

ERIE INDEMNITY COMPANY

2007 SECOND QUARTER SHAREHOLDERS' REPORT

"Due to personal reasons, I have decided to leave Erie Indemnity," said Mr. Ludrof. "I have enjoyed a long and successful career at this company, but after considering the recent passing of Bill Hirt, as well as the excellent financial and operational shape of the Company, I think that this is the ideal moment—for myself, my family and for the company—to move on to something new. I am confident that, from a business perspective, the timing of my decision could not be better.

Mr. Ludrof continued, "It is evident from our second quarter results that the Company is in outstanding financial shape. At \$4.6 billion, the policyholder surplus in Erie Insurance Exchange is the highest it has ever been. As the soft market persists, we continue to take a long-term view of our business, managing in a steady, consistent manner. This discipline has produced positive second quarter results for Erie Indemnity Company within every segment of the business, including increased direct written premiums. With a seamless transition to John Brinling as the interim president and CEO, I have no doubt that the Company will continue to perform well."

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

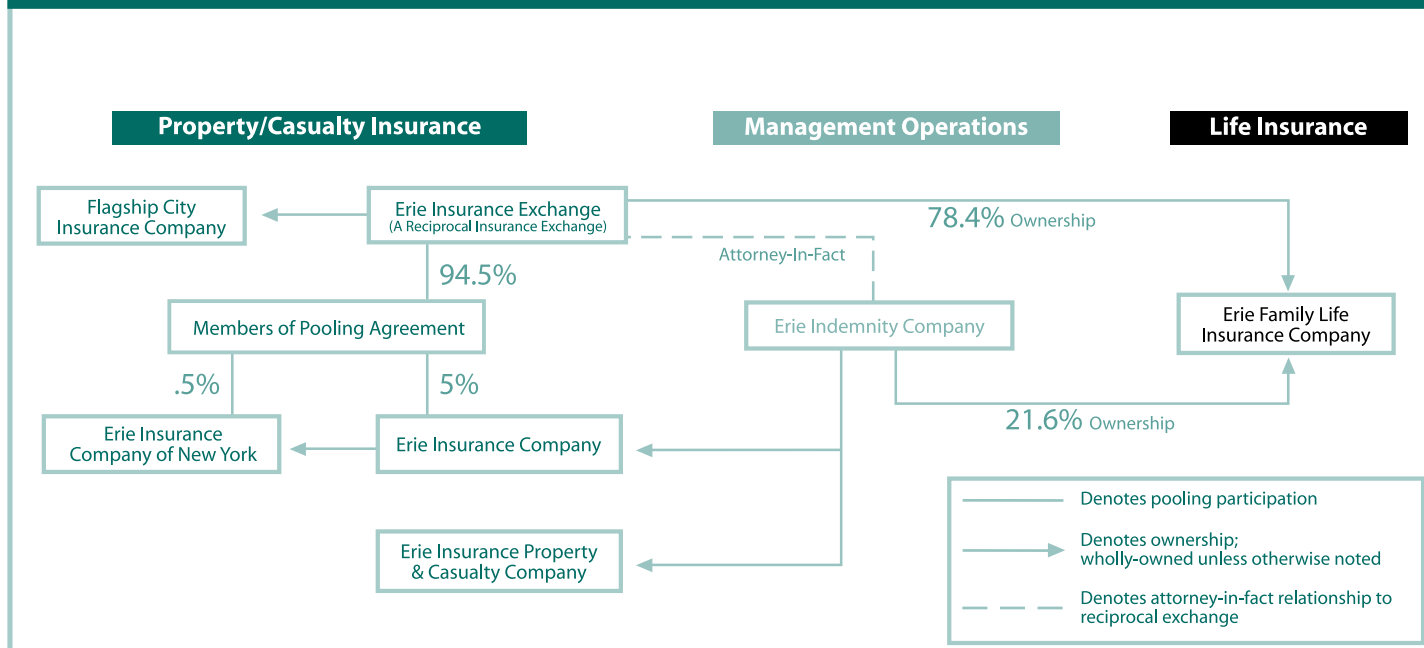
services as attorney-in-fact, the Company charges a management fee calculated as a percentage, not to exceed 25 percent, of the direct and affiliated assumed premiums written by the Exchange.

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

Erie Insurance Group Organizational Chart



Corporate Information

commercial lines, including workers' compensation. The Property and Casualty Group's sole distribution channel is its independent agency force, which consists of more than 1,900 agencies comprised of over 8,100 licensed representatives in 11 midwestern, mid-Atlantic and southeastern states, and the District of Columbia.

