

ERIE INDEMNITY COMPANY

2007 FIRST QUARTER

SHAREHOLDERS' REPORT

Our Company's financial performance was favorable in the first quarter, driven by a variety of positive factors and trends. Our investment operations delivered strong results, and the momentum we gained in growing our policies in force in the latter part of 2006 continued at an even stronger rate in the first three months of 2007. Accelerated sales by ERIE agents increased our policies in force by nearly 13,500 policies, and more policyholders are choosing to stay with ERIE, with our retention rate improving to 89.7 percent. Our performance continues to position us well in what we expect will continue to be an increasingly competitive environment.

Jeffrey A. Ludrof,
President and Chief Executive Officer

About Erie Indemnity Company

Erie Indemnity Company (Company) is a Pennsylvania business corporation formed in 1925 to be the attorney-in-fact for the Erie Insurance Exchange (Exchange), a Pennsylvania-domiciled reciprocal insurance exchange. As attorney-in-fact, the Company is required to perform certain services relating to the sales, underwriting and issuance of policies on behalf of the Exchange. For its services as attorney-in-fact, the Company charges a management fee calculated as a percentage, not to exceed 25 percent, of the direct and affiliated assumed premiums written by the Exchange.

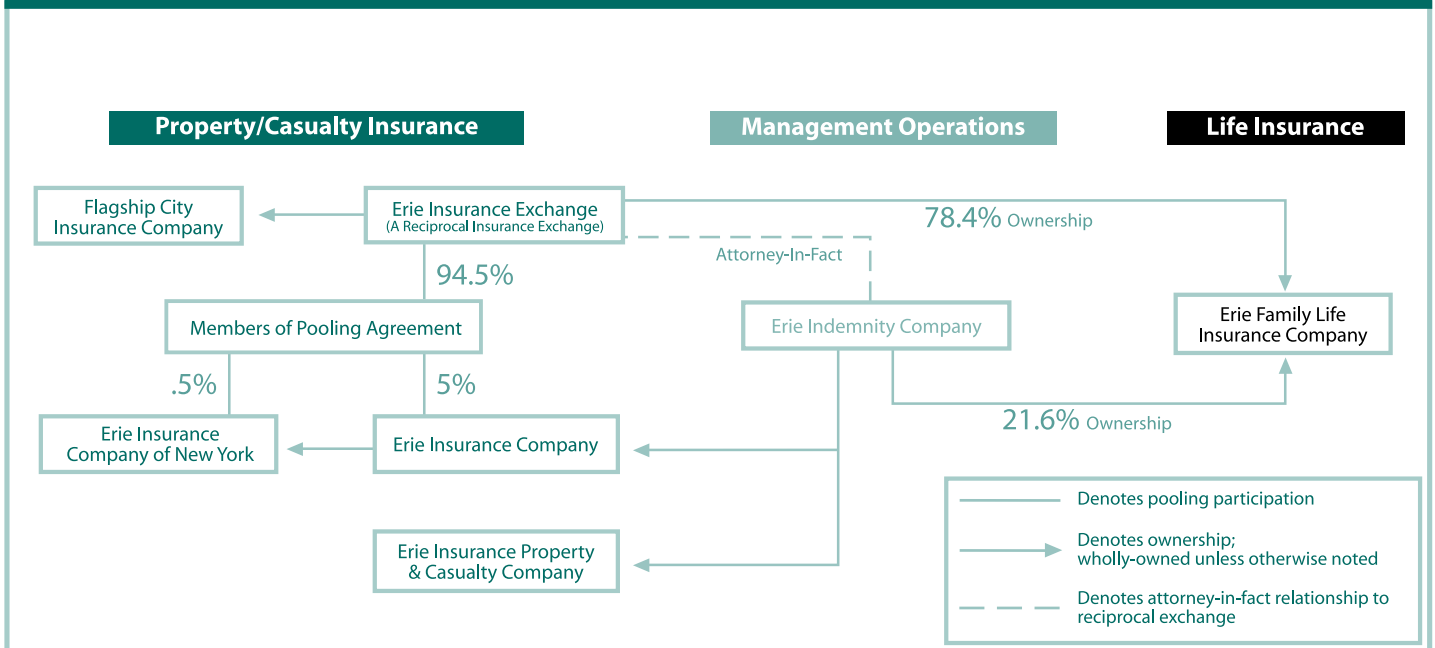
The Company also operates as a property/casualty insurer through its three insurance subsidiaries. The Exchange and

its property/casualty subsidiary and the Company's three property/casualty subsidiaries (collectively, the "Property and Casualty Group") write personal and commercial lines property/casualty coverages exclusively through independent agents and pool their underwriting results. The financial position or results of operations of the Exchange are not consolidated with those of the Company.

