operations

Revenue from management operations increased \$30 million, or 8.7 percent, in the second quarter of 2014, compared to the second quarter of 2013. Direct written premium of the property and casualty insurance operations, upon which the management fee is calculated, increased 8.8 percent in the second quarter of 2014, due to a 4.5 percent increase in policies in force and a 4.2 percent increase in the year-over-year average premium per policy at June 30, 2014. The management fee rate was 25 percent for both the second quarters of 2014 and 2013.

Commissions increased \$18 million, or 10.0 percent, in the second quarter of 2014, compared to the second quarter of 2013, primarily due to the 8.8 percent increase in direct written premium of the property and casualty insurance operations. Commission growth outpaced direct premium written growth primarily due to an increase in agent incentive costs.

Non-commission expense increased \$3 million, or 2.8 percent, in the second quarter of 2014, compared to the second quarter of 2013. Hardware costs increased \$2 million, while professional fees, underwriting reports, advertising and postage expense increased \$1 million each. These cost increases were partially offset by a \$3 million decrease in personnel costs, primarily from decreased employee incentive plan costs related to underwriting performance and decreased pension costs.

Management Operations			
(dollars in millions)	Indemnity shareholder interest		
	2Q'14	2Q'13	
Management fee revenue, net	\$ 366	\$ 336	
Service agreement revenue	8	8	
Total revenue from management operations	<u>\$ 374</u>	<u>\$ 344</u>	
Commissions	\$ 205	\$ 187	
Non-commission expense	101	98	
Total cost of management operations	<u>\$ 306</u>	<u>\$ 285</u>	
Income from management operations before taxes	<u>\$ 68</u>	<u>\$ 59</u>	
Gross margin	<u>18.2 %</u>	<u>17.3 %</u>	

Investment Operations

Income from investment operations before taxes totaled \$7 million in the second quarter of 2014, compared to \$8 million in the second quarter of 2013. Net investment income increased \$1 million and equity in earnings of limited partnerships decreased \$2 million.

Investment Operations		
(dollars in millions)	Indemnity shareholder interest	
	2Q'14	2Q'13
Net investment income	\$ 4	\$ 3
Net realized gains on investments	0	0
Net impairment losses recognized in earnings	0	0
Equity in earnings of limited partnerships	3	5
Income from investment operations before taxes	<u>\$ 7</u>	<u>\$ 8</u>

Six Months Ended June 30, 2014 Results of the Erie Insurance Group's Operations⁽¹⁾

(dollars in millions)	Indemnity shareholder interest		Noncontrolling interest (Exchange)		Elimination of related party transactions		Erie Insurance Group	
	2014	2013	2014	2013	2014	2013	2014	2013
Management operations	\$ 126	\$ 108	\$ —	\$ —	\$ (111)	\$ (93)	\$ 15	\$ 15
Property and casualty insurance operations ⁽²⁾	—	—	(287)	22	120	100	(167)	122
Life insurance operations ⁽²⁾	—	—	23	24	(1)	(1)	22	23
Investment operations	18	15	423	530	(8)	(6)	433	539
Income from operations before income taxes and noncontrolling interest	<u>144</u>	<u>123</u>	159	576	—	—	303	699
Provision for income taxes	49	42	42	190	—	—	91	232
Net income	<u>\$ 95</u>	<u>\$ 81</u>	\$ 117	\$ 386	\$ —	\$ —	\$ 212	\$ 467

(1) The consolidated financial statements of Erie Indemnity Company ("Indemnity") reflect the consolidated results of Indemnity and the Erie Insurance Exchange ("Exchange"), which we refer to collectively as the "Erie Insurance Group." Indemnity, or Indemnity shareholder interest, refers to the interest in Erie Indemnity Company owned by the Class A and Class B shareholders. The Exchange refers to the noncontrolling interest held for the interest of the subscribers (policyholders), and includes its interest in its property and casualty subsidiaries and Erie Family Life Insurance Company ("EFL").

(2) All property and casualty and life insurance results accrue to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest.

Indemnity's management operations pretax income totaled \$126 million in the first six months of 2014, compared to \$108 million in the first six months of

2013. The increase resulted in a gross margin of 18.0 percent for the first six months of 2014, compared to 16.7 percent for the first six months of 2013. Indemnity's investment operations pretax income totaled \$18 million in the first six months of 2014, compared to \$15 million in the first six months of 2013.

Corporate Activity

On July 30, 2014, Indemnity's Board of Directors approved a quarterly cash dividend of \$0.635 per Class A common stock, payable on October 17, 2014, to shareholders of record at the close of business on October 2, 2014. This dividend rate represents a 7.2 percent increase over the quarterly dividend rate paid in 2013.