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 Second Quarter 2007 Results

Key points for the second quarter 2007:

- Net income was \$70.5 million for the second quarter of 2007, a 25.3 percent increase from \$56.3 million for the same period in 2006. Net income per share-diluted increased to \$1.11 per share, compared to \$0.86 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 25.6 percent to \$1.09 per share in the second quarter of 2007, from \$0.87 per share for the same period one year ago.
- Management fee revenue increased 2.1 percent to \$256.5 million, from \$251.1 million for the same period one year ago. Gross margins from management operations decreased to 21.4% in the second quarter of 2007 from 22.0% in the second quarter of 2006.
- Direct written premiums increased in the second quarter of 2007.
- Substantial improvement in the second quarter 2007 from insurance underwriting operations.
- Net revenue from investment operations increased to \$37.8 million, or 28.3 percent, from \$29.5 million for the second quarters of 2007 and 2006, respectively.
- The 2007 annualized effective tax rate of 32.7 percent was benefited by the settlement of IRS examinations on the years 2001 and 2002 totaling \$1.0 million and a reduction to the interest expense on uncertain tax positions of \$0.5 million.

Key Drivers of Second Quarter 2007 Results

(dollars in thousands)	(Unaudited)			(Unaudited)		
	Three months ended June 30, 2007	2006	Change	Six months ended June 30, 2007	2006	Change
Management Operations:						
Management fee revenues	\$ 256,462	\$ 251,104	2.1%	\$ 485,106	\$ 484,039	0.2%
P&C Group* direct written premium (DWP)	\$1,028,247	\$1,019,005	0.9%	\$1,946,425	\$1,961,773	(0.8)%
Drivers of P&C Group* DWP						
Policies in force—year-over-year				3,848,180	3,781,558	66,622
Policy retention—year-over-year				89.9%	89.0%	0.9 pts
Avg. premium per policy—year-over-year				\$ 984	\$ 1,026	\$ (42)
Insurance Underwriting Operations:						
GAAP combined ratio	84.8	99.4	(14.6) pts	87.0	92.9	(5.9) pts
Prior accident year reserve development—(redundancy) deficiency**	(4.3)	0.3	(4.6) pts	(7.4)	(3.9)	(3.5) pts
Catastrophe loss ratio	2.2	9.2	(7.0) pts	1.3	4.9	(3.6) pts
Investment Operations:						
Equity in earnings of limited partnerships	\$ 20,180	\$ 14,058	43.5%	\$ 32,698	\$ 18,200	79.7%

* P&C Group—Property and Casualty Group

** Excludes salvage and subrogation recoveries

Management operations

Management fee revenue increased 2.1 percent for the quarter ended June 30, 2007, benefiting from 0.9% growth in the direct written premiums of the Property and Casualty Group and the management fee rate being set at its maximum level of 25% for 2007, up from 24.75% in 2006. This higher management fee rate in 2007 increased management fee revenue by \$4.9 million, or \$0.05 per share-diluted, for the six months ended June 30, 2007.

Growth in policies in force is the result of the Company's expansion of its independent agency force through appointments and other marketing initiatives as well as improved policyholder retention. Through the first half of 2007, the Company appointed 129 new agencies, bringing our total agencies to 1,891 at June 30, 2007. The Company expects to meet its goal of 200 new agency appointments during 2007. In 2006, the Company appointed 139 new agencies.

Due to continued soft market conditions, the Property and Casualty Group has been implementing rate reductions to be more price competitive, which resulted in a \$56 million decrease in written premiums in the first half of 2007. An additional \$31 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.

The cost of management operations increased 3.2 percent to \$207.4 million in the second quarter of 2007, from \$201.0 million for the same period in 2006. Commission costs, the largest component of the cost of management operations, increased 2.7 percent to \$148.9 million from \$145.0 million in the second quarter 2006. Normal commissions increased 0.9 percent, or \$1.1 million, in line with the Property and Casualty growth in premium, while estimates for agent bonuses

and promotional incentives increased \$2.2 million in the second quarter of 2007.

Second quarter costs of management operations, excluding commissions, increased 4.5 percent to \$58.5 million in 2007 from \$56.0 million in 2006. Personnel costs increased by 4.6 percent in the second quarter of 2007, due to (1) an increase in salary expense from increases in the average pay rates offset by lower staffing levels and (2) an increase of less than 1% in employee benefits costs, as the second quarter of 2007 was favorably impacted by a reduction in pension costs due to an increase in the discount rate, while the second quarter of 2006 included the recognition of a one-time full curtailment benefit related to the termination of the retiree health benefit plan.

