FORM 10-K/A
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

(NO FEE REQUIRED)

For the fiscal year ended December 31, 1998

OR

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

[NO FEE REQUIRED]

For the transition period from to

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)

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Class A Common Stock, no par value
Class B Common Stock, no par value
(Tile of class)

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 X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Aggregate market value of voting stock of nonaffiliates: There is no active market for the Class B voting stock and no Class B voting stock has been sold in the last year upon which a price could be established.

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date: 67,007,500 Class A shares and 3,070 Class B shares of Common Stock outstanding on February 26, 1999.

DOCUMENTS INCORPORATED BY REFERENCE:

1. Portions of the Registrant's Annual Report to Shareholders for the fiscal year ended December 31, 1998 (the "Annual Report") are incorporated by reference into Parts I, II and IV of this Form 10-K Report.
2. Portions of the Registrant's proxy statement relating to the annual meeting of shareholders to be held April 27, 1999 are incorporated by reference into Part III of this Form 10-K Report.

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PART I

Item 1. Business

Erie Indemnity Company (the "Company") is a Pennsylvania business corporation formed in 1925 to be the attorney-in-fact for Erie Insurance Exchange (the "Exchange"), a Pennsylvania-domiciled reciprocal insurance exchange. The Company's principal business activity consists of management of the Exchange, and management fees received from the Exchange accounted for approximately 75.3% of the Company's consolidated revenues in 1998. The Company is also engaged in the property/casualty insurance business through its wholly-owned subsidiaries, Erie Insurance Company (Erie Insurance Co.), Erie Insurance Company of New York (Erie NY) and Erie Insurance Property & Casualty Company (Erie P&C) and through its management of Flagship City Insurance Company (Flagship), a subsidiary of the Exchange. In addition, the Company holds investments in both affiliated and unaffiliated entities, including a 21.6% common stock interest in Erie Family Life Insurance Company (EFL), an affiliated life insurance company, 52.2% of whose capital stock is owned by the Exchange, accounted for under the equity method of accounting. Together with the Exchange, the Company and its subsidiaries and affiliates operate collectively under the name "Erie Insurance Group". See the chart on the following page which details the organization of the Erie Insurance Group.

As of December 31, 1998, the Company had 3,227 full-time employees. Of that total, 1,588 full-time employees provide claims-specific services exclusively for the Exchange and 89 full-time employees perform general services exclusively for EFL. Both the Exchange and EFL reimburse the Company monthly for these services. None of the Company's employees is covered by a collective bargaining agreement. The Company believes that its relationship with its employees is good.

Management Operations

The Exchange, which commenced operations in 1925, underwrites a broad line of personal and commercial property and casualty insurance coverages, including automobile, homeowners, commercial multi-peril and workers' compensation. Erie Insurance Co. was organized in 1972 as a stock casualty insurance company to supplement the lines of business written by the Exchange, and was acquired by the Company from the Exchange as of December 31, 1991. Since January 1, 1992, Erie Insurance Co. and the Exchange have participated in an intercompany reinsurance pool whereby the parties share proportionately in the results of the property/casualty insurance operations conducted by Erie Insurance Co. and the Exchange. Effective January 1, 1995, Erie NY began participating in this intercompany reinsurance pool whereby Erie Insurance Co. maintained its 5% participation in the pool and Erie NY assumed a .5% participation in the pool, thus reducing the Exchange's participation in the pool from 95% to 94.5% at that date. Flagship was organized in 1992 as a stock casualty insurance company to conduct the Exchange's residual automobile market business. Erie P&C was organized in 1993 to conduct Erie Insurance Group's business in West Virginia and to write workers' compensation insurance in Pennsylvania. Erie NY was purchased in 1994 to conduct Erie Insurance Group's business in New York State together with Erie Insurance Company. At December 31, 1998, the Erie Insurance Group conducted business in nine states and the District of Columbia through approximately 1,200 agencies with approximately 5,400 agents.