The Company's earnings are largely generated by fees based on direct written premiums of the Property and Casualty Group, the principal member of which is the Exchange. The Company, therefore, has a direct incentive to protect the financial condition of the Exchange. The members of the Property and Casualty Group pool their underwriting results. Under the pooling agreement, the Exchange assumes 94.5 percent of the pool. Accordingly, the underwriting risk of the Property and Casualty Group's business is largely borne by the Exchange. Through the pool, the Company's property/casualty subsidiaries currently assume 5.5 percent of the Property and Casualty Group's underwriting results.

The Property and Casualty Group seeks to insure standard and preferred risks primarily in private passenger automobile, homeowners and small commercial lines, including workers' compensation. The Property and Casualty Group's sole distribution channel is its independent agency force, which consists of more than 1,800 agencies comprised of over 8,000 licensed representatives in 11 midwestern, mid-Atlantic and southeastern states, and the District of Columbia.

Erie Insurance Group Organizational Chart



Corporate Information

Financial information

The Erie Indemnity Company submits a quarterly report to the Securities and Exchange Commission on Form 10-Q. Shareholders may obtain a copy of the Form 10-Q report without charge by writing to: Chief Financial Officer, Erie Indemnity Company, 100 Erie Insurance Place, Erie, PA, 16530 or by visiting the Company's Web site at www.erieinsurance.com.

Common stock information

The Erie Indemnity Company's Class A, non-voting common stock is traded on the NASDAQ Stock Market under the symbol "ERIE." Quotations are available via major financial news sources.

Stock transfer agent

American Stock Transfer & Trust Company
59 Maiden Lane
Plaza Level
New York, NY 10038
(800) 937-5449

Corporate headquarters

100 Erie Insurance Place
Erie, PA 16530
(814) 870-2000

Internet address

Financial statement filings, shareholder information, press releases and general news about the Company may also be accessed at: www.erieinsurance.com.

Erie Indemnity Company First Quarter 2007 Results

Key points for the first quarter 2007:

- Net income was \$56.4 million for the first quarter of 2007, a 13.9 percent increase from \$49.5 million for the same period in 2006. Net income per share-diluted increased to \$0.88 per share, compared to \$0.73 per share in the comparable quarter in 2006.
- Net operating income per share (excluding net realized gains or losses on investments and related taxes) increased by 18.9 percent to \$0.86 per share in the first quarter of 2007, from \$0.72 per share, for the same period one year ago.
- Management fee revenue decreased 1.8 percent to \$228.6 million, from \$232.9 million for the same period one year ago. A decline in the cost of management operations allowed margins to remain steady with 2006 at 19.4 percent in the first quarter of 2007.
- The GAAP combined ratio was 89.2 in the first quarter of 2007 compared to 86.5 in the first quarter of 2006.
- The policy retention ratio increased to 89.7 percent at March 31, 2007, compared to 89.5 percent at December 31, 2006, and 88.8 percent at March 31, 2006.
- Net revenue from investment operations increased to \$29.8 million from \$20.6 million for the first quarters of 2007 and 2006, respectively, primarily driven by earnings on our limited partnership investments.
- The 2007 annualized effective tax rate of 32.7 percent was offset by positive estimates of IRS examination settlements and adjustments to deferred taxes during the quarter offset somewhat by interest expense on uncertain tax positions.

Management operations

Management fee revenue decreased 1.8 percent for the quarter ended March 31, 2007. Direct written

premiums of the Property and Casualty Group, upon which management fee revenue is calculated, decreased 2.6 percent to \$918.2 million in the first quarter 2007, from \$942.8 million in the first quarter of 2006. The decline in direct written premiums of the Property and Casualty Group reflects the impact of rate reductions and changes in risk characteristics of policyholders and coverages provided. The increase to the management fee rate in 2007 to 25 percent, from 24.75 percent in 2006, offset some of the decline in direct written premiums. This higher management fee rate in 2007 increased management fee revenue by \$2.3 million, or \$0.02 per share-diluted, for the quarter ended March 31, 2007.

