

ERIE INDEMNITY CO  
Form 10-Q  
October 29, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015

Commission file number 0-24000

ERIE INDEMNITY COMPANY

(Exact name of registrant as specified in its charter)

PENNSYLVANIA	25-0466020
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 Erie Insurance Place, Erie, Pennsylvania	16530
(Address of principal executive offices)	(Zip Code)

(814) 870-2000  
(Registrant's telephone number, including area code)

Not applicable  
(Former name, former address and former fiscal year, if changed since last  
report)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  
Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  
Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  Smaller Reporting Company

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(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes      No    X

The number of shares outstanding of the registrant's Class A Common Stock as of the latest practicable date, with no par value and a stated value of \$0.0292 per share, was 46,189,068 at October 16, 2015.

The number of shares outstanding of the registrant's Class B Common Stock as of the latest practicable date, with no par value and a stated value of \$70 per share, was 2,542 at October 16, 2015.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## ERIE INDEMNITY COMPANY

## CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(dollars in millions, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Revenues				
Premiums earned	\$1,472	\$1,355	\$4,308	\$3,962
Net investment income	120	115	360	335
Net realized investment (losses) gains	(292	) (85	) (243	) 104
Net impairment losses recognized in earnings	(4	) (1	) (8	) (1
Equity in earnings of limited partnerships	43	34	143	111
Other income	7	8	23	24
Total revenues	1,346	1,426	4,583	4,535
Benefits and expenses				
Insurance losses and loss expenses	939	935	2,975	3,095
Policy acquisition and underwriting expenses	367	341	1,076	987
Total benefits and expenses	1,306	1,276	4,051	4,082
Income from operations before income taxes and noncontrolling interest	40	150	532	453
Provision for income taxes	7	42	166	133
Net income	\$33	\$108	\$366	\$320
Less: Net (loss) income attributable to noncontrolling interest in consolidated entity – Exchange	(17	) 61	221	178
Net income attributable to Indemnity	\$50	\$47	\$145	\$142
Earnings Per Share				
Net income attributable to Indemnity per share				
Class A common stock – basic	\$1.06	\$1.01	\$3.10	\$3.05
Class A common stock – diluted	\$0.94	\$0.90	\$2.75	\$2.71
Class B common stock – basic	\$160	\$151	\$466	\$458
Class B common stock – diluted	\$159	\$151	\$465	\$457
Weighted average shares outstanding attributable to Indemnity – Basic				
Class A common stock	46,189,068	46,189,068	46,189,068	46,267,694
Class B common stock	2,542	2,542	2,542	2,542
Weighted average shares outstanding attributable to Indemnity – Diluted				
Class A common stock	52,602,083	52,387,164	52,599,783	52,465,790

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Class B common stock	2,542	2,542	2,542	2,542
Dividends declared per share				
Class A common stock	\$0.6810	\$0.6350	\$2.0430	\$1.9050
Class B common stock	\$102.1500	\$95.2500	\$306.4500	\$285.7500

See accompanying notes to Consolidated Financial Statements. See Note 12. "Indemnity Accumulated Other Comprehensive Loss," for amounts reclassified out of accumulated other comprehensive income (loss) into the Consolidated Statements of Operations. See Note 15. "Indemnity Supplemental Information," for supplemental statements of operations information.

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ERIE INDEMNITY COMPANY  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)  
(in millions)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net income	\$33	\$108	\$366	\$320
Other comprehensive (loss) income				
Change in unrealized holding (losses) gains on available-for-sale securities, net of tax benefit (expense) of \$22, \$32, \$66 and \$(48), respectively	(40	) (59	)(123	) 89
Reclassification adjustment for gross losses (gains) included in net income, net of tax (expense) benefit of \$0, \$1, \$4 and \$8, respectively	1	(4	)(6	) (15
Other comprehensive (loss) income	(39	) (63	)(129	) 74
Comprehensive (loss) income	\$(6	) \$45	\$237	\$394
Less: Comprehensive (loss) income attributable to noncontrolling interest in consolidated entity – Exchange	(55	) (1	)95	249
Total comprehensive income – Indemnity	\$49	\$46	\$142	\$145

See accompanying notes to Consolidated Financial Statements. See Note 12. "Indemnity Accumulated Other Comprehensive Loss," for supplemental statements of comprehensive income (loss) information.

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ERIE INDEMNITY COMPANY  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
(dollars in millions, except per share data)

	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Investments – Indemnity		
Available-for-sale securities, at fair value:		
Fixed maturities (amortized cost of \$581 and \$555, respectively)	\$588	\$564
Equity securities (cost of \$20 and \$24, respectively)	20	25
Limited partnerships (cost of \$77 and \$89, respectively)	95	113
Other invested assets	1	1
Investments – Exchange		
Available-for-sale securities, at fair value:		
Fixed maturities (amortized cost of \$9,106 and \$8,540, respectively)	9,392	9,007
Equity securities (cost of \$681 and \$788, respectively)	720	850
Trading securities, at fair value (cost of \$2,483 and \$2,289, respectively)	2,981	3,223
Limited partnerships (cost of \$649 and \$694, respectively)	832	866
Other invested assets	21	20
Total investments	14,650	14,669
Cash and cash equivalents (Exchange portion of \$496 and \$422, respectively)	618	514
Premiums receivable from policyholders – Exchange	1,417	1,281
Reinsurance recoverable – Exchange	162	161
Deferred income taxes – Indemnity	51	37
Deferred acquisition costs – Exchange	656	595
Other assets (Exchange portion of \$451 and \$374, respectively)	561	501
Total assets	\$18,115	\$17,758
Liabilities and shareholders' equity		
Liabilities		
Indemnity liabilities		
Other liabilities	\$644	\$611
Exchange liabilities		
Losses and loss expense reserves	3,923	3,853
Life policy and deposit contract reserves	1,848	1,812
Unearned premiums	3,109	2,834
Deferred income taxes	283	490
Other liabilities	183	175
Total liabilities	9,990	9,775
Indemnity shareholders' equity		
Class A common stock, stated value \$0.0292 per share; 74,996,930 shares authorized; 68,299,200 shares issued; 46,189,068 shares outstanding	2	2
Class B common stock, convertible at a rate of 2,400 Class A shares for one Class B share, stated value \$70 per share; 3,070 shares authorized; 2,542 shares issued and outstanding	0	0
Additional paid-in-capital	16	16

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Accumulated other comprehensive loss	(121	) (118	)
Retained earnings	1,999	1,949	
Total contributed capital and retained earnings	1,896	1,849	
Treasury stock, at cost, 22,110,132 shares held	(1,146	) (1,146	)
Total Indemnity shareholders' equity	750	703	
Noncontrolling interest in consolidated entity – Exchange	7,375	7,280	
Total equity	8,125	7,983	
Total liabilities, shareholders' equity, and noncontrolling interest	\$18,115	\$17,758	

See accompanying notes to Consolidated Financial Statements. See Note 15. "Indemnity Supplemental Information," for supplemental consolidating statements of financial position information.