CORPORATE ORGANIZATION CHART AT DECEMBER 31, 1998

ERIE INDEMNITY COMPANY - Incorporated: April 17, 1925 (PA)
Total Capital Stock: 75,000,000 @ no par value (74,996,930 shares Class A, 3,070,shares Class B)
Shares Outstanding: 67,032,000 (Class A), 3,070 (Class B)

ERIE INSURANCE EXCHANGE - Began Operation: April 20, 1925
(A reciprocal Insurance Exchange)

EI HOLDING CORP. - Incorporated: September 28, 1990 (DE)
Total Capital Stock: 100 @ $1.00 par value
Shares Outstanding: 100

EI SERVICE CORP. - Incorporated December 15, 1982 (PA)
Total Capital Stock: 100 @ $1.00 par value
Shares Outstanding: 100

ERIE INSURANCE COMPANY - Incorporated September 11, 1972 (PA)
Total Capital Stock: 23,500 @ $100 par value
Shares Outstanding: 23,500

ERIE INSURANCE COMPANY OF NEW YORK - Incorporated September 15, 1885 (NY)
Total Capital Stock: 23,500 @ $100 par value
Shares Outstanding: 23,500

ERIE INSURANCE PROPERTY & CASUALTY COMPANY - Incorporated January 19, 1993 (PA)
Total Capital Stock: 23,500 @ $100 par value
Shares Outstanding: 23,500

FLAGSHIP CITY INSURANCE COMPANY - Incorporated January 22, 1992 (PA)
Total Capital Stock: 23,500 @ $100 par value
Shares Outstanding: 23,500

ERIE FAMILY LIFE INSURANCE COMPANY - Incorporated May 23, 1967 (PA)
Total Capital Stock: 15,000,000 @ $.40 par value
Shares Outstanding: 9,450,000

The Erie Indemnity Company is the Attorney-in-Fact for the Erie Insurance Exchange. EI Holding Corp., EI Service Corp., Erie Insurance Company and Erie Insurance Property & Casualty Company are owned 100% by the Erie Indemnity Company. The Erie Insurance Company of New York is 100% owned by the Erie Insurance Company. The Flagship City Insurance Company is 100% owned by the Erie Insurance Exchange. The Erie Indemnity Company owns 21.6% of the outstanding stock of the Erie Family Life Insurance Company while the Erie Insurance Exchange owns 52.2% of the outstanding stock of the Erie Family Life Insurance Company.

Property/Casualty Insurance Operations

One of the distinguishing features of the property/casualty insurance industry is that its products generally are priced before its costs are known, as premium rates usually are determined before losses are reported. Changes in statutory and case law can dramatically affect the liabilities associated with known risks after the insurance contract is in place. The number of competitors and the similarity of products offered, as well as regulatory constraints, limit the ability of property/casualty insurance companies to increase prices in response to declines in profitability.

The profitability of the property/casualty insurance business is generally subject to many factors, including rate competition, the severity and frequency of claims, natural disasters, state regulation of premium rates, defaults of reinsurers, interest rates, general business conditions, regulatory measures and court decisions that define and may expand the extent of coverage and the amount of compensation due for injuries and losses. Historically, the overall financial performance of the property/casualty insurance industry has tended to fluctuate in cyclical market patterns. A typical market cycle has been composed of a period of heightened premium rate competition and depressed underwriting performance, often referred to as a "soft market", followed by a period of constricted industry capital and underwriting capacity, increasing premium rates and underwriting performance, often referred to as a "hard market". During a soft market, competitive conditions can result in premium rates which are inadequate and therefore unprofitable and underwriting terms and conditions which are not as favorable to a property/casualty insurer as during hard markets.

The Exchange, Flagship, Erie Insurance Co., Erie P&C and Erie NY all have current ratings of A++ (Superior) from A.M. Best with respect to their financial strength and claims-paying ability. In evaluating an insurer's financial and operating performance, A.M. Best reviews the insurer's profitability, leverage and liquidity as well as the insurer's book of business, the adequacy and soundness of its reinsurance, the quality and estimated market value of its assets, the adequacy of its loss reserves and the experience and competency of its management. Management believes that this A.M. Best rating of A++ (Superior) is an important factor in marketing Erie Insurance Group's property/casualty insurance to its agents and customers and that insurance carriers with the higher ratings have some competitive advantage. A.M. Best's classifications are A++ and A+ (Superior), A and A- (Excellent), B++ and B+ (Very Good), B and B- (Good), C++ and C+ (Fair), C and C- (Marginal), D (Below Minimum Standards) and E and F (Liquidation). According to A.M. Best, a "Superior" rating is assigned to those companies which, in A.M. Best's opinion, have achieved superior overall performance when compared to the standards established by A.M. Best and have a very strong ability to meet their obligations to policyholders over a long period. A.M. Best's ratings are based upon factors relevant to policyholders and are not directed towards the protection of investors.