Other factors impacting direct written premiums of the Property and Casualty Group during the first quarter of 2007 include:

- Year-over-year policies in force grew 1.3 percent, or 50,223 policies, to 3,811,723 at March 31, 2007, compared to year-over-year growth of 2,988 policies in the first quarter of 2006.
- The year-over-year policy retention rate for the Property and Casualty Group improved again to 89.7 percent at March 31, 2007, compared to 88.8 percent at March 31, 2006.
- New policies in force increased 3.7 percent from March 31, 2006, levels and renewal policies in force increased 1.0 percent.
- The year-over-year average premium per policy on new business in the first quarter of 2007 of \$843 was 3.3 percent less than the \$872 in the first quarter of 2006.
- The year-over-year average premium per policy on renewal business declined 5.2 percent to \$1,011 in the first quarter of 2007.

The Property and Casualty Group has been implementing rate reductions to be more price competitive, which resulted in a \$34 million decrease in written premiums in the first quarter of 2007. An additional \$45 million in rate reductions are forecast for the remainder of the year. The most significant rate reductions have been in the Group's largest line of business, private passenger auto.

In addition to rate reductions, the Company continues to expand its agency force to support its growth goals. Through the first quarter of 2007, the Company appointed 66 new agencies. Consolidations and terminations within ERIE's agency force resulted in a net increase of 38 producing agencies during the first quarter, bringing our total of producing agencies to 1,832 at March 31, 2007. The Company expects to meet its goal of 200 new agency appointments during 2007. In 2006, the Company appointed 139 new agencies.

The cost of management operations decreased 1.8 percent to \$190.4 million in the first quarter of 2007, from \$193.8 million for the same period in 2006. Commission costs, the largest component of the cost of management operations, decreased 2.4 percent to \$130.8 million from \$134.1 million in the first quarter 2006. Normal commissions decreased 2.0 percent, and our estimate for agent bonus awards decreased 4.9 percent, primarily due to a reduction in the profitability component of the award. There were \$1.5 million in additional commission costs in the first quarter of 2007 from the new \$50 per policy private passenger auto bonus.

First quarter costs of management operations, excluding commissions, decreased 0.3 percent to \$59.5 million in 2007 from \$59.7 million in 2006. Personnel costs, the second largest component of the cost of management operations, totaled \$33.9 million for the first quarter 2007 versus \$35.6 million in the same period in 2006, a decrease of 4.8 percent. The Company's normal salary expense increased \$1.2 million driven by 6 percent higher average pay rates offset by slightly lower personnel count. Normal salary expenses were offset by a \$2.4 million decrease in expense for management incentive plans, due to a reduction in the estimates for the management incentive plan payouts, which was attributable to lower than targeted Property and Casualty Group premium production. The Company's employee benefit expenses decreased \$0.7 million. Health and vision benefit expenses increased \$0.1 million in the first quarter of 2007. Pension and retiree health benefit expenses decreased \$0.9 million due to a higher discount rate assumption for the pension plans and the curtailment of the retiree health plan in 2006. All other operating costs increased 16.2 percent driven by increased professional fees.

Insurance underwriting operations

The Company's insurance underwriting operations generated gains of \$5.6 million and \$7.3 million in the first quarters of 2007 and 2006, respectively. The GAAP combined ratio for the Company was 89.2 percent in the first quarter 2007 compared to 86.5 percent for the same period in 2006.

- Earned premiums of the Property and Casualty Group declined \$41 million reflecting the trend of rate decreases.

- Development of prior accident year loss reserves continued to be favorable in the first quarter of 2007, improving the loss ratio 10.3 points, or \$5.4 million, compared to an improvement of 7.9 points for the first quarter of 2006.

- The majority of this positive development resulted from favorable re-estimates of reserves on prior accident quarters for automobile bodily injury and uninsured/underinsured motorist bodily injury. Improvements in accident quarter loss ratios in these lines were a result of improved frequency and severity trends.

- Offsetting this favorable development was a strengthening of reserves for certain workers compensation claims of which our share was \$0.4 million, or 0.8 GAAP combined ratio points.

- The Company recognized certain adjusting and other liabilities of \$1.4 million, or 2.4 combined ratio points, for estimated employee salaries and benefits of the Exchange that were not fully considered in the reserve.

In 2006, the favorable development of the first quarter resulted primarily from the personal auto, homeowners and workers' compensation lines of business. Severity trends improved in the first quarter of 2006 compared to those anticipated based on historical patterns.