Insurance underwriting operations

The Company's insurance underwriting operations generated gains of \$7.9 million and \$0.3 million in the second quarters of 2007 and 2006, respectively. The GAAP combined ratio of the Company was 84.8 in the second quarter of 2007 compared to 99.4 in the second quarter of 2006, and Property and Casualty Group's adjusted statutory combined ratio was 77.7 and 92.3 in the second quarter of 2007 and 2006, respectively.

- Earned premiums declined \$1.7 million for the second quarter of 2007 reflecting the trend of rate decreases.
- Development of prior accident year loss reserves, excluding salvage and subrogation recoveries, continued to be favorable in the second quarter 2007.
- The second quarter of 2007 included tornados and flooding in Ohio, North Carolina and Virginia, while 2006 included hail storms in Indiana. Catastrophe losses incurred for the first half of 2007 and 2006 were \$1.4 million and \$5.3 million, respectively.

The majority of this positive development in the second quarter of 2007 resulted from favorable developments 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. In the second quarter of 2006, there was a strengthening of pre-1986 automobile catastrophic liability injury reserves based on a claim by claim review, which increased our share of the reserves by \$1.4 million. The strengthening of certain other catastrophic injury reserves was due to increasing pharmaceutical costs and a deterioration in the health of the claimants.

Investment operations

Net revenue from investment operations increased 28.3 percent in the second quarter of 2007 to \$37.8 million compared to \$29.5 million in the second quarter of 2006.

Equity in earnings of limited partnerships contributed significantly to the improved investment performance, increasing by \$6.1 million in the second quarter of 2007. 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 realized gains on sales of commercial properties owned by our real estate limited partnerships.

Net realized gains on investments were \$2.2 million in the second quarter of 2007 compared to losses of \$0.6 million in 2006. Included in net realized gains on investments are impairment charges of \$2.0 million and \$1.3 million during the second quarters of 2007 and 2006, respectively. Impairment charges recorded on fixed maturity and equity securities during the first six months of 2007 and 2006 were \$2.6 million and \$3.4 million, respectively.

Liquidity and capital resources

As part of our capital management strategy, the Company repurchased 313,110 shares of our Class A common stock at a cost of \$16.7 million during the second quarter of 2007, or \$53.26 per share. In the first half of 2007, 595,649 shares were repurchased at a cost of \$31.7 million. The Company had approximately \$98 million in outstanding repurchase authority under this program at June 30, 2007, that expires in December 2009.

“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 June 30		Six months ended June 30	
	2007	2006	2007	2006
	(unaudited)		(unaudited)	
Operating revenue				
Management fee revenue—net	\$ 242,324	\$ 237,233	\$ 458,343	\$ 457,334
Premiums earned	52,122	53,825	104,096	107,852
Service agreement revenue	7,299	6,506	14,717	14,098
Total operating revenue	301,745	297,564	577,156	579,284
Operating expenses				
Cost of management operations	195,969	189,939	375,855	373,093
Losses and loss adjustment expenses incurred	29,789	38,635	62,023	68,688
Policy acquisition and other underwriting expenses	11,695	12,079	23,689	26,580
Total operating expenses	237,453	240,653	461,567	468,361
Investment income—unaffiliated				
Investment income, net of expenses	14,138	14,603	28,116	29,603
Net realized gains (losses) on investments	2,222	(632)	4,112	152
Equity in earnings of limited partnerships	20,180	14,058	32,698	18,200
Total investment income—unaffiliated	36,540	28,029	64,926	47,955
Income before income taxes and equity in earnings of Erie Family Life Insurance Company	100,832	84,940	180,515	158,878
Provision for income taxes	31,505	30,015	56,098	55,092
Equity in earnings of Erie Family Life Insurance Company, net of tax	1,159	1,330	2,430	1,935
Net income	\$ 70,486	\$ 56,255	\$ 126,847	\$ 105,721
Net income per share:				
Class A common stock—basic	\$ 1.22	\$ 0.95	\$ 2.19	\$ 1.76
Class A common stock—diluted	1.11	0.86	1.99	1.59
Class B common stock—basic and diluted	187.31	144.90	336.32	265.30
Weighted average shares outstanding:				
Class A common stock—basic	57,337,436	59,063,615	57,513,372	59,842,796
Class A common stock—diluted	63,556,114	65,554,096	63,734,450	66,527,677
Class B common stock—basic and diluted	2,571	2,670	2,572	2,751
Dividends declared per share:				
Class A common stock	\$ 0.40	\$ 0.36	\$ 0.80	\$ 0.72
Class B common stock	60.00	54.00	120.00	108.00

