

ERIE INDEMNITY COMPANY

2007 THIRD QUARTER SHAREHOLDERS' REPORT

Erie Indemnity delivered good results in the third quarter, driven by strong performances in our underwriting and investment operations. We're continuing to see an improvement in the underlying factors of our management operations as well. Despite rate reductions, direct written premium remained flat due to increases in new policies in force and improvement in our retention rate. We see this as a positive indication of our performance in the ongoing soft market.

John J. Brinling Jr.
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.

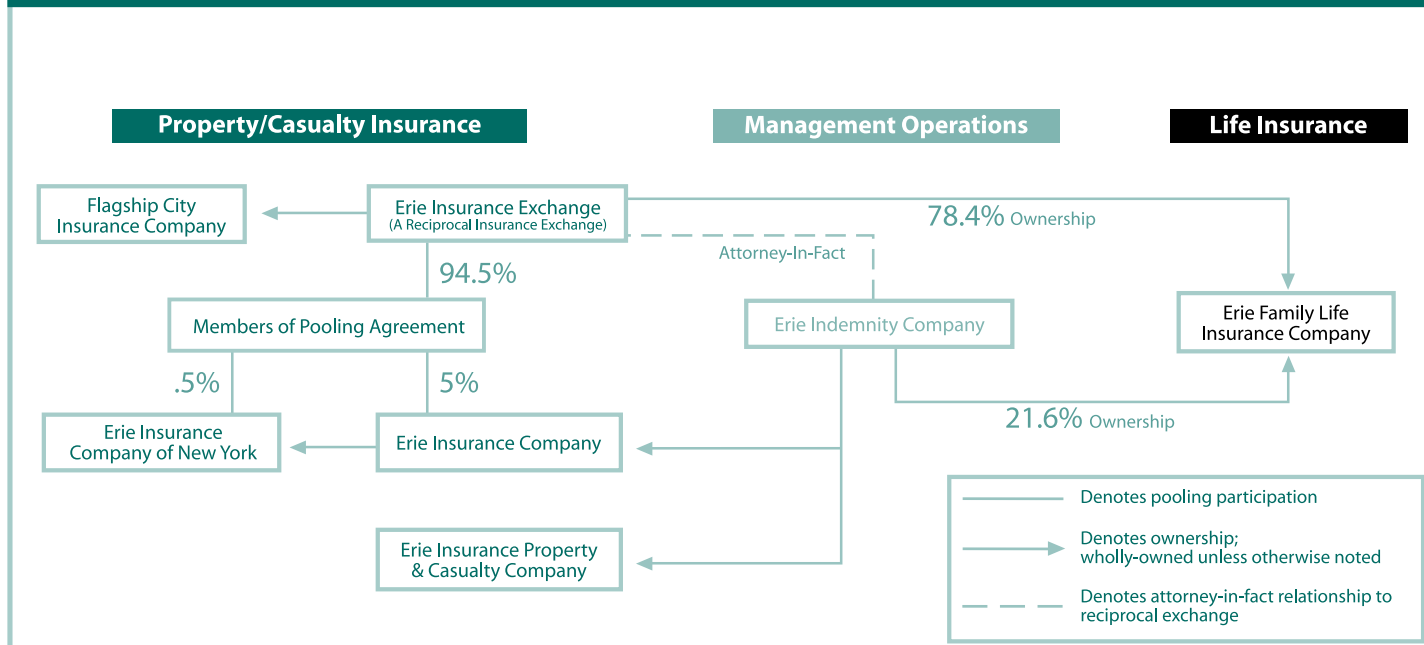
The Company also operates as a property/casualty insurer through its three insurance subsidiaries. The Exchange and its property/casualty subsidiary and the Company's three property/casualty subsidiaries (collectively, the "Property

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 1,900 agencies comprised of over 8,300 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 Third Quarter 2007 Results

As announced at our third quarter Webcast, the Company will no longer be distributing quarterly shareholder reports. The report contains redundant information that can easily be found in the quarterly earnings releases and Form 10-Q's filed with the Securities and Exchange Commission. If you have any questions, please contact our Corporate Communications Department at 814.870.2000.

Key points for the third quarter 2007:

Net income was \$53.5 million for the third quarter of 2007, a 1.3 percent increase from \$52.8 million for the same period in 2006. Net income per share-diluted increased to \$0.87 per share, compared to \$0.82 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 0.4 percent to \$0.84 per share in the third quarter of 2007, from \$0.83 per share, for the same period one year ago.

Management fee revenue increased 0.3 percent to \$245.6 million, from \$244.7 million for the same period one year ago. Gross margins from management operations decreased to 16.0 percent in the third quarter of 2007 from 20.5 percent in the third quarter of 2006.