The Company's share of catastrophe losses amounted to \$0.3 million in each of the first quarters of 2007 and 2006. These catastrophe losses contributed 0.5 points and 0.6 points to the GAAP combined ratio in the first quarters of 2007 and 2006, respectively. Underwriting losses are seasonally higher in the second and fourth quarters and, as a consequence, the Company's combined ratio generally increases as the year progresses. In the first quarter of 2007, our share of the reduction to incurred but not reported reserves related to seasonality adjustments was \$3.3 million, compared to \$2.3 million in the first quarter of 2006.

Investment operations

Net revenue from investment operations increased 44.6 percent in the first quarter of 2007 to \$29.8 million compared to \$20.6 million in the first quarter of 2006.

Equity in earnings of limited partnerships contributed significantly to the improved investment performance, increasing to \$12.5 million in the first quarter of 2007 from \$4.1 million in the first quarter of 2006. Optimal market conditions resulted in a higher return on capital on mezzanine debt and private equity partnership investments by some of our more seasoned limited partnerships and appreciation of commercial properties owned by our real estate limited partnerships.

Net investment income, which includes primarily interest and dividends on the Company's fixed maturity and equity security portfolios, decreased by 6.8 percent to \$14.0 million for the quarter ended March 31, 2007, from \$15.0 million for the same period in 2006 as a result of lower invested asset balances due to share repurchase activity.

Net realized gains on investments were \$1.9 million in the first quarter of 2007 compared to \$0.8 million in 2006. Net realized gains on investments generally pertain

to gains and losses on bonds, preferred stocks and common stocks. Impairment charges of \$0.7 million and \$2.0 million were recorded on fixed maturity and equity securities during the first quarters of 2007 and 2006, respectively.

The Company's provision for income taxes was positively affected by adjustments of \$2.5 million from IRS audits and adjustments to deferred taxes. These adjustments were offset by \$0.8 million of interest on uncertain tax positions from adoption of FIN 48 during the quarter. As a consequence, the effective income tax rate for the quarter was 30.5 percent, down from the more normalized 33 percent.

Liquidity and capital resources

As part of our capital management plan, the Company repurchased 282,539 shares of our Class A common stock at a cost of \$15.1 million during the first quarter of 2007, or \$53.34 per share.

"Safe Harbor" Statement Under the Private Securities Litigation Reform Act of 1995: Certain forward-looking statements contained herein involve risks and uncertainties. These statements include certain discussions relating to management fee revenue, cost of management operations, underwriting, premium and investment income volume, business strategies, profitability and business relationships and the Company's other business activities during 2007 and beyond. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "expect," "plan," "intend," "anticipate," "believe," "contemplate," "estimate," "project," "predict," "potential" and similar expressions. These forward-looking statements reflect the Company's current views about future events, are based on assumptions and are subject to known and unknown risks and uncertainties that may cause results to differ materially from those anticipated in those statements. Many of the factors that will determine future events or achievements are beyond our ability to control or predict.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except in per share data)

	Three months ended March 31	
	2007	2006
	(unaudited)	
Operating revenue		
Management fee revenue—net	\$ 216,020	\$ 220,102
Premiums earned	51,974	54,026
Service agreement revenue	7,418	7,592
Total operating revenue	275,412	281,720
Operating expenses		
Cost of management operations	179,886	183,154
Losses and loss adjustment expenses incurred	32,234	30,053
Policy acquisition and other underwriting expenses	11,995	14,501
Total operating expenses	224,115	227,708
Investment income—unaffiliated		
Investment income, net of expenses	13,978	15,000
Net realized gains on investments	1,890	784
Equity in earnings of limited partnerships	12,518	4,142
Total investment income—unaffiliated	28,386	19,926
Income before income taxes and equity in earnings of Erie Family Life Insurance Company	79,683	73,938
Provision for income taxes	24,592	25,077
Equity in earnings of Erie Family Life Insurance Company, net of tax	1,270	605
Net income	\$ 56,361	\$ 49,466
Net income per share:		
Class A common stock—basic	\$ 0.97	\$ 0.81
Class A common stock—diluted	0.88	0.73
Class B common stock—basic and diluted	149.01	121.08
Weighted average shares outstanding:		
Class A common stock—basic	57,691,289	60,630,395
Class A common stock—diluted	63,906,458	67,505,125
Class B common stock—basic and diluted	2,573	2,833
Dividends declared per share:		
Class A common stock	\$ 0.40	\$ 0.36
Class B common stock	60.00	54.00

CONSOLIDATED STATEMENTS OF OPERATIONS—SEGMENT BASIS

(Amounts in thousands, except in per share data)