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ERIE INDEMNITY COMPANY  
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)  
(in millions)

	Nine months ended September 30,		
	2015	2014	
Cash flows from operating activities			
Premiums collected	\$4,446	\$4,106	
Net investment income received	397	362	
Limited partnership distributions	115	95	
Service agreement fee received	23	23	
Commissions and bonuses paid to agents	(633)	(576)	)
Losses paid	(2,428)	(2,438)	)
Loss expenses paid	(393)	(378)	)
Other underwriting and acquisition costs paid	(518)	(519)	)
Income taxes paid	(346)	(126)	)
Net cash provided by operating activities	663	549	
Cash flows from investing activities			
Purchase of investments:			
Fixed maturities	(2,201)	(1,825)	)
Preferred stock	(170)	(382)	)
Common stock	(897)	(766)	)
Limited partnerships	(101)	(82)	)
Sales/maturities of investments:			
Fixed maturity sales	859	490	
Fixed maturity calls/maturities	742	685	
Preferred stock	250	331	
Common stock	912	944	
Sale of and returns on limited partnerships	176	100	
Net purchase of property and equipment	(45)	(29)	)
Net collections on agent loans	1	2	
Net distributions on life policy loans	(1)	(1)	)
Net cash used in investing activities	(475)	(533)	)
Cash flows from financing activities			
Annuity deposits and interest	58	66	
Annuity surrenders and withdrawals	(64)	(62)	)
Universal life deposits and interest	27	25	
Universal life surrenders	(10)	(9)	)
Purchase of treasury stock	0	(20)	)
Dividends paid to shareholders	(95)	(89)	)
Net cash used in financing activities	(84)	(89)	)
Net increase (decrease) in cash and cash equivalents	104	(73)	)
Cash and cash equivalents at beginning of period	514	452	
Cash and cash equivalents at end of period	\$618	\$379	

See accompanying notes to Consolidated Financial Statements. See Note 15. "Indemnity Supplemental Information," for supplemental cash flow information.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Nature of Operations

Erie Indemnity Company (“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”). The Exchange, which also commenced business in 1925, is a Pennsylvania-domiciled reciprocal insurer that writes property and casualty insurance.

Indemnity’s primary function, as attorney-in-fact, is to perform certain services for the Exchange relating to the sales, underwriting and issuance of policies on behalf of the Exchange. This is done in accordance with a subscriber’s agreement (a limited power of attorney) executed individually by each subscriber (policyholder), which appoints Indemnity as their common attorney-in-fact to transact certain business on their behalf and to manage the affairs of the Exchange. Pursuant to the subscriber’s agreement and for its services as attorney-in-fact, Indemnity earns a management fee calculated as a percentage of the direct premiums written by the Exchange and the other members of the Property and Casualty Group (defined below), which are assumed by the Exchange under an intercompany pooling arrangement.

Indemnity has the power to direct the activities of the Exchange that most significantly impact the Exchange’s economic performance by acting as the common attorney-in-fact and decision maker for the subscribers (policyholders) at the Exchange.

The Exchange, together with its wholly owned subsidiaries, Erie Insurance Company (“EIC”), Erie Insurance Company of New York (“ENY”), Erie Insurance Property and Casualty Company (“EPC”), and Flagship City Insurance Company (“Flagship”), operate as a property and casualty insurer and are collectively referred to as the “Property and Casualty Group”. The Property and Casualty Group operates in 12 Midwestern, Mid-Atlantic and Southeastern states and the District of Columbia.

Erie Family Life Insurance Company (“EFL”), a wholly owned subsidiary of the Exchange, operates as a life insurer that underwrites and sells individual and group life insurance policies and fixed annuities.

All property and casualty and life insurance operations are owned by the Exchange and Indemnity functions solely as the management company.

The consolidated financial statements of Erie Indemnity Company reflect the results of Indemnity and its variable interest entity, the Exchange, which we refer to collectively as the “Erie Insurance Group” (“we,” “us,” “our”).

“Indemnity shareholder interest” refers to the interest in Erie Indemnity Company owned by the Class A and Class B shareholders. “Noncontrolling interest” refers to the interest in the Erie Insurance Exchange held for the subscribers (policyholders).

Note 2. Significant Accounting Policies

Basis of presentation

The accompanying consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“GAAP”) and include the accounts of Indemnity together with its affiliate companies in which Indemnity holds a majority voting or economic interest.

Use of estimates

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of our financial position, results of operations, and cash flows for the interim periods have been included. Operating results for the nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ended December 31, 2015. The accompanying consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2014 as filed with the Securities and Exchange Commission on February 26, 2015.

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### Principles of consolidation

We consolidate the Exchange as a variable interest entity for which Indemnity is the primary beneficiary under Accounting Standards Codification ("ASC 810"), Consolidation which was adopted January 1, 2010. All intercompany accounts and transactions have been eliminated in consolidation. The required presentation of noncontrolling interests is reflected in the consolidated financial statements. Noncontrolling interests represent the ownership interests of the Exchange, all of which are held by parties other than Indemnity (i.e. the Exchange's subscribers (policyholders)). Noncontrolling interests also include the Exchange subscribers' ownership interest in EFL.

**Presentation of assets and liabilities** – While the assets of the Exchange are presented separately in the Consolidated Statements of Financial Position, the Exchange's assets can only be used to satisfy the Exchange's liabilities or for other unrestricted activities. ASC 810 does not require separate presentation of the Exchange's assets; however, because the shareholders of Indemnity have no rights to the assets of the Exchange and, conversely, the Exchange has no rights to the assets of Indemnity, we have presented the invested assets of the Exchange separately on the Consolidated Statements of Financial Position along with the remaining consolidated assets reflecting the Exchange's portion parenthetically. Liabilities are required under ASC 810, to be presented separately for the Exchange on the Consolidated Statements of Financial Position as the Exchange's creditors do not have recourse to the general credit of Indemnity.

**Rights of shareholders of Indemnity and subscribers (policyholders) of the Exchange** – The shareholders of Indemnity, through the management fee, have a controlling financial interest as defined in ASC 810 in the Exchange; however, they have no other rights to or obligations arising from assets and liabilities of the Exchange. The shareholders of Indemnity own its equity but have no rights or interest in the Exchange's (noncontrolling interest) income or equity. The noncontrolling interest equity represents the Exchange's equity held for the interest of its subscribers (policyholders), who have no rights or interest in the Indemnity shareholder interest income or equity.

All intercompany assets, liabilities, revenues, and expenses between Indemnity and the Exchange have been eliminated in the Consolidated Financial Statements.

### Recently issued accounting standards

In February 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-02, "Consolidation", which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. ASU 2015-02 modifies the evaluation of whether limited partnerships are variable interest entities and the consolidation analysis of reporting entities that are involved in variable interest entities, particularly those that have fee arrangements and related party relationships. All legal entities are subject to reevaluation under this revised consolidation model. ASU 2015-02 is effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted.