- Third quarter 2007 results were effected by charges of \$8.0 million, or \$.09 per share, as follows:

- an estimate of \$4.3 million for a judgment against us in a lawsuit arising from our termination of an agency, and
- an estimate of \$3.7 million related to our portion of any additional compensation that may be due our former president and chief executive officer who voluntarily resigned in August 2007.
- Direct written premiums remained flat in the third quarter of 2007, increasing only 0.1%.
- GAAP combined ratios of the insurance underwriting operations improved to 88.0 percent in the third quarter of 2007 from 89.2 percent for the quarter ended September 30, 2006, driven by favorable development in prior accident year loss and loss adjustment expense reserves and low catastrophe losses.
- Net revenue from investment operations increased to \$30.5 million, or 33.5 percent, from \$22.9 million for the third quarters of 2007 and 2006, respectively, driven by improved equity in earnings of limited partnerships.
- The 2007 annualized effective tax rate of 32.9 percent was benefited by \$1.6 million to adjust our estimated current tax position to actual 2006 tax returns.

Key drivers of third quarter 2007 results-segment basis

(dollars in thousands)	(Unaudited)			(Unaudited)		
	Three months ended September 30, 2007	2006	Change	Nine months ended September 30, 2007	2006	Change
Management operations:						
Management fee revenue	\$ 245,585	\$ 244,739	0.3%	\$ 730,691	\$ 728,778	0.3%
P&C Group* direct written premium (DWP)	\$ 981,539	\$ 980,762	0.1%	\$2,927,965	\$2,942,536	(0.5)%
Drivers of P&C Group* DWP						
Policies in force—year-over-year				3,873,665	3,793,455	80,210
Policy retention—year-over-year				90.0%	89.2%	0.8 pts
Avg. premium per policy—year-over-year				\$ 978	\$ 1,011	\$ (33)
Insurance underwriting operations:						
GAAP combined ratio	88.0	89.2	(1.2) pts	87.3	91.7	(4.4) pts
Prior accident year reserve development—(redundancy) deficiency**	(7.8)	(3.8)	(4.0) pts	(7.5)	(3.8)	(3.7) pts
Catastrophe loss ratio	3.4	1.6	1.8 pts	2.0	3.7	(1.7) pts
Investment operations:						
Net realized gains (losses) on investments	\$ 3,438	\$ (872)	NM	\$ 7,550	\$ (721)	NM
Equity in earnings of limited partnerships	\$ 14,169	\$ 10,848	30.6%	\$ 46,867	\$ 29,049	61.3%

* P&C Group—Erie Insurance Property and Casualty Group

** Excludes prior year salvage and subrogation recoveries

NM—not meaningful

Management operations

Management fee revenue reflected modest growth of 0.3 percent, as direct written premiums of the Property and Casualty Group were flat in the third quarter of 2007 compared to the third quarter of 2006. The management fee rate being set at its maximum level of 25 percent for 2007, up from 24.75 percent in 2006, contributed to the slight increase in management fee revenue compared to the third quarter of 2006. This higher management fee rate in 2007 increased management fee revenue by \$7.3 million, or \$0.08 per share-diluted, for the nine months ended September 30, 2007.

Growth in policies in force is the result of the Company's expansion of its independent agency force through appointments as well as improved policyholder retention. Through the first nine months of 2007, the Company appointed 176 new agencies, bringing our total agencies to 1,937 at September 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 \$72 million decrease in written premiums in the first nine months of 2007. An additional \$14 million in rate reductions are forecast for the remainder of the year. The most significant rate reductions have been in the homeowners and private passenger auto lines of business. We are estimating an increase of \$3 million in premium rate actions for 2008.

The cost of management operations increased 6.0 percent to \$212.6 million in the third quarter of 2007,

from \$200.5 million for the same period in 2006.

Commission costs, the largest component of the cost of management operations, increased 0.3 percent to \$144.9 million from \$144.4 million in the third quarter 2006. Normal and accelerated commissions increased \$1.8 million, or 0.2 percent, driven by an increase in workers compensation commission rates and higher accelerated commissions due to more newly appointed agencies. A change in the commission allowance for mid-term policy cancellations reduced the year-over-year third quarter 2007 commissions by \$1.1 million when compared to 2006 and reflected the continued downward trend of estimated mid-term policy cancellations. Management recently approved an extension of the \$50 private passenger auto bonus to run through June 30, 2008. The program, which pays a \$50 bonus to agents for each qualifying new private passenger auto policy issued, was originally planned to expire December 31, 2007.

Third quarter cost of management operations, excluding commissions, increased 20.8 percent to \$67.8 million in 2007 from \$56.1 million in 2006. Personnel costs increased by 18.1 percent in the third quarter of 2007 due to the recognition of an estimate of any additional compensation that may be due our former president and chief executive officer who voluntarily resigned in August 2007, an increase in the projected payouts for management incentive plans, and an increase in salary expense from higher average pay rates offset by lower staffing levels. All other operating costs increased 52.6 percent for the three months ended September 30, 2007, driven by a charge of \$4.3 million for a judgment against us in a lawsuit related to an agency termination.