The property/casualty insurers managed by the Company are licensed to do business in 15 states and in the District of Columbia, and at December 31, 1998 operated in nine states and the District of Columbia. Erie Insurance Group's business consists primarily of private passenger automobile, homeowners, commercial multi-peril, workers compensation and commercial automobile insurance business written in Pennsylvania, Ohio, Maryland and Virginia.

The Company, in managing the property/casualty insurers of the Erie Insurance Group, has followed several strategies which the management of the Company believes have resulted in underwriting results which are better than those of the property and casualty industry in general. The principal strategies employed by the Company in managing these insurers are:

- An underwriting philosophy and product mix designed to produce an Erie Insurance Group-wide underwriting profit, i.e., a combined ratio of less than 100%, through careful risk selection and adequate pricing. The careful selection of risks allows for lower claims frequency and loss severity, thereby enabling insurance to be offered at favorable prices.

- A focus on providing consistent, high quality service to policyholders and agents in both underwriting and claims handling.

- A business concept designed to provide the advantages of localized marketing, underwriting and claims servicing with the economies of scale from centralized accounting, administrative, investment, data processing and other support services.

- A careful agent selection process, in which Erie Insurance Group seeks to be the lead underwriter with its agents in order to enhance the agency relationship and the likelihood of receiving the most desirable underwriting opportunities from its agents.

Life Insurance Operations

EFL, which was organized in 1967 as a Pennsylvania-domiciled life insurance company, has an A.M. Best rating of A+ (Superior). EFL is primarily engaged in the business of underwriting and selling non-participating individual and group life insurance policies, including universal life and individual and group annuity products in eight states and the District of Columbia. At December 31, 1998, on a Generally Accepted Accounting Principles (GAAP) basis, EFL had assets of $918 million and shareholders' equity of $183 million. At December 31, 1998, of EFL's total liabilities of $735 million, insurance and annuity reserves accounted for $677 million and a note payable to the Company amounted to $15 million. Of EFL's investment portfolio of $775 million at December 31, 1998, available-for-sale securities accounted for $741 million, real estate was $2 million, policy loans were $6 million, mortgage loans accounted for $10 million and other invested assets were $16 million.

Financial Information About Industry Segments

Reference is made to Note 13 of the Notes to the Consolidated Financial Statements included in the Annual Report, page 53 for information as to revenues, net income and identifiable assets attributable to the three business segments (management operations, property/casualty insurance operations and life insurance operations) in which the Company is engaged.

Lines of Business

The Erie Insurance Group property/casualty insurers managed by the Company write both personal and commercial lines of business. The commercial lines consist primarily of commercial automobile, commercial multi-peril and workers' compensation insurance. The personal lines consist primarily of automobile and homeowners insurance. A description of these types of insurance follows:

Commercial

- o Automobile -- policies that provide protection to businesses against liability for bodily injury and property damage arising from automobile accidents, and provide protection against loss from damage to automobiles owned by the insured business.

- o Multi-peril -- policies that provide protection to businesses against many perils, usually combining liability and physical damage coverages.

- o Workers' compensation -- policies purchased by employers to provide benefits to employees for injuries sustained during employment. The extent of coverage is established by the workers' compensation laws of each state.

Personal

- o Private passenger automobile -- policies that provide protection against liability for bodily injury and property damage arising from automobile accidents, and provide protection against loss from damage to automobiles owned by the insured.

- o Homeowners -- policies that provide coverage for damage to residences and their contents from a broad range of perils, including fire, lightning, windstorm and theft. These policies also cover liability of the insured arising from injury to other persons or their property while on the insured's property and under other specified conditions.

See "Selected Market and Geographic Information" contained on page 36 of the Annual Report for the Company's 5.5% share of direct premiums written by jurisdiction and line of business in addition to statutory loss and loss adjustment expense ratios by line of business for the Company's wholly-owned subsidiaries.