This guidance changed the conditions to be met in determining if a reporting entity has a variable interest in a legal entity. In accordance with the new accounting guidance, Indemnity is not deemed to have a variable interest in the Exchange as the fees paid for services provided to the Exchange no longer represent a variable interest. The compensation received from Indemnity's attorney-in-fact fee arrangement with the subscribers is for services provided by Indemnity acting in its role as attorney-in-fact and is commensurate with the level of effort required to perform those services. Under the previously issued accounting guidance, Indemnity was deemed to have a variable interest and was the primary beneficiary of the Exchange and the Exchange's financial position and operating results were consolidated with Indemnity. Following adoption of the new accounting guidance, the Exchange's results are no longer required to be consolidated with Indemnity.

Indemnity will adopt the amended guidance on a retrospective basis effective with our Form 10-K for the annual period ending December 31, 2015. Given the materiality of the Exchange's operations, no longer consolidating the Exchange's financial statements with Indemnity's will materially change our reporting entity's assets, liabilities, revenues, expenses, related footnote disclosures and the overall presentation of management's discussion and analysis. As the Exchange's equity is currently shown as a noncontrolling interest, the net income and equity attributable to the shareholders will be unchanged by this presentation.

In May 2015, the FASB issued ASU 2015-07, "Fair Value Measurement", which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient and limits the disclosure requirements. ASU 2015-07 is effective for annual and interim periods beginning after December 15, 2015. Early adoption is permitted. We will implement these amended disclosure requirements at December 31, 2015.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers". ASU 2014-09 clarifies the principles for recognizing revenue and provides a common revenue standard for GAAP. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Insurance contracts are not within the scope of this guidance. In August 2015, ASU 2015-14, "Revenue from Contracts with Customers", deferred the effective date of ASU 2014-09 to annual and interim reporting periods beginning after December 15, 2017. Earlier application is permitted only as of annual and interim reporting periods beginning after December 15, 2016. We do not expect the adoption of ASU 2014-09 related to the management fee and service agreement revenue to have a material impact on our consolidated financial statements.

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## Note 3. Indemnity Earnings Per Share

Class A and Class B basic earnings per share and Class B diluted earnings per share are calculated under the two-class method. The two-class method allocates earnings to each class of stock based upon its dividend rights. Class B shares are convertible into Class A shares at a conversion ratio of 2,400 to 1. See Note 11. "Indemnity Capital Stock".

Class A diluted earnings per share are calculated under the if-converted method, which reflects the conversion of Class B shares to Class A shares. Diluted earnings per share calculations include the dilutive effect of assumed issuance of stock-based awards under compensation plans using the treasury stock method.

A reconciliation of the numerators and denominators used in the basic and diluted per-share computations is presented as follows for each class of Indemnity common stock:

(dollars in millions, except per share data)	Indemnity Shareholder Interest					
	Three months ended September 30,					
	2015			2014		
	Allocated net income (numerator)	Weighted shares (denominator)	Per-share amount	Allocated net income (numerator)	Weighted shares (denominator)	Per-share amount
Class A – Basic EPS:						
Income available to Class A stockholders	\$50	46,189,068	\$1.06	\$47	46,189,068	\$1.01
Dilutive effect of stock-based awards	0	312,215	—	0	97,296	—
Assumed conversion of Class B shares	0	6,100,800	—	0	6,100,800	—
Class A – Diluted EPS:						
Income available to Class A stockholders on Class A equivalent shares	\$50	52,602,083	\$0.94	\$47	52,387,164	\$0.90
Class B – Basic EPS:						
Income available to Class B stockholders	\$1	2,542	\$160	\$0	2,542	\$151
Class B – Diluted EPS:						
Income available to Class B stockholders	\$1	2,542	\$159	\$0	2,542	\$151

(dollars in millions, except per share data)	Indemnity Shareholder Interest					
	Nine months ended September 30,					
	2015			2014		
	Allocated net income (numerator)	Weighted shares (denominator)	Per-share amount	Allocated net income (numerator)	Weighted shares (denominator)	Per-share amount
Class A – Basic EPS:						
Income available to Class A stockholders	\$144	46,189,068	\$3.10	\$141	46,267,694	\$3.05
	0	309,915	—	0	97,296	—

Dilutive effect of stock-based awards

Assumed conversion of Class B shares	1	6,100,800	—	1	6,100,800	—
Class A – Diluted EPS:						
Income available to Class A stockholders on Class A equivalent shares	\$ 145	52,599,783	\$ 2.75	\$ 142	52,465,790	\$ 2.71
Class B – Basic EPS:						
Income available to Class B stockholders	\$ 1	2,542	\$ 466	\$ 1	2,542	\$ 458
Class B – Diluted EPS:						
Income available to Class B stockholders	\$ 1	2,542	\$ 465	\$ 1	2,542	\$ 457

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Note 4. Variable Interest Entity

Erie Insurance Exchange

The Exchange is a reciprocal insurance exchange domiciled in Pennsylvania, for which Indemnity serves as attorney-in-fact. Indemnity holds a variable interest in the Exchange due to the absence of decision-making capabilities by the equity owners (subscribers/policyholders) of the Exchange and due to the significance of the management fee the Exchange pays to Indemnity as its decision maker. Therefore as defined in ASC 810, Indemnity is deemed to have a controlling financial interest in the Exchange and is considered to be its primary beneficiary.

Under ASC 810, consolidation of the Exchange's financial results is required given the significance of the management fee to the Exchange and because Indemnity has the power to direct the activities of the Exchange that most significantly impact the Exchange's economic performance. The Exchange's anticipated economic performance is the product of its underwriting results combined with its investment results. The fees paid to Indemnity under the subscriber's agreement impact the anticipated economic performance attributable to the Exchange's results. Indemnity earns a management fee from the Exchange for the services it provides as attorney-in-fact. Indemnity's management fee revenues are based upon all premiums written or assumed by the Exchange. Indemnity's Board of Directors determines the management fee rate to be paid by the Exchange to Indemnity. This rate cannot exceed 25% of the direct and assumed written premiums of the Exchange, as defined by the subscriber's agreement signed by each policyholder. Management fee revenues and management fee expenses are eliminated upon consolidation.

The shareholders of Indemnity have no rights to the assets of the Exchange and no obligations arising from the liabilities of the Exchange. Indemnity has no obligation related to any underwriting and/or investment losses experienced by the Exchange. Indemnity would, however, be adversely impacted if the Exchange incurred significant underwriting and/or investment losses. If the surplus of the Exchange were to decline significantly from its current level, its financial strength ratings could be reduced and, as a consequence, the Exchange could find it more difficult to retain its existing business and attract new business. A decline in the business of the Exchange would have an adverse effect on the amount of the management fees Indemnity receives. In addition, a decline in the surplus of the Exchange from its current level may impact the management fee rate received by Indemnity. Indemnity also has an exposure to a concentration of credit risk related to the unsecured receivables due from the Exchange for its management fee. If any of these events occurred, Indemnity's financial position, financial performance, and/or cash flows could be adversely impacted.