In the second quarter of 2014, Indemnity repurchased 114,158 shares of its outstanding Class A nonvoting common stock at a total cost of \$8.2 million, based upon trade date, in conjunction with its current stock repurchase program. For the year through July 18, 2014, 272,057 shares were repurchased under this program at a total cost of \$19.2 million. As of July 18, 2014, Indemnity had approximately \$18 million in repurchase authority remaining under the existing stock repurchase program.

Webcast Information

Indemnity has scheduled a conference call and live audio broadcast on the Web for 10:00 AM ET on August 1, 2014. Investors may access the live audio broadcast by logging on to www.erieinsurance.com. Indemnity recommends visiting the website at least 15 minutes prior to the webcast to download and install any necessary software. A webcast audio replay will be available on the Investor Relations page of the Erie Insurance Group's website by 12:30 PM ET.

About the Erie Insurance Group

According to A.M. Best Company, Erie Insurance Group, based in Erie, Pennsylvania, is the 14th largest homeowners insurer and 12th largest automobile insurer in the United States based on direct premiums written and the 18th largest property/casualty insurer in the United States based on total lines net premium written. The Group, rated A+ (Superior) by A.M. Best Company, has nearly 4.9 million policies in force and operates in 11 states and the District of Columbia. Erie Insurance Group is a FORTUNE 500 and Barron's 500 company. Erie Insurance is proud to have received the J.D. Power award for "Highest in Customer Satisfaction with the Auto Insurance Purchase Experience" two years in a row. ERIE has also been recognized by Forbes as one of America's 50 Most Trustworthy Financial Companies and is on the list of Ward's 50 Group of top performing insurance companies, which analyzes the financial performance of 3,000 property and casualty companies and recognizes the top performers for achieving outstanding results in safety, consistency and financial performance over a five-year period (2009-2013).

News releases and more information about Erie Insurance Group are available at www.erieinsurance.com.

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995:

Statements contained herein that are not historical fact are forward-looking statements and, as such, are subject to risks and uncertainties that could cause actual events and results to differ, perhaps materially, from those discussed herein. Forward-looking statements relate to future trends, events or results and include, without limitation, statements and assumptions on which such statements are based that are related to our plans, strategies, objectives, expectations, intentions and adequacy of resources. Examples of forward-looking statements are discussions relating to premium and investment income, expenses, operating results, agency relationships, and compliance with contractual and regulatory requirements. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements.

Among the risks and uncertainties, in addition to those set forth in our filings with the Securities and Exchange Commission, that could cause actual results and future events to differ from those set forth or contemplated in the forward-looking statements include the following:

Risk factors related to the Indemnity shareholder interest:

- dependence on Indemnity's relationship with the Exchange and the management fee under the agreement with the subscribers at the Exchange;
- costs of providing services to the Exchange under the subscriber's agreement;
- ability to attract and retain talented management and employees;
- ability to maintain uninterrupted business operations;
- factors affecting the quality and liquidity of Indemnity's investment portfolio;
- credit risk from the Exchange;
- Indemnity's ability to meet liquidity needs and access capital; and
- outcome of pending and potential litigation against Indemnity.

Risk factors related to the non-controlling interest owned by the Exchange, which includes the Property and Casualty Group and EFL:

- general business and economic conditions;
- dependence upon the independent agency system;
- ability to maintain our reputation for customer service;
- factors affecting insurance industry competition;
- changes in government regulation of the insurance industry;
- premium rates and reserves must be established from forecasts of ultimate costs;
- emerging claims, coverage issues in the industry, and changes in reserve estimates related to the property and casualty business;
- changes in reserve estimates related to the life business;
- severe weather conditions or other catastrophic losses, including terrorism;
- the Exchange's ability to acquire reinsurance coverage and collectability from reinsurers;
- factors affecting the quality and liquidity of the Exchange's investment portfolio;
- the Exchange's ability to meet liquidity needs and access capital;

operations:								
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
(Loss) income from property and casualty insurance operations before taxes	—	—	(183)	11	66	55	(117)	66
Life insurance operations: ⁽¹⁾								
Total revenue	—	—	46	46	(1)	(1)	45	45
Total benefits and expenses	—	—	36	33	0	0	36	33
Income from life insurance operations before taxes	—	—	10	13	(1)	(1)	9	12
Investment operations: ⁽¹⁾								
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
Income from investment operations before taxes	7	8	245	172	(5)	(3)	247	177
Income from operations before income taxes and noncontrolling interest	75	67	72	196	—	—	147	263
Provision for income taxes	26	23	18	63	—	—	44	86
Net income	\$ 49	\$ 44	\$ 54	\$ 133	\$ —	\$ —	\$ 103	\$ 177

(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.