The property/casualty insurers managed by the Company are required to participate in involuntary insurance programs for automobile insurance, as well as other property and casualty lines, in states in which such companies operate. These programs include joint underwriting associations, assigned risk plans, fair access to insurance requirements ("FAIR") plans, reinsurance facilities and windstorm plans. Legislation establishing these programs requires all companies that write lines covered by these programs to provide coverage (either directly or through reinsurance) for insureds who cannot obtain insurance in the voluntary market. The legislation creating these programs usually allocates a pro rata portion of risks attributable to such insureds to each company on the basis of direct premiums written or the exposures insured. Generally, state law requires participation in such programs as a condition to doing business in that state. The loss ratio on insurance written under involuntary programs has traditionally been greater than the loss ratio on insurance in the voluntary market; however, the impact of these involuntary programs on the property/casualty insurers managed by the Company has been immaterial.

Combined Ratios

The following table sets forth for the periods indicated the combined ratio of Erie Insurance Co. and Erie NY, prepared in accordance with statutory accounting principles (SAP) prescribed or permitted by state insurance authorities and the combined ratio of Erie Insurance Co. and Erie NY prepared in accordance with GAAP. The combined ratio is a traditional measure of underwriting profitability. When the combined ratio is under 100%, underwriting results are generally considered profitable. Conversely, when the combined ratio is over 100% underwriting results are generally considered unprofitable. The combined ratio does not reflect investment income, federal income taxes or other non-operating income or expense. The operating income of Erie Insurance Co. and Erie NY is dependent upon income from both underwriting operations and investments.

	Year Ended December 31,		
	1998	1997	1996
GAAP combined ratio	99.5%	102.1%	111.4%
Statutory operating ratios:			
Loss ratio	70.4	74.1	83.3
Expense ratio	28.0	26.6	26.4
Dividend ratio	.6	0.9	1.0
Statutory combined ratio	99.0%	101.6%	110.7%
Industry statutory combined ratio(1)	105.0%	101.8%	105.8%

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(1) Source: A.M. Best

The Company's property/casualty insurance subisidiaries recorded an underwriting gain of $567,275 in 1998 compared to underwriting losses of $2,259,425 and $11,579,211 for the years 1997 and 1996, respectively. The 1998 insurance underwriting results improved as a result of loss cost severity-management programs introduced by the Company combined with a generally favorable claims environment and mild weather conditions. In 1997 mild winter weather conditions and a lack of catastrophe losses in the Company's operating territories positively affected insurance underwriting results. The 1996 underwriting results of the Company's wholly-owned subsidiaries, Erie Insurance Company and Erie Insurance Company of New York, were impacted negatively by severe winter weather in the first quarter of 1996 and catastrophe losses experienced from Hurricane Fran in the eastern United States, particularly North Carolina, and other storm-related catastrophe losses elsewhere in our operating territories during the third quarter of 1996. Losses resulting from these catastrophes were about $8.1 million in 1996 or about $.07 per share, after federal income taxes. The majority of these losses were property losses on homeowners and commercial property lines of business.

Reserves

Loss reserves are estimates of the amounts the insurer expects to pay to claimants at a given point in time, based on facts and circumstances then known. It can be expected that the ultimate claims liability will exceed or be less than such estimates. Reserves are based on estimates of future trends and claims severity, judicial theories of liability and other factors. Management believes that the reserves currently established by the Company are adequate to cover the eventual cost of the claims liability of the property and casualty insurers managed by the Company. However, during the loss adjustment period, additional facts regarding individual claims may become known, and consequently it often becomes necessary to refine and adjust the estimates of liability. Loss reserves are set at full expected cost except for loss reserves for workers' compensation which have been discounted at 2.5%. Adjustments are reflected in operating results in the year in which the changes in the estimates of liability are made.

In establishing the liability for unpaid losses and loss adjustment expenses related to asbestos-related illnesses and toxic waste cleanup, management considers facts currently known and the current state of the law and coverage litigation. Liabilities are recognized for known claims (including the cost of related litigation) when sufficient information has been developed to indicate the involvement of a specific insurance policy, and management can reasonably estimate its liability. In addition, liabilities have been established to cover additional exposures on both known and unasserted claims.

The establishment of appropriate reserves is an inherently uncertain process, and there can be no assurance that the ultimate liability will not exceed the loss and loss adjustment expense reserves of the property and casualty insurers managed by the Company. An increase in these reserves would have an adverse effect on the results of operations and financial condition of the property/casualty insurers managed by the Company. As is the case for virtually all property/casualty insurance companies, the Company has found it necessary, in the past, to revise, in non-material amounts, estimated future liabilities as reflected in the loss and loss adjustment expense reserves of the property/casualty insurers managed by the Company, and further adjustments could be required in the future.