	Three months ended March 31	
	2007	2006
	(unaudited)	
Management operations		
Management fee revenue	\$ 228,645	\$ 232,935
Service agreement revenue	7,418	7,592
Total revenue from management operations	236,063	240,527
Cost of management operations	190,385	193,825
Income from management operations	45,678	46,702
Insurance underwriting operations		
Premiums earned	51,974	54,026
Losses and loss adjustment expenses incurred	32,234	30,053
Policy acquisition and other underwriting expenses	14,121	16,663
Total losses and expenses	46,355	46,716
Underwriting gain	5,619	7,310
Investment operations		
Investment income, net of expenses	13,978	15,000
Net realized gains on investments	1,890	784
Equity in earnings of limited partnerships	12,518	4,142
Equity in earnings of Erie Family Life Insurance Company	1,366	651
Net revenue from investment operations	29,752	20,577
Income before income taxes	81,049	74,589
Provision for income taxes	24,688	25,123
Net income	\$ 56,361	\$ 49,466
Net income per share—Class A basic	\$ 0.97	\$ 0.81
Net income per share—Class A diluted	0.88	0.73
Net income per share—Class B basic and diluted	149.01	121.08
Weighted average shares outstanding—Class A diluted	63,906	67,505

Amounts presented on a segment basis are gross of intercompany/intersegment items

RECONCILIATION OF OPERATING INCOME TO NET INCOME

Definition of non-GAAP and operating measures

We believe that investors' understanding of our performance is enhanced by the disclosure of the following non-GAAP financial measure. Our method of calculating this measure may differ from those used by other companies and therefore comparability may be limited.

Operating income is net income excluding realized capital gains and losses and related federal income taxes. Equity in earnings or losses of Erie Family Life Insurance Company and equity in earnings or losses of limited partnerships are not excluded from the calculation of operating income. Both of these categories include the respective investment's realized capital gains and losses, as well as unrealized gains and losses, as these investments are accounted for under the equity method.

Net income is the GAAP measure that is most directly comparable to operating income.

We use operating income to evaluate the results of operations. It reveals trends in our management services, insurance underwriting and investment operations that may be obscured by the net effects of realized capital gains and losses. Realized capital gains and losses may vary significantly between periods and are generally driven by business decisions and economic developments such as capital market condition, the timing of which is unrelated to our management services and insurance underwriting processes. We believe it is useful for investors to evaluate these components separately and in the aggregate when reviewing our performance. 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 and does not reflect our overall profitability.

The following table reconciles operating income and net income for the periods ended March 31, 2007 and 2006:

	Three months ended March 31 (unaudited)	
	2007	2006
<i>(in thousands, except per share data)</i>		
Operating income	\$ 55,133	\$ 48,956
Net realized gains on investments	1,890	784
Income tax expense on realized gains	(662)	(274)
Realized gains, net of income taxes	1,228	510
Net income	\$ 56,361	\$ 49,466
Per Class A Share—Diluted	2007	2006
Operating income	\$ 0.86	\$ 0.72
Net realized gains on investments	0.03	0.01
Income tax expense on realized gains	(0.01)	0.00
Realized gains, net of income tax expense	0.02	0.01
Net income	\$ 0.88	\$ 0.73

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in thousands, except per share data)

	March 31 2007 (unaudited)	December 31 2006
Assets		
Investments		
Fixed maturities	\$ 836,323	\$ 836,738
Equity securities		
Preferred stock	138,478	133,401
Common stock	116,492	117,246
Other invested assets	254,086	235,672
Total investments	1,345,379	1,323,057
Cash and cash equivalents	10,578	60,241
Equity in Erie Family Life Insurance Company	59,033	57,162
Premiums receivable from policyholders	242,280	247,187
Receivables from affiliates	1,183,818	1,220,058
Other assets	139,257	131,656
Total assets	\$ 2,980,345	\$ 3,039,361
Liabilities and shareholders' equity		
Liabilities		
Unpaid losses and loss adjustment expenses	\$ 1,048,909	\$ 1,073,570
Unearned premiums	418,949	424,282
Other liabilities	331,264	379,661
Total liabilities	1,799,122	1,877,513
Total shareholders' equity	1,181,223	1,161,848
Total liabilities and shareholders' equity	\$ 2,980,345	\$ 3,039,361
Book value per share	\$ 18.55	\$ 18.17
Shares outstanding	63,669	63,952



Member • Erie Insurance Group
An Equal Opportunity Employer

Home Office • 100 Erie Insurance Place • Erie, PA 16530
814.870.2000 • www.erieinsurance.com