CONSOLIDATED STATEMENTS OF OPERATIONS—SEGMENT BASIS

(Amounts in thousands, except in per share data)

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
	(unaudited)		(unaudited)	
Management operations				
Management fee revenue	\$ 256,462	\$ 251,104	\$ 485,106	\$ 484,039
Service agreement revenue	7,299	6,506	14,717	14,098
Total revenue from management operations	263,761	257,610	499,823	498,137
Cost of management operations	207,392	201,028	397,777	394,854
Income from management operations	56,369	56,582	102,046	103,283
Insurance underwriting operations				
Premiums earned	52,122	53,825	104,096	107,852
Losses and loss adjustment expenses incurred	29,789	38,635	62,023	68,688
Policy acquisition and other underwriting expenses	14,410	14,861	28,530	31,524
Total losses and expenses	44,199	53,496	90,553	100,212
Underwriting gain	7,923	329	13,543	7,640
Investment operations				
Investment income, net of expenses	14,138	14,603	28,116	29,603
Net realized gains (losses) on investments	2,222	(632)	4,112	152
Equity in earnings of limited partnerships	20,180	14,058	32,698	18,200
Equity in earnings of Erie Family Life Insurance Company	1,247	1,430	2,613	2,081
Net revenue from investment operations	37,787	29,459	67,539	50,036
Income before income taxes	102,079	86,370	183,128	160,959
Provision for income taxes	31,593	30,115	56,281	55,238
Net income	\$ 70,486	\$ 56,255	\$ 126,847	\$ 105,721
Net income per share—Class A basic	\$ 1.22	\$ 0.95	\$ 2.19	\$ 1.76
Net income per share—Class A diluted	1.11	0.86	1.99	1.59
Net income per share—Class B basic and diluted	187.31	144.90	336.32	265.30
Weighted average shares outstanding— Class A diluted	63,556	65,554	63,734	66,528

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 June 30, 2007 and 2006:

(in thousands, except per share data)

	Three months ended June 30 (unaudited)		Six months ended June 30 (unaudited)	
	2007	2006	2007	2006
	Operating income	\$ 69,042	\$ 56,666	\$ 124,174
Net realized gains (losses) on investments	2,222	(632)	4,112	152
Income tax (expense) benefit on realized gains (losses)	(778)	221	(1,439)	(53)
Realized gains (losses), net of income taxes	1,444	(411)	2,673	99
Net income	\$ 70,486	\$ 56,255	\$ 126,847	\$ 105,721

	Three months ended June 30 (unaudited)		Six months ended June 30 (unaudited)	
	2007	2006	2007	2006
	Per Class A Share—Diluted			
Operating income	\$ 1.09	\$ 0.87	\$ 1.95	\$ 1.59
Net realized gains (losses) on investments	0.03	(0.01)	0.06	0.00
Income tax (expense) benefit on realized gains (losses)	(0.01)	0.00	(0.02)	0.00
Realized gains (losses), net of income tax expense	0.02	(0.01)	0.04	0.00
Net income	\$ 1.11	\$ 0.86	\$ 1.99	\$ 1.59

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in thousands, except per share data)

	June 30 2007 (unaudited)	December 31 2006
Assets		
Investments		
Fixed maturities	\$ 827,777	\$ 836,738
Equity securities		
Preferred stock	139,800	133,401
Common stock	122,899	117,246
Other invested assets	266,454	235,672
Total investments	1,356,930	1,323,057
Cash and cash equivalents	27,292	60,241
Equity in Erie Family Life Insurance Company	57,784	57,162
Premiums receivable from policyholders	257,632	247,187
Receivables from affiliates	1,187,993	1,220,058
Other assets	134,179	131,656
Total assets	\$ 3,021,810	\$ 3,039,361
Liabilities and shareholders' equity		
Liabilities		
Unpaid losses and loss adjustment expenses	\$ 1,036,362	\$ 1,073,570
Unearned premiums	436,996	424,282
Other liabilities	344,460	379,661
Total liabilities	1,817,818	1,877,513
Total shareholders' equity	1,203,992	1,161,848
Total liabilities and shareholders' equity	\$ 3,021,810	\$ 3,039,361
Book value per share	\$ 19.00	\$ 18.17
Shares outstanding	63,356	63,952



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