On the basis of the Company's internal procedures, which analyze the Company's experience with similar cases and historical trends such as reserving patterns, loss payments, pending levels of unpaid claims and product mix, as well as court decisions and economic conditions, management believes adequate provision has been made for the loss and loss adjustment expense reserves of the Company's property/casualty insurers managed by the Company.

Differences between reserves reported in the Company's financial statements prepared on the basis of GAAP and financial statements prepared on the basis of SAP are not significant.

The following table sets forth the development of reserves for unpaid losses and loss adjustment expenses for the Company's property/casualty subsidiaries on a GAAP basis for 1994, 1995, 1996, 1997 and 1998.

	Year Ended December 31, 1998	1997	1996	1995	1994
	(in thousands)				
Reserve for unpaid losses and loss adjustment expense	$426,165	$413,409	$386,425	$357,334	$344,824
Liability as of:					
One year later		412,189	395,308	351,684	327,283
Two years later			399,337	363,273	332,821
Three years later				374,050	351,721
Four years later					364,148
Cumulative deficiency (excess)		(1,220)	12,912	16,716	19,324
Cumulative amount of liability paid through:					
One year later		$136,940	$142,425	$132,649	$134,044
Two years later			$213,252	$200,171	$200,024
Three years later				$236,758	$233,545
Four years later					$253,512

See Note 2 of the Notes to Consolidated Financial Statements contained in the Annual Report page 43 for discussion of the development of such reserves and activity contained in the unpaid loss and loss adjustment expense reserves for the years ended December 31, 1998 and 1997.

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995: Statements contained herein expressing the beliefs of management and the other statements which are not historical facts contained in this report are forward-looking statements that involve risks and uncertainties. These risks and uncertainties include but are not limited to: legislative and regulatory changes, the impact of competitive products and pricing, product development, geographic spread of risk, weather and weather-related events, other types of catastrophic events, and technological difficulties and advancements.

Reinsurance

Reference is made to Note 11 of the Notes to Consolidated Financial Statements contained in the Annual Report pages 51 to 52 incorporated herein by reference for a complete discussion of the reinsurance transactions involving the Company and its affiliates.

Erie Insurance Group
Intercompany Reinsurance Chart
As of December 31, 1998

Source of Business:

The Erie Insurance Company, Erie Insurance Company of New York, Flagship City Insurance Company and Erie Insurance Property & Casualty Company cede 100% of their business to the Erie Insurance Exchange. This is considered the group's Intercompany Reinsurance pool of business.

Allocation of Business:

The Erie Insurance Exchange then retrocedes 5% of the pool to the Erie Insurance Company and .5% of the pool to the Erie Insurance Company of New York. The Erie Insurance Exchange retains the remaining 94.5% of the pool.

Competition

The property/casualty insurance industry is extremely competitive on the basis of both price and service. There are numerous companies competing for this business in the geographic areas where Erie Insurance Group operates, many of which are substantially larger and have greater financial resources than Erie Insurance Group. Competition may take the form of lower prices, broader coverage, greater product flexibility or higher quality services. In addition, because the insurance products of Erie Insurance Group are marketed exclusively through independent insurance agencies, most of which represent more than one company, Erie Insurance Group faces competition to retain qualified independent agencies and competes for business in each agency.

Regulation

Government Regulation

The property/casualty insurers managed by the Company are subject to supervision and regulation in the states in which they transact business. The primary purpose of such supervision and regulation is the protection of policyholders. The extent of such regulation varies, but generally derives from state statutes which delegate regulatory, supervisory and administrative authority to state insurance departments. Accordingly, the authority of the state insurance departments includes the establishment of standards of solvency which must be met and maintained by insurers, the licensing to do business of insurers and agents, the nature of the limitations on investments, premium rates for property/casualty insurance, the provisions which insurers must make for current losses and future liabilities, the deposit of securities for the benefit of policyholders, the approval of policy forms, notice requirements for the cancellation of policies and the approval of certain changes in control. State insurance departments also conduct periodic examinations of the affairs of insurance companies and require the filing of annual and other reports relating to the financial condition of insurance companies.