Insurance underwriting operations

The Company's insurance underwriting operations generated gains of \$6.2 million and \$5.7 million in the third quarters of 2007 and 2006, respectively. The Property and Casualty Group's adjusted statutory combined ratio was 82.3 and 83.7 in the third quarter of 2007 and 2006, respectively.

- Earned premiums declined \$1.1 million for the third 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 third quarter 2007, improving the loss ratio 7.8 points, or \$4.0 million.
- Catastrophe losses incurred for the third quarter of 2007 and 2006 were \$1.8 million and \$0.9 million, respectively.

The majority of this positive underwriting result in the third quarter of 2007 was impacted by favorable developments of reserves on prior accident quarters for automobile bodily injury and uninsured/underinsured motorist (UM/UIM) bodily injury. Improvements in accident quarter loss ratios in these lines were a result of improved frequency and severity trends. The third quarter 2006 favorable development of 3.8 points was driven by improvements in the UM/UIM bodily injury and workers compensation lines of business, partially due to more effective claims handling. The improvement in the workers compensation line of business was due to improved severity trends.

Investment operations

Net revenue from investment operations increased 33.5 percent in the third quarter of 2007 to \$30.5 million compared to \$22.9 million in the third quarter of 2006.

Net realized gains on investments increased \$4.3 million in the third quarter of 2007 from our common stock holdings. Included in net realized gains on investments are impairment charges of \$3.0 million and \$1.6 million during the third quarters of 2007 and 2006, respectively. Impairment charges recorded on fixed maturity and equity securities during the first nine months of 2007 and 2006 were \$5.7 million and \$5.0 million, respectively.

Equity in earnings of limited partnerships increased by \$3.3 million in the third quarter of 2007 due to market value appreciation.

Liquidity and capital resources

In the third quarter of 2007, we purchased 1,903,201 shares of our Class A nonvoting common stock separate from our current stock repurchase program from the F. William Hirt Estate for a total purchase price of \$99.0 million, or \$52.04 per share. Mr. Hirt, our former Chairman of the Board, passed away in July 2007. In conjunction with our authorized stock repurchase plan, we repurchased an additional 1,670,384 shares of our outstanding Class A common stock at a cost of \$89.0 million, or \$53.30 per share, during the third quarter of 2007. During the first nine months of 2007, 2,266,033 shares were repurchased under this plan at a cost of \$120.8 million. Total shares repurchased through September 30, 2007, including the repurchase from the F. William Hirt Estate, were 4,169,234. In September 2007, our Board of Directors approved a continuation of the current stock repurchase program for an additional \$100 million through December 31, 2008. We have \$109 million in repurchase authority remaining under this plan.

"Safe Harbor" Statement Under the Private Securities Litigation Reform Act of 1995: Certain forward-looking statements contained herein involve risks and uncertainties. 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. 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 other business activities during 2007 and beyond. The Company assumes no obligation whatsoever to publicly update or revise any forward-looking statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except in per share data)

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
	(unaudited)		(unaudited)	
Operating revenue				
Management fee revenue—net	\$ 232,089	\$ 231,388	\$ 690,432	\$ 688,723
Premiums earned	51,892	53,017	155,988	160,868
Service agreement revenue	7,470	7,410	22,186	21,508
Total operating revenue	291,451	291,815	868,606	871,099
Operating expenses				
Cost of management operations	200,913	189,536	576,768	562,629
Losses and loss adjustment expenses incurred	30,766	32,573	92,789	101,261
Policy acquisition and other underwriting expenses	13,090	12,325	36,779	38,905
Total operating expenses	244,769	234,434	706,336	702,795
Investment income—unaffiliated				
Investment income, net of expenses	12,233	12,215	40,350	41,818
Net realized gains (losses) on investments	3,438	(872)	7,550	(721)
Equity in earnings of limited partnerships	14,169	10,848	46,867	29,049
Total investment income—unaffiliated	29,840	22,191	94,767	70,146
Income before income taxes and equity in earnings of Erie Family Life Insurance Company	76,522	79,572	257,037	238,450
Provision for income taxes	23,669	27,421	79,767	82,513
Equity in earnings of Erie Family Life Insurance Company, net of tax	643	634	3,074	2,569
Net income	\$ 53,496	\$ 52,785	\$ 180,344	\$ 158,506
Net income per share:				
Class A common stock—basic	\$ 0.97	\$ 0.91	\$ 3.17	\$ 2.67
Class A common stock—diluted	0.87	0.82	2.87	2.41
Class B common stock—basic and diluted	145.92	139.34	482.27	404.46
Weighted average shares outstanding:				
Class A common stock—basic	55,183,547	57,873,922	56,727,315	59,179,328
Class A common stock—diluted	61,370,219	64,129,350	62,935,587	65,717,956
Class B common stock—basic and diluted	2,559	2,573	2,568	2,691
Dividends declared per share:				
Class A common stock	\$ 0.40	\$ 0.36	\$ 1.20	\$ 1.08
Class B common stock	60.00	54.00	180.00	162.00