All property and casualty and life insurance operations are owned by the Exchange, and Indemnity functions solely as the management company.

Indemnity has not provided financial or other support to the Exchange for any of the reporting periods presented. At September 30, 2015, there are no explicit or implicit arrangements that would require Indemnity to provide future financial support to the Exchange. Indemnity is not liable if the Exchange was to be in violation of its debt covenants or was unable to meet its obligation for unfunded commitments to limited partnerships.

See discussion of recently issued accounting standards in Note 2, "Significant Accounting Policies" for the impact of the updated consolidation guidance (ASU 2015-02) on our reporting entity.

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Note 5. Segment Information

Our reportable segments include management operations, property and casualty insurance operations, life insurance operations, and investment operations. Accounting policies for segments are the same as those described in the summary of significant accounting policies. See Item 8. “Financial Statements and Supplementary Data, Note 2. Significant Accounting Policies,” in our Annual Report on Form 10-K for the year ended December 31, 2014 as filed with the Securities and Exchange Commission on February 26, 2015. Assets are not allocated to the segments, but rather, are reviewed in total for purposes of decision-making. No single customer or agent provides 10% or more of revenues.

Management operations

Our management operations segment consists of Indemnity serving as attorney-in-fact for the Exchange. Indemnity operates in this capacity solely for the Exchange. We evaluate profitability of our management operations segment principally on the gross margin from management operations. Indemnity earns a management fee from the Exchange for providing certain sales, underwriting, and policy issuance services. Management fee revenue, which is eliminated upon consolidation, is calculated as a percentage not to exceed 25% of all the direct premiums written by the Exchange and the other members of the Property and Casualty Group, which are assumed by the Exchange under an intercompany pooling arrangement. The Property and Casualty Group issues policies with annual terms only. Management fees are recorded upon policy issuance or renewal, as substantially all of the services required to be performed by Indemnity have been satisfied at that time. Certain activities are performed and related costs are incurred by us subsequent to policy issuance in connection with the services provided to the Exchange; however, these activities are inconsequential and perfunctory. Although these management fee revenues and expenses are eliminated upon consolidation, the amount of the fee directly impacts the allocation of our consolidated net income between the noncontrolling interest, which bears the management fee expense and represents the interests of the Exchange subscribers (policyholders), and Indemnity’s interest, which earns the management fee revenue and represents the Indemnity shareholder interest in net income.

Property and casualty insurance operations

Our property and casualty insurance operations segment includes personal and commercial lines. Personal lines consist primarily of private passenger auto and homeowners and are marketed to individuals. Commercial lines consist primarily of commercial multi-peril, commercial auto, and workers compensation and are marketed to small- and medium-sized businesses. Our property and casualty policies are sold by independent agents. Our property and casualty insurance underwriting operations are conducted through the Exchange and its subsidiaries and include assumed involuntary and ceded reinsurance business and run-off activity of the previously assumed voluntary reinsurance business. We evaluate profitability of the property and casualty insurance operations principally based upon net underwriting results represented by the combined ratio.

Life insurance operations

Our life insurance operations segment includes traditional and universal life insurance products and fixed annuities marketed to individuals using the same independent agency force utilized by our property and casualty insurance operations. We evaluate profitability of the life insurance segment principally based upon segment net income, including investments, which for segment purposes are reflected in the investment operations segment. At the same time, we recognize that investment-related income is integral to the evaluation of the life insurance segment because of the long duration of life products. For the third quarters of 2015 and 2014, investment activities on life insurance related assets generated revenues of \$24 million and \$26 million, respectively, resulting in EFL reporting income before income taxes of \$11 million and \$10 million, respectively, before intercompany eliminations. For the nine months ended September 30, 2015 and 2014, investment activities on life insurance related assets generated revenues of \$74 million and \$79 million, respectively, resulting in EFL reporting income before income taxes of \$34 million and \$33 million, respectively, before intercompany

eliminations.

Investment operations

The investment operations segment includes returns from our fixed maturity, equity security and limited partnership investment portfolios to support our underwriting business. The Indemnity and Exchange portfolios are managed with the objective of maximizing after-tax returns on a risk-adjusted basis, while the EFL portfolio is managed to be closely aligned to its liabilities and to maintain a sufficient yield to meet profitability targets. We actively evaluate the portfolios for impairments and record impairment writedowns on investments in instances where the fair value of the investment is substantially below cost, and it is concluded that the decline in fair value is other-than-temporary. Investment related income for the life operations is included in the investment segment results.

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The following tables summarize the components of the Consolidated Statements of Operations by reportable business segment:

(in millions)	Erie Insurance Group Three months ended September 30, 2015					Consolidated
	Management operations	Property and casualty insurance operations	Life insurance operations	Investment operations	Eliminations	
Premiums earned/life policy revenue		\$1,447	\$25		\$0	\$1,472
Net investment income				\$123	(3)	120
Net realized investment losses				(292)	)	(292)
Net impairment losses recognized in earnings				(4)	)	(4)
Equity in earnings of limited partnerships				43		43
Management fee revenue	\$389				(389)	—
Service agreement and other revenue	7		0			7
Total revenues	396	1,447	25	(130)	(392)	1,346
Cost of management operations	328				(328)	—
Insurance losses and loss expenses		912	28		(1)	939
Policy acquisition and underwriting expenses		420	10		(63)	367
Total benefits and expenses	328	1,332	38	—	(392)	1,306
Income (loss) before income taxes	68	115	(13)	(130)	—	40
Provision for income taxes	24	40	(5)	(52)	—	7
Net income (loss)	\$44	\$75	\$(8)	\$(78)	\$—	\$33

(in millions)	Erie Insurance Group Three months ended September 30, 2014					Consolidated
	Management operations	Property and casualty insurance operations	Life insurance operations	Investment operations	Eliminations	
Premiums earned/life policy revenue		\$1,333	\$22		\$0	\$1,355
Net investment income				\$118	(3)	115
Net realized investment losses				(85)	)	(85)
Net impairment losses recognized in earnings				(1)	)	(1)
Equity in earnings of limited partnerships				34		34
Management fee revenue	\$362				(362)	—
Service agreement and other revenue	8		0			8
Total revenues	370	1,333	22	66	(365)	1,426
Cost of management operations	308				(308)	—
Insurance losses and loss expenses		908	28		(1)	935

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Policy acquisition and underwriting expenses		387	10		(56	) 341
Total benefits and expenses	308	1,295	38	—	(365	) 1,276
Income (loss) before income taxes	62	38	(16	) 66	—	150
Provision for income taxes	22	13	(5	) 12	—	42
Net income (loss)	\$40	\$25	\$(11	) \$54	\$—	\$ 108