The states in which the property/casualty insurers managed by the Company operate have guaranty fund laws under which insurers doing business in such states can be assessed on the basis of premiums written by the insurer in that state in order to fund policyholder liabilities of insolvent insurance companies. Under these laws in general, an insurer is subject to assessments, depending upon its market share of a given line of business, to assist in the payment of policyholder claims against insolvent insurers. The property/casualty insurers managed by the Company have made accruals for their portion of assessments related to such insolvencies based upon the most current information furnished by the guaranty associations. Reflected in the Consolidated Statements of Operations were $1,222,958 and $171,557 for these insolvencies for the years ended December 31, 1998 and 1997, respectively.

Pennsylvania regulations limit the amount of dividends EFL can pay its shareholders and limit the amount of dividends the Company's property/casualty insurance subsidiaries can pay to the Company. The limitations are fully described and reference is made herein to Note 12 of the Notes to Consolidated Financial Statements contained in the Annual Report, page 52 incorporated by reference.

Financial Regulation

The Company's property/casualty insurance subsidiaries are required to file financial statements prepared using SAP with state regulatory authorities. SAP differs from GAAP primarily in the recognition of revenue and expense. The adjustments necessary to reconcile the Company's property/ casualty insurance subsidiaries' net income and shareholders' equity determined by using SAP to net income and shareholders' equity determined in accordance with GAAP are as follows:

	Net Income Year Ended December 31, 1998	1997
	(in thousands)	
SAP amounts	$ 14,663	$ 8,446
Adjustments:		
Deferred policy acquisition costs	580	742
Deferred income taxes	(1,855)	1,409
Federal alternative minimum tax credit recoverable	795	(1,815)
Salvage and subrogation	12	94
Incurred premium adjustment	(580)	(742)
Bad debt write-offs - prior period	0	(78)
Consolidating eliminations and adjustments	(3)	0
GAAP amounts	$ 13,612	$ 8,056

	Shareholders' Equity As of December 31, 1998	1997	1996
	(in thousands)		
SAP amounts	$ 74,348	$ 60,628	$ 53,154
Adjustments:			
Deferred policy acquisition costs	10,863	10,284	9,541
Deferred income taxes	4,143	5,998	4,478
Salvage and subrogation	2,970	2,957	2,863
Statutory reserves	2,619	1,823	0
Incurred premium adjustment	(10,863)	(10,284)	(9,541)
Unrealized gains net of deferred taxes	7,653	6,697	3,005
Amortization of goodwill	0	0	(619)
Federal alternative minimum tax credit recoverable	(1,020)	(1,815)	0
Off balance sheet items - prior years	(3)	0	0
Consolidating eliminations and adjustments	3	8	50
GAAP amounts	$ 90,713	$ 76,296	$ 62,931

Pennsylvania imposes minimum risk-based capital requirements for property/casualty insurance companies as developed by the NAIC. A full description of these requirements is included in Management's Discussion and Analysis of Financial Condition and Results of Operations under the heading "Regulatory Risk-Based Capital" on page 29 of the Annual Report incorporated herein by reference.

Item 2. Properties

The Company and its subsidiaries, the Exchange and its subsidiaries and EFL share a corporate home office complex in Erie, Pennsylvania. The complex contains 548,799 square feet, and is owned by the Exchange. At December 31, 1998, the Company also operated 20 field offices in ten states. Of these offices, 16 provide both agency support and claims services and are referred to as "Branch Offices", while the remaining four provide only claims services and are considered "Claims Offices".

The Company owns three of its field offices. Four other offices are owned by and leased from the Exchange. The rent for the home office and the three field offices paid to the Exchange totaled $11,343,587 in 1998. One office is owned by and leased from EFL at an annual rental in 1998 of $342,824. The remaining twelve offices are leased from various unaffiliated parties at an aggregate annual rental in 1998 of approximately $1,382,286. The Company is reimbursed by its affiliates for a percentage of the rent for office space used by its affiliates, which reimbursement was approximately 50% in 1998.

Item 3. Legal Proceedings

Reference is made to "Legal Proceedings" on pages 23 through 27 of the Company's proxy statement, incorporated herein by reference.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of 1998.