Erie Indemnity Company
Results of the Erie Insurance Group's Operations by Interest (Unaudited)
(in millions)

	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
Management operations:								
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)	—	—
Income from management operations before taxes	126	108	—	—	(111)	(93)	15	15
Property and casualty insurance operations:								
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
(Loss) income from property and casualty insurance operations before taxes	—	—	(287)	22	120	100	(167)	122
Life insurance operations: ⁽¹⁾								
Total revenue	—	—	96	92	(1)	(1)	95	91
Total benefits and expenses	—	—	73	68	0	0	73	68
Income from life insurance operations before taxes	—	—	23	24	(1)	(1)	22	23
Investment operations: ⁽¹⁾								
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
Income from investment operations before taxes	18	15	423	530	(8)	(6)	433	539
Income from operations before income taxes and noncontrolling interest	144	123	159	576	—	—	303	699
Provision for income taxes	49	42	42	190	—	—	91	232
Net income	\$ 95	\$ 81	\$ 117	\$ 386	\$ —	\$ —	\$ 212	\$ 467

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Erie Indemnity Company
Reconciliation of Operating Income to Net Income

Reconciliation of operating income to net income

We disclose operating income, a non-GAAP financial measure, to enhance our investors' understanding of our performance related to the Indemnity

shareholder interest. Our method of calculating this measure may differ from those used by other companies, and therefore comparability may be limited.

Indemnity defines operating income as net income excluding realized capital gains and losses, impairment losses and related federal income taxes.

Indemnity uses operating income to evaluate the results of its operations. It reveals trends that may be obscured by the net effects of realized capital gains and losses including impairment losses. Realized capital gains and losses, including impairment losses, may vary significantly between periods and are generally driven by business decisions and economic developments such as capital market conditions which are not related to our ongoing operations. We are aware that the price to earnings multiple commonly used by investors as a forward-looking valuation technique uses operating income as the denominator. Operating income should not be considered as a substitute for net income prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and does not reflect Indemnity's overall profitability.

The following table reconciles operating income and net income for the Indemnity shareholder interest:

<i>(in millions, except per share data)</i>	Indemnity Shareholder Interest			
	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(Unaudited)		(Unaudited)	
Operating income attributable to Indemnity	\$ 49	\$ 44	\$ 94	\$ 81
Net realized gains and impairments on investments	0	0	1	0
Income tax expense	0	0	0	0
Realized gains and impairments, net of income taxes	0	0	1	0
Net income attributable to Indemnity	\$ 49	\$ 44	\$ 95	\$ 81
Per Indemnity Class A common share-diluted:				
Operating income attributable to Indemnity	\$ 0.94	\$ 0.84	\$ 1.81	\$ 1.54
Net realized gains and impairments on investments	0.00	0.00	0.02	0.00
Income tax expense	0.00	0.00	(0.01)	0.00
Realized gains and impairments, net of income taxes	0.00	0.00	0.01	0.00
Net income attributable to Indemnity	\$ 0.94	\$ 0.84	\$ 1.82	\$ 1.54

Erie Indemnity Company
Consolidated Statements of Financial Position
(in millions)

	June 30, 2014	December 31, 2013
	(Unaudited)	
Assets		
Investments - Indemnity		
Available-for-sale securities, at fair value:		
Fixed maturities	\$ 497	\$ 526
Equity securities	26	50
Limited partnerships	141	146
Other invested assets	1	1
Investments - Exchange		
Available-for-sale securities, at fair value:		
Fixed maturities	8,701	8,162
Equity securities	914	819
Trading securities, at fair value	3,377	3,202
Limited partnerships	931	940
Other invested assets	20	20
Total investments	14,608	13,866
Cash and cash equivalents (Exchange portion of \$237 and \$403, respectively)	300	452
Premiums receivable from policyholders - Exchange	1,287	1,167
Reinsurance recoverable - Exchange	168	172
Deferred income taxes - Indemnity	1	2
Deferred acquisition costs - Exchange	579	566
Other assets (Exchange portion of \$405 and \$337, respectively)	517	451
Total assets	\$ 17,460	\$ 16,676
Liabilities and shareholders' equity		
Liabilities		
Indemnity liabilities		
Other liabilities	\$ 451	\$ 476
Exchange liabilities		
Losses and loss expense reserves	3,964	3,747
Life policy and deposit contract reserves	1,789	1,758
Unearned premiums	2,788	2,598
Deferred income taxes	557	450
Other liabilities	90	97

Total liabilities	<u>9,639</u>	<u>9,126</u>
Indemnity's shareholders' equity	755	734
Noncontrolling interest in consolidated entity - Exchange	<u>7,066</u>	<u>6,816</u>
Total equity	<u>7,821</u>	<u>7,550</u>
Total liabilities, shareholders' equity and noncontrolling interest	<u>\$ 17,460</u>	<u>\$ 16,676</u>

Logo - <http://photos.prnewswire.com/prnh/20041112/ERIELOGO>

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