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(in millions)	Erie Insurance Group Nine months ended September 30, 2015					Eliminations	Consolidated
	Management operations	Property and casualty insurance operations	Life insurance operations	Investment operations			
Premiums earned/life policy revenue		\$4,239	\$69		\$0		\$4,308
Net investment income				\$369	(9)		360
Net realized investment losses				(243)			(243)
Net impairment losses recognized in earnings				(8)			(8)
Equity in earnings of limited partnerships				143			143
Management fee revenue	\$1,127				(1,127)		—
Service agreement and other revenue	22		1				23
Total revenues	1,149	4,239	70	261	(1,136)		4,583
Cost of management operations	958				(958)		—
Insurance losses and loss expenses		2,897	81		(3)		2,975
Policy acquisition and underwriting expenses		1,222	29		(175)		1,076
Total benefits and expenses	958	4,119	110	—	(1,136)		4,051
Income (loss) before income taxes	191	120	(40)	261	—		532
Provision for income taxes	67	42	(14)	71	—		166
Net income (loss)	\$124	\$78	\$(26)	\$190	\$—		\$366

(in millions)	Erie Insurance Group Nine months ended September 30, 2014					Eliminations	Consolidated
	Management operations	Property and casualty insurance operations	Life insurance operations	Investment operations			
Premiums earned/life policy revenue		\$3,899	\$64		\$(1)		\$3,962
Net investment income				\$346	(11)		335
Net realized investment gains				104			104
Net impairment losses recognized in earnings				(1)			(1)
Equity in earnings of limited partnerships				111			111
Management fee revenue	\$1,047				(1,047)		—
Service agreement and other revenue	23		1				24
Total revenues	1,070	3,899	65	560	(1,059)		4,535
Cost of management operations	882				(882)		—
Insurance losses and loss expenses		3,016	83		(4)		3,095
Policy acquisition and underwriting expenses		1,132	28		(173)		987

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Total benefits and expenses	882	4,148	111	—	(1,059	) 4,082
Income (loss) before income taxes	188	(249	) (46	) 560	—	453
Provision for income taxes	66	(87	) (16	) 170	—	133
Net income (loss)	\$122	\$(162	) \$(30	) \$390	\$—	\$ 320

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Note 6. Fair Value

Our available-for-sale and trading securities are recorded at fair value, which is the price that would be received to sell the asset in an orderly transaction between willing market participants as of the measurement date.

Valuation techniques used to derive the fair value of our available-for-sale and trading securities are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources. Unobservable inputs reflect our own assumptions regarding fair market value for these securities. Although the majority of our prices are obtained from third party sources, we also perform an internal pricing review for securities with low trading volumes under current market conditions. Financial instruments are categorized based upon the following characteristics or inputs to the valuation techniques:

• Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

• Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

• Level 3 – Unobservable inputs for the asset or liability.

Estimates of fair values for our investment portfolio are obtained primarily from a nationally recognized pricing service. Our Level 1 category includes those securities valued using an exchange traded price provided by the pricing service. The methodologies used by the pricing service that support a Level 2 classification of a financial instrument include multiple verifiable, observable inputs including benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data. Pricing service valuations for Level 3 securities are based upon proprietary models and are used when observable inputs are not available or in illiquid markets.

In limited circumstances we adjust the price received from the pricing service when, in our judgment, a better reflection of fair value is available based upon corroborating information and our knowledge and monitoring of market conditions such as a disparity in price of comparable securities and/or non-binding broker quotes. In other circumstances, certain securities are internally priced because prices are not provided by the pricing service.

We perform continuous reviews of the prices obtained from the pricing service. This includes evaluating the methodology and inputs used by the pricing service to ensure that we determine the proper classification level of the financial instrument. Price variances, including large periodic changes, are investigated and corroborated by market data. We have reviewed the pricing methodologies of our pricing service as well as other observable inputs, such as data, and transaction volumes and believe that their prices adequately consider market activity in determining fair value. Our review process continues to evolve based upon accounting guidance and requirements.

When a price from the pricing service is not available, values are determined by obtaining broker/dealer quotes and/or market comparables. When available, we obtain multiple quotes for the same security. The ultimate value for these securities is determined based upon our best estimate of fair value using corroborating market information. Our evaluation includes the consideration of benchmark yields, reported trades, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data.

For certain securities in an illiquid market, there may be no prices available from a pricing service and no comparable market quotes available. In these situations, we value the security using an internally-developed, risk-adjusted discounted cash flow model.



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The following table represents our consolidated fair value measurements on a recurring basis by asset class and level of input at September 30, 2015:

(in millions)	Erie Insurance Group September 30, 2015 Fair value measurements using:				
	Total	Quoted prices in active markets for identical assets Level 1	Observable inputs Level 2	Unobservable inputs Level 3	
<b>Indemnity</b>					
Available-for-sale securities:					
States & political subdivisions	\$237	\$0	\$237	\$0	
Corporate debt securities	245	0	245	0	
Residential mortgage-backed securities	11	0	11	0	
Commercial mortgage-backed securities	44	0	44	0	
Collateralized debt obligations	46	0	41	5	
Other debt securities	5	0	5	0	
Total fixed maturities	588	0	583	5	
Nonredeemable preferred stock	8	1	7	0	
Common stock	12	12	0	0	
Total available-for-sale securities	608	13	590	5	
Other investments <sup>(1)</sup>	5	0	0	5	
Total – Indemnity	\$613	\$13	\$590	\$10	
<b>Exchange</b>					
Available-for-sale securities:					
U.S. treasury	\$8	\$0	\$8	\$0	
Government sponsored enterprises	4	0	4	0	
States & political subdivisions	1,476	0	1,476	0	
Foreign government securities	86	0	86	0	
Corporate debt securities	7,657	0	7,544	113	
Residential mortgage-backed securities	30	0	30	0	
Commercial mortgage-backed securities	29	0	29	0	
Collateralized debt obligations	11	0	11	0	
Other debt securities	91	0	80	11	
Total fixed maturities	9,392	0	9,268	124	
Nonredeemable preferred stock	623	310	307	6	
Common stock	97	97	0	0	
Total available-for-sale securities	10,112	407	9,575	130	
Trading securities:					
Common stock	2,981	2,968	0	13	
Total trading securities	2,981	2,968	0	13	
Other investments <sup>(1)</sup>	48	0	0	48	
Total – Exchange	\$13,141	\$3,375	\$9,575	\$191	
Total – Erie Insurance Group	\$13,754	\$3,388	\$10,165	\$201	
% of total assets at fair value	100.0	% 24.6	% 73.9	% 1.5	%

(1) Other investments measured at fair value represent four real estate funds included on the balance sheet as limited partnership investments that are reported under the fair value option. These investments can never be redeemed with the funds. Instead, distributions are received when liquidation of the underlying assets of the funds occur. It is estimated that the underlying assets will generally be liquidated between 5 and 10 years from the inception of the funds. The fair value of these investments is based on the net asset value (NAV) information provided by the general partner. Fair value is based on our proportionate share of the NAV based on the most recent partners' capital statements received from the general partners, which is generally one quarter prior to our balance sheet date. These values are then analyzed to determine if the NAV represents fair value at our balance sheet date, with adjustment being made where appropriate. We consider observable market data and perform a review validating the appropriateness of the NAV at each balance sheet date. It is likely that all of the investments will be redeemed at a future date for an amount different than the NAV of our ownership interest in partners' capital as of September 30, 2015. During the nine months ended September 30, 2015, Indemnity made no contributions and received distributions totaling \$3.1 million, and the Exchange made no contributions and received distributions totaling \$28.4 million for these investments. As of September 30, 2015, the amount of unfunded commitments related to the investments was \$0.6 million for Indemnity and \$1.7 million for the Exchange.