PART II

Item 5. Market for Registrant's Common Equity and Related Shareholder Matters

Reference is made to "Market Price of and Dividends on the Common Equity and Related Shareholder Matters" on page 55 of the Annual Report for the year ended December 31, 1998, incorporated herein by reference, for information regarding the high and low sales prices for the registrant's stock and additional information regarding such stock of the Company.

As of February 26, 1999, there were approximately 1,308 beneficial shareholders of the Company's Class A non-voting common stock and 27 beneficial shareholders of the Company's Class B voting common stock.

Item 6. Selected Consolidated Financial Data

Reference is made to "Selected Consolidated Financial Data" on page 19 of the Annual Report for the year ended December 31, 1998, incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Reference is made to "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 20 through 35 of the Annual Report for the year ended December 31, 1998, incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

Reference is made to the "Consolidated Financial Statements" included on pages 38 through 41 and to the "Quarterly Results of Operations" contained in the Notes to Consolidated Financial Statements on page 53 of the Annual Report for the year ended December 31, 1998, incorporated herein by reference.

Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosures

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

(a) The answer to this item, with respect to directors of the Registrant, is incorporated by reference to pages 8 through 12 of the Company's proxy statement relating to the annual meeting of shareholders to be held on April 27, 1999.

(b) Certain information as to the executive officers of the Company is as follows:

Name	Age as of 12/31/98	Principal Occupation for Past Five Years and Positions with Erie Insurance Group
President & Chief Executive Officer		
Stephen A. Milne	50	President, Chief Executive Officer and a Director of the Company, EFL and Erie Insurance Co. since February 12, 1996 and President and Chief Executive Officer of Flagship, Erie P&C, and Erie NY since March 19, 1996; Executive Vice President - Insurance Operations of the Company, Erie Insurance Co., Flagship, Erie P&C, and Erie NY January 11, 1994 - February 12, 1996. Owner, Bennett-Damascus Insurance Agency March 1991-December 31, 1993; Senior Vice President-Agency Division, the Company, EFL, and Erie Insurance Co. 1988 - 1991; Director Flagship and Erie P&C 1996 - present; Director, Erie NY 1994 - present.
Executive Vice Presidents		
Jan R. Van Gorder, Esq.	51	Senior Executive Vice President, Secretary and General Counsel of the Company, EFL and Erie Insurance Co. since 1990, and of Flagship and Erie P&C since 1992 and 1993, respectively, and of Erie NY since April 1994; Senior Vice President, Secretary and General Counsel of the Company, EFL and Erie Insurance Co. for more than five years prior thereto; Director, the Company, EFL, Erie Insurance Co., Erie NY, Flagship and Erie P&C.
Philip A. Garcia	42	Executive Vice President and Chief Financial Officer since October 2, 1997; Senior Vice President and Controller 1993 - 1997; Vice President 1988 - 1993. Director, the Erie NY, Flagship and Erie P&C.

Name	Age as of 12/31/98	Principal Occupation for Past Five Years and Positions with Erie Insurance Group
Senior Vice Presidents		
John C. Bender	53	Senior Vice President since 1992; Vice President 1983 - 1992.
Eugene C. Connell	44	Senior Vice President since 1990; Vice President 1988 - 1990.
Dennis M. Geib	55	Senior Vice President since 1990; Vice President 1986 - 1990.
Elaine A. Lamm	60	Senior Vice President since 1990; Vice President 1988 - 1990.
George R. Lucore	48	Senior Vice President since March 1995; Regional Vice President 1993 - March 1995; Assistant Vice President 1988 - 1993.
Jeffrey A. Ludrof	39	Senior Vice President since 1994; Regional Vice President 1993 - 1994; Assistant Vice President 1989 - 1993.
David B. Miller	44	Senior Vice President since August 1996; Independent Insurance Agent 1991 - 1996; Vice President 1989 - 1991.
Timothy G. NeCastro	38	Senior Vice President and Controller since November 10, 1997; Department Manager Internal Audit November 1996 - 1997.
James R. Roehm	50	Senior Vice President since 1991; Vice President 1987 - 1991.
Michael S. Zavasky	46	Senior Vice President since April 1998; Vice President and Managing Director of Reinsurance 1990 - April 1998; Vice President 1988 - 1990.
Douglas F. Ziegler	48	Senior Vice President, Treasurer and Chief Investment Officer since 1993; Vice President and Managing Director of Treasury Administration 1988 - 1993.
Regional Vice Presidents		
B. Crawford Banks	62	Regional Vice President since 1993; Vice President 1988 - 1993.
Douglas N. Fitzgerald	42	Regional Vice President since 1993; Vice President 1987 - 1993.
Terry L. Hamman	44	Regional Vice President since May 1995; Assistant Vice President 1993 - May 1995.