CONSOLIDATED STATEMENTS OF OPERATIONS—SEGMENT BASIS

(Amounts in thousands, except in per share data)

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
	(unaudited)		(unaudited)	
Management operations				
Management fee revenue	\$ 245,585	\$ 244,739	\$ 730,691	\$ 728,778
Service agreement revenue	7,470	7,410	22,186	21,508
Total revenue from management operations	253,055	252,149	752,877	750,286
Cost of management operations	212,601	200,498	610,377	595,351
Income from management operations	40,454	51,651	142,500	154,935
Insurance underwriting operations				
Premiums earned	51,892	53,017	155,988	160,868
Losses and loss adjustment expenses incurred	30,766	32,573	92,789	101,261
Policy acquisition and other underwriting expenses	14,898	14,714	43,429	46,238
Total losses and expenses	45,664	47,287	136,218	147,499
Underwriting income	6,228	5,730	19,770	13,369
Investment operations				
Investment income, net of expenses	12,233	12,215	40,350	41,818
Net realized gains (losses) on investments	3,438	(872)	7,550	(721)
Equity in earnings of limited partnerships	14,169	10,848	46,867	29,049
Equity in earnings of Erie Family Life Insurance Company	692	682	3,304	2,763
Net revenue from investment operations	30,532	22,873	98,071	72,909
Income before income taxes	77,214	80,254	260,341	241,213
Provision for income taxes	23,718	27,469	79,997	82,707
Net income	\$ 53,496	\$ 52,785	\$ 180,344	\$ 158,506
Net income per share—Class A basic	\$ 0.97	\$ 0.91	\$ 3.17	\$ 2.67
Net income per share—Class A diluted	0.87	0.82	2.87	2.41
Net income per share—Class B basic and diluted	145.92	139.34	482.27	404.46
Weighted average shares outstanding— Class A diluted	61,370	64,129	62,936	65,718

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 September 30, 2007 and 2006:

(in thousands, except per share data)

	Three months ended September 30 (unaudited)		Nine months ended September 30 (unaudited)	
	2007	2006	2007	2006
Operating income	\$ 51,261	\$ 53,352	\$ 175,436	\$ 158,975
Net realized gains (losses) on investments	3,438	(872)	7,550	(721)
Income tax (expense) benefit on realized gains (losses)	(1,203)	305	(2,642)	252
Realized gains (losses), net of income taxes	2,235	(567)	4,908	(469)
Net income	\$ 53,496	\$ 52,785	\$ 180,344	\$ 158,506

	Three months ended September 30 (unaudited)		Nine months ended September 30 (unaudited)	
	2007	2006	2007	2006
Per Class A Share—Diluted				
Operating income	\$.84	\$ 0.83	\$ 2.79	\$ 2.42
Net realized gains (losses) on investments	0.05	(0.01)	0.12	(0.01)
Income tax (expense) benefit on realized gains (losses)	(0.02)	0.00	(0.04)	0.00
Realized gains (losses), net of income taxes	0.03	(0.01)	0.08	(0.01)
Net income	\$ 0.87	\$ 0.82	\$ 2.87	\$ 2.41

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in thousands, except per share data)

	September 30 2007 (unaudited)	December 31 2006
Assets		
Investments		
Fixed maturities	\$ 703,444	\$ 836,738
Equity securities		
Preferred stock	103,299	133,401
Common stock	121,240	117,246
Other invested assets	279,824	235,672
Total investments	1,207,807	1,323,057
Cash and cash equivalents	32,157	60,241
Equity in Erie Family Life Insurance Company	59,116	57,162
Premiums receivable from policyholders	260,720	247,187
Receivables from affiliates	1,176,013	1,220,058
Other assets	139,415	131,656
Total assets	\$ 2,875,228	\$ 3,039,361
Liabilities and shareholders' equity		
Liabilities		
Unpaid losses and loss adjustment expenses	\$ 1,015,083	\$ 1,073,570
Unearned premiums	444,175	424,282
Other liabilities	369,729	379,661
Total liabilities	1,828,987	1,877,513
Total shareholders' equity	1,046,241	1,161,848
Total liabilities and shareholders' equity	\$ 2,875,228	\$ 3,039,361
Book value per share	\$ 17.50	\$ 18.17
Shares outstanding	59,782	63,952



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