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The following table represents our consolidated fair value measurements on a recurring basis by asset class and level of input at December 31, 2014:

(in millions)	Erie Insurance Group December 31, 2014 Fair value measurements using:				
	Total	Quoted prices in active markets for identical assets Level 1	Observable inputs Level 2	Unobservable inputs Level 3	
<b>Indemnity</b>					
Available-for-sale securities:					
States & political subdivisions	\$231	\$ 0	\$231	\$0	
Corporate debt securities	234	0	234	0	
Residential mortgage-backed securities	8	0	8	0	
Commercial mortgage-backed securities	51	0	51	0	
Collateralized debt obligations	33	0	33	0	
Other debt securities	7	0	7	0	
Total fixed maturities	564	0	564	0	
Nonredeemable preferred stock	12	2	10	0	
Common stock	13	13	0	0	
Total available-for-sale securities	589	15	574	0	
Other investments <sup>(1)</sup>	8	0	0	8	
Total – Indemnity	\$597	\$ 15	\$574	\$8	
<b>Exchange</b>					
Available-for-sale securities:					
U.S. treasury	\$6	\$ 0	\$6	\$0	
Government sponsored enterprises	4	0	4	0	
States & political subdivisions	1,477	0	1,477	0	
Foreign government securities	10	0	10	0	
Corporate debt securities	7,289	0	7,202	87	
Residential mortgage-backed securities	111	0	111	0	
Commercial mortgage-backed securities	30	0	30	0	
Collateralized debt obligations	11	0	11	0	
Other debt securities	69	0	57	12	
Total fixed maturities	9,007	0	8,908	99	
Nonredeemable preferred stock	710	328	381	1	
Common stock	140	140	0	0	
Total available-for-sale securities	9,857	468	9,289	100	
Trading securities:					
Common stock	3,223	3,208	0	15	
Total trading securities	3,223	3,208	0	15	
Other investments <sup>(1)</sup>	71	0	0	71	
Total – Exchange	\$13,151	\$ 3,676	\$9,289	\$186	
Total – Erie Insurance Group	\$13,748	\$ 3,691	\$9,863	\$194	
% of total assets at fair value	100.0	% 26.9	% 71.7	% 1.4	%

(1) Other investments measured at fair value represent four real estate funds included on the balance sheet as limited partnership investments that are reported under the fair value option. These investments can never be redeemed with the funds. Instead, distributions are received when liquidation of the underlying assets of the funds occur. It is estimated that the underlying assets will generally be liquidated between 5 and 10 years from the inception of the funds. The fair value of these investments is based on the net asset value (NAV) information provided by the general partner. Fair value is based on our proportionate share of the NAV based on the most recent partners' capital statements received from the general partners, which is generally one quarter prior to our balance sheet date. These values are then analyzed to determine if the NAV represents fair value at our balance sheet date, with adjustment being made where appropriate. We consider observable market data and perform a review validating the appropriateness of the NAV at each balance sheet date. It is likely that all of the investments will be redeemed at a future date for an amount different than the NAV of our ownership interest in partners' capital as of December 31, 2014. During the year ended December 31, 2014, Indemnity made no contributions and received distributions totaling \$12.9 million, and the Exchange made no contributions and received distributions totaling \$41.5 million for these investments. As of December 31, 2014, the amount of unfunded commitments related to the investments was \$0.6 million for Indemnity and \$1.7 million for the Exchange.

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## Level 3 Assets – Quarterly Change:

(in millions)	Erie Insurance Group						Ending balance at September 30, 2015
	Beginning balance at June 30, 2015	Included in earnings (1)	Included in other comprehensive income	Purchases	Sales	Transfers in and (out) of Level 3	
<b>Indemnity</b>							
Available-for-sale securities:							
Corporate debt securities	\$0	\$0	\$ 0	\$ 0	\$0	\$0	\$0
Collateralized debt obligations	1	0	0	4	0	0	5
Total fixed maturities	1	0	0	4	0	0	5
Total available-for-sale securities	1	0	0	4	0	0	5
Other investments	6	1	0	0	(2 )	0	5
Total Level 3 assets – Indemnity	\$7	\$1	\$ 0	\$ 4	\$(2 )	\$0	\$10
<b>Exchange</b>							
Available-for-sale securities:							
Corporate debt securities	\$74	\$0	\$ (2 )	\$ 41	\$(1 )	\$1	\$113
Other debt securities	11	0	0	0	0	0	11
Total fixed maturities	85	0	(2 )	41	(1 )	1	124
Nonredeemable preferred stock	1	0	0	0	0	5	6
Total available-for-sale securities	86	0	(2 )	41	(1 )	6	130
Trading securities:							
Common stock	13	0	0	0	0	0	13
Total trading securities	13	0	0	0	0	0	13
Other investments	53	2	0	0	(7 )	0	48
Total Level 3 assets – Exchange	\$152	\$2	\$ (2 )	\$ 41	\$(8 )	\$6	\$191
Total Level 3 assets – Erie Insurance Group	\$159	\$3	\$ (2 )	\$ 45	\$(10 )	\$6	\$201

(1) These amounts are reported in the Consolidated Statement of Operations. There is \$3 million included in equity in earnings of limited partnerships for the three months ended September 30, 2015 on Level 3 securities.

We review the fair value hierarchy classifications each reporting period. Transfers between hierarchy levels may occur due to changes in the available market observable inputs. Transfers in and out of level classifications are reported as having occurred at the beginning of the quarter in which the transfers occurred.

For Indemnity, there were no transfers between Level 1 and Level 2 or from Level 3 to Level 2 for the three months ended September 30, 2015. Level 2 to Level 3 transfers totaled \$0.1 million for one fixed maturity holding due to the use of unobservable inputs to determine the fair value at September 30, 2015.

For the Exchange, there were no transfers between Level 1 and Level 2 or from Level 3 to Level 2 for the three months ended September 30, 2015. Level 2 to Level 3 transfers totaled \$6 million for two fixed maturity holdings and one preferred stock holding due to the use of unobservable inputs to determine the fair value at September 30, 2015.