Item 11. Executive Compensation

The answer to this item is incorporated by reference to pages 13 through 20 of the Company's proxy statement dated April 1, 1999 relating to the annual meeting of shareholders to be held on April 27, 1999, except for the Performance Graph, which has not been incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The answer to this item is incorporated by reference to pages 5 through 8 of the Company's proxy dated April 1, 1999 relating to the annual meeting of shareholders to be held on April 27, 1999.

Item 13. Certain Relationships and Related Transactions

Since the formation of the Company and the Exchange in 1925, the Company, as the attorney-in-fact appointed by the policyholders of the Exchange, has managed the property/casualty insurance operations of the Exchange. The Company's operations are interrelated with the operations of the Exchange, and the Company's results of operations are largely dependent on the success of the Exchange.

The Company believes that its various transactions with the Exchange and EFL, which are summarized herein, are fair and reasonable and have been on terms no less favorable to the Company than the terms that approximate those which could have been negotiated with an independent third party.

Pursuant to the Subscribers Agreement by which the Company serves as attorney-in-fact for the Exchange, the Company's Board of Directors establishes periodically an annual management fee for the Company's services as attorney-in-fact which may not exceed 25% of the direct and affiliated assumed written premiums of the Exchange. The Company's Board of Directors has the ability to establish the percentage charged at its discretion within these parameters. Such percentage was 23% from July 1, 1990 to June 30, 1991 and was 25% from July 1, 1991 through March 31, 1995. Such percentage was 24.5% from April 1, 1995 through March 31, 1996. The Board elected to change such percentage to 24% for the period April 1, 1996 through December 31, 1996 and to maintain the 24% management fee rate for all of 1997. Beginning January 1, 1998 through December 31, 1998, the management fee charged the Exchange was increased to 24.25%. The Board elected to change the management fee rate to 25% beginning January 1, 1999 through December 31, 1999. The activities performed by the Company as attorney-in-fact for the Exchange include insurance underwriting, policy issuance, policy exchange and cancellation, processing of invoices for premiums, the establishing and monitoring of loss reserves, oversight of reinsurance transactions, payment of insurance commissions to insurance agents, compliance with rules and regulations of supervisory authorities and monitoring of legal affairs. The Company is obligated to conduct these activities at its own expense, and realizes profits or losses depending upon whether its costs of providing such services is less than the amount it receives from the Exchange, in which case the Company has a profit from acting as attorney-in-fact, or greater, in which case the Company has a loss from such activities. The Exchange, however, bears the financial responsibility for the payment of insurance losses, loss adjustment expenses, investment expenses, legal expenses, assessments, damages, licenses, fees, establishment of reserves and taxes. For the three years ended December 31, 1998, 1997 and 1996 the management fees were $489,147,394, $467,602,283 and $442,904,376, respectively.

A service arrangement fee of 7% is charged to the Exchange to compensate the Company for its management of non-affiliated assumed reinsurance business on behalf of the Exchange. Service agreement revenue from the management of non-affiliated assumed reinsurance business was $6,715,026, $5,015,192 and $5,069,140 in 1998, 1997 and 1996, respectively.

Effective September 1, 1997, the Company was reimbursed by the Exchange a portion of the service charges collected from policyholders as reimbursement for the costs incurred by the Company in providing extended payment terms on policies written by the insurers managed by the Company. Service charge revenue amounted to $7,163,895 in 1998 and $2,011,181 in 1997.

The Company's subsidiary, Erie Insurance Co., has participated in a reinsurance pool with the Exchange since January 1, 1992 whereby Erie Insurance Co. transfers, or "cedes" to the Exchange all of its direct premiums written and the Exchange retrocedes to Erie Insurance Co. a 5% participation of the pooled business, which also includes all of the property and casualty insurance business of the Exchange. All premiums, losses, loss adjustment expenses and other underwriting expenses are prorated among the parties on the basis of their participation in the pool. The pooling agreement does not legally