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## Level 3 Assets – Year-to-Date Change:

(in millions)	Erie Insurance Group						Ending balance at September 30, 2015
	Beginning balance at December 31, 2014	Included in earnings (1)	Included in other comprehensive income	Purchases	Sales	Transfers in and (out) of Level 3	
<b>Indemnity</b>							
Available-for-sale securities:							
Corporate debt securities	\$0	\$0	\$ 0	\$ 0	\$0	\$0	\$0
Collateralized debt obligations	0	0	0	5	0	0	5
Total fixed maturities	0	0	0	5	0	0	5
Total available-for-sale securities	0	0	0	5	0	0	5
Other investments	8	0	0	0	(3 )	0	5
Total Level 3 assets – Indemnity	\$8	\$0	\$ 0	\$ 5	\$(3 )	\$0	\$10
<b>Exchange</b>							
Available-for-sale securities:							
Corporate debt securities	\$87	\$0	\$ (7 )	\$ 68	\$(3 )	\$(32 )	\$113
Other debt securities	12	0	0	0	0	(1 )	11
Total fixed maturities	99	0	(7 )	68	(3 )	(33 )	124
Nonredeemable preferred stock	1	0	0	0	0	5	6
Total available-for-sale securities	100	0	(7 )	68	(3 )	(28 )	130
Trading securities:							
Common stock	15	(2 )	0	0	0	0	13
Total trading securities	15	(2 )	0	0	0	0	13
Other investments	71	5	0	0	(28 )	0	48
Total Level 3 assets – Exchange	\$186	\$3	\$ (7 )	\$ 68	\$(31 )	\$(28 )	\$191
Total Level 3 assets – Erie Insurance Group	\$194	\$3	\$ (7 )	\$ 73	\$(34 )	\$(28 )	\$201

These amounts are reported in the Consolidated Statement of Operations. There is \$2 million of losses included in (1) net realized investment (losses) gains and \$5 million included in equity in earnings of limited partnerships for the nine months ended September 30, 2015 on Level 3 securities.

For Indemnity, there were no transfers between Level 1 and Level 2 for the nine months ended September 30, 2015. Level 2 to Level 3 transfers totaled \$0.1 million for one fixed maturity holding due to the use of unobservable inputs to determine the fair value. Level 3 to Level 2 transfers totaled \$0.1 million for one fixed maturity holding as a result of using observable market data to determine the fair value at September 30, 2015.

For the Exchange, there were no Level 1 to Level 2 transfers, and Level 2 to Level 1 transfers totaled \$22 million due to trading activity levels for two preferred stock holdings for the nine months ended September 30, 2015. Level 2 to Level 3 transfers totaled \$8 million for five fixed maturity holdings and one preferred stock holding due to the use of unobservable inputs to determine the fair value. Level 3 to Level 2 transfers totaled \$36 million for seven fixed maturity holdings due to the use of observable market data to determine the fair value at September 30, 2015.



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## Level 3 Assets – Quarterly Change:

(in millions)	Erie Insurance Group						Ending balance at September 30, 2014
	Beginning balance at June 30, 2014	Included in earnings (1)	Included in other comprehensive income	Purchases	Sales	Transfers in and (out) of Level 3	
<b>Indemnity</b>							
Available-for-sale securities:							
Corporate debt securities	\$1	\$0	\$0	\$0	\$0	\$0	\$1
Commercial mortgage-backed securities	0	0	0	3	0	0	3
Collateralized debt obligations	0	0	0	0	0	0	0
Total fixed maturities	1	0	0	3	0	0	4
Total available-for-sale securities	1	0	0	3	0	0	4
Other investments	18	1	0	0	0	0	19
Total Level 3 assets – Indemnity	\$19	\$1	\$0	\$3	\$0	\$0	\$23
<b>Exchange</b>							
Available-for-sale securities:							
Corporate debt securities	\$25	\$0	\$ (1 )	\$ 25	\$ (1 )	\$ 23	\$ 71
Collateralized debt obligations	0	0	0	0	0	0	0
Other debt securities	0	0	0	0	0	2	2
Total fixed maturities	25	0	(1 )	25	(1 )	25	73
Nonredeemable preferred stock	1	0	0	0	0	7	8
Total available-for-sale securities	26	0	(1 )	25	(1 )	32	81
Trading securities:							
Common stock	15	0	0	0	0	0	15
Total trading securities	15	0	0	0	0	0	15
Other investments	102	4	0	0	(3 )	0	103
Total Level 3 assets – Exchange	\$143	\$4	\$ (1 )	\$ 25	\$ (4 )	\$ 32	\$199
Total Level 3 assets – Erie Insurance Group	\$162	\$5	\$ (1 )	\$ 28	\$ (4 )	\$ 32	\$222

(1) These amounts are reported in the Consolidated Statement of Operations. There is \$5 million included in equity in earnings of limited partnerships for the three months ended September 30, 2014 on Level 3 securities.

For Indemnity, there were no transfers between Level 1 and Level 2 or between Level 2 and Level 3 for the three months ended September 30, 2014.

For the Exchange, there were no Level 1 to Level 2 transfers, and Level 2 to Level 1 transfers totaled \$25 million due to trading activity levels for three preferred stock holdings for the three months ended September 30, 2014. Level 2 to Level 3 transfers totaled \$43 million for seven fixed maturity holdings and one preferred stock holding due to the use of unobservable inputs to determine the fair value. Level 3 to Level 2 transfers totaled \$11 million for one fixed maturity holding due to the use of observable market data to determine the fair value at September 30, 2014.



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## Level 3 Assets – Year-to-Date Change:

(in millions)	Erie Insurance Group						Ending balance at September 30, 2014
	Beginning balance at December 31, 2013	Included in earnings <sup>(1)</sup>	Included in other comprehensive income	Purchases	Sales	Transfers in and (out) of Level 3	
<b>Indemnity</b>							
Available-for-sale securities:							
Corporate debt securities	\$1	\$0	\$0	\$0	\$0	\$0	\$1
Commercial mortgage-backed securities	0	0	0	3	0	0	3
Collateralized debt obligations	1	0	0	0	(1)	0	0
Total fixed maturities	2	0	0	3	(1)	0	4
Total available-for-sale securities	2	0	0	3	(1)	0	4
Other investments	18	3	0	0	(2)	0	19
Total Level 3 assets – Indemnity	\$20	\$3	\$0	\$3	\$(3)	\$0	\$23
<b>Exchange</b>							
Available-for-sale securities:							
Corporate debt securities	\$26	\$0	\$(1)	\$25	\$(2)	\$23	\$71
Collateralized debt obligations	5	1	(1)	0	(3)	(2)	0
Other debt securities	0	0	0	0	0	2	2
Total fixed maturities	31	1	(2)	25	(5)	23	73
Nonredeemable preferred stock	0	0	0	1	0	7	8
Total available-for-sale securities	31	1	(2)	26	(5)	30	81
Trading securities:							
Common stock	15	0	0	0	0	0	15
Total trading securities	15	0	0	0	0	0	15
Other investments	98	15	0	0	(10)	0	103
Total Level 3 assets – Exchange	\$144	\$16	\$(2)	\$26	\$(15)	\$30	\$199
Total Level 3 assets – Erie Insurance Group	\$164	\$19	\$(2)	\$29	\$(18)	\$30	\$222

These amounts are reported in the Consolidated Statement of Operations. There is \$1 million included in net (1) realized investment gains (losses) and \$18 million included in equity in earnings of limited partnerships for the nine months ended September 30, 2014 on Level 3 securities.

For Indemnity, there were no transfers between Level 1 and Level 2 or between Level 2 and Level 3 for the nine months ended September 30, 2014.

For the Exchange, Level 1 to Level 2 transfers totaled \$14 million due to trading activity levels for two preferred stock holdings, and Level 2 to Level 1 transfers totaled \$25 million due to trading activity levels for three preferred stock holdings for the nine months ended September 30, 2014. Level 2 to Level 3 transfers totaled \$43 million for seven fixed maturity holdings and one preferred stock holding due to the use of unobservable inputs to determine the fair value. Level 3 to Level 2 transfers totaled \$13 million for two fixed maturity holdings due to the use of observable market data to determine the fair value at September 30, 2014.



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When a non-binding broker quote was the only input available, it was classified within Level 3. The unobservable inputs are not reasonably available to us and therefore have not been included in the tables below. These investments totaled \$5 million for Indemnity and \$122 million for the Exchange at September 30, 2015, and \$92 million for the Exchange at December 31, 2014.

Other investments represent certain limited partnerships that are recorded at fair value based upon net asset value (NAV) provided by the general partner. Due to the nature of these investments, the NAV was classified within Level 3. The unobservable inputs are not reasonably available to us and therefore have not been included in the tables below. These investments totaled \$5 million for Indemnity and \$48 million for the Exchange at September 30, 2015, and \$8 million for Indemnity and \$71 million for the Exchange at December 31, 2014.

## Quantitative and Qualitative Disclosures about Unobservable Inputs

(dollars in millions)	Erie Insurance Group September 30, 2015		Unobservable input	Range	Weighted average
	Fair value	Valuation techniques			
Exchange					
Corporate debt securities <sup>(1)</sup>	\$7	Market approach	Comparable transaction EBITDA multiples	8.0x	8.0x
Nonredeemable preferred stock <sup>(2)</sup>	1	Market approach	Held at cost		
Common stock <sup>(1)</sup>	13	Market approach	Comparable transaction EBITDA multiples Discount for lack of marketability	8.0x 10%	8.0x 10%
(dollars in millions)	December 31, 2014		Unobservable input	Range	Weighted average
Exchange	Fair value	Valuation techniques			
Corporate debt securities <sup>(1)</sup>	\$7	Market approach	Comparable transaction EBITDA multiples Comparable security yield	8.0x 6%	8.0x 6%
Nonredeemable preferred stock <sup>(2)</sup>	1	Market approach	Held at cost		
Common stock <sup>(1)</sup>	15	Market approach	Comparable transaction EBITDA multiples Discount for lack of marketability	8.0x 10%	8.0x 10%

(1) Common stock investments and Corporate debt securities – The unobservable inputs used in the fair value measurement of direct private equity common stock investments and certain corporate debt securities are comparable private transaction earnings before interest, taxes, depreciation, and amortization (“EBITDA”) multiples, the average EBITDA multiple for comparable publicly traded companies and the amount of discount applied to the

price due to the illiquidity of the securities being valued. Significant changes in any of those inputs in isolation could result in a significantly higher or lower fair value measurement.

- (2) Nonredeemable preferred stock - Represents a private security where cost was determined to be the best estimate of fair value.

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The following table presents our consolidated fair value measurements on a recurring basis by pricing source at September 30, 2015:

(in millions)	Erie Insurance Group September 30, 2015			
	Total	Level 1	Level 2	Level 3
<b>Indemnity</b>				
Fixed maturities:				
Priced via pricing services	\$580	\$0	\$580	\$0
Priced via market comparables/broker quotes <sup>(1)</sup>	8	0	3	5
Total fixed maturities	588	0	583	5
Nonredeemable preferred stock:				
Priced via pricing services	8	1	7	0
Total nonredeemable preferred stock	8	1	7	0
Common stock:				
Priced via pricing services	12	12	0	0
Total common stock	12	12	0	0
Other investments:				
Priced via unobservable inputs <sup>(2)</sup>	5	0	0	5
Total other investments	5	0	0	5
Total – Indemnity	\$613	\$13	\$590	\$10
<b>Exchange</b>				
Fixed maturities:				
Priced via pricing services <sup>(1)</sup>	\$9,237	\$0	\$9,226	\$11
Priced via market comparables/broker quotes <sup>(1)</sup>	148	0	42	106
Priced via internal modeling	7	0	0	7
Total fixed maturities	9,392	0	9,268	124
Nonredeemable preferred stock:				
Priced via pricing services	617	310	307	0
Priced via market comparables/broker quotes <sup>(1)</sup>	5	0	0	5
Priced via internal modeling	1	0	0	1
Total nonredeemable preferred stock	623	310	307	6
Common stock:				
Priced via pricing services	3,065	3,065	0	0
Priced via internal modeling	13	0	0	13
Total common stock	3,078	3,065	0	13
Other investments:				
Priced via unobservable inputs <sup>(2)</sup>	48	0	0	48
Total other investments	48	0	0	48
Total – Exchange	\$13,141	\$3,375	\$9,575	\$191
Total – Erie Insurance Group	\$13,754	\$3,388	\$10,165	\$201

(1) When a non-binding broker quote was the only price available, the security was classified as Level 3.

Other investments measured at fair value represent real estate funds included on the balance sheet as limited (2) partnership investments that are reported under the fair value option. The fair value of these investments is based on the net asset value (NAV) information provided by the general partner.

There were no assets measured at fair value on a nonrecurring basis during the nine months ended September 30, 2015.

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## Note 7. Investments

## Available-for-sale securities

The following table summarizes the cost and fair value of our available-for-sale securities at September 30, 2015:

(in millions)	Erie Insurance Group September 30, 2015			Estimated fair value
	Amortized cost	Gross unrealized gains	Gross unrealized losses	
<b>Indemnity</b>				
Available-for-sale securities:				
States & political subdivisions	\$226	\$ 11	\$ 0	\$237
Corporate debt securities	248	1	4	245
Residential mortgage-backed securities	11	0	0	11
Commercial mortgage-backed securities	45	0	1	44
Collateralized debt obligations	46	0	0	46
Other debt securities	5	0	0	5
Total fixed maturities	581	12	5	588
Nonredeemable preferred stock	7	1	0	8
Common stock	13	0	1	12
Total available-for-sale securities – Indemnity	\$601	\$ 13	\$ 6	\$608
<b>Exchange</b>				
Available-for-sale securities:				
U.S. treasury	\$8	\$ 0	\$ 0	\$8
Government sponsored enterprises	3	1	0	4
States & political subdivisions	1,402	75	1	1,476
Foreign government securities	91	0	5	86
Corporate debt securities	7,450	314	107	7,657
Residential mortgage-backed securities	30	0	0	30
Commercial mortgage-backed securities	28	1	0	29
Collateralized debt obligations	6	5	0	11
Other debt securities	88	3	0	91
Total fixed maturities	9,106	399	113	9,392
Nonredeemable preferred stock	585	43	5	623
Common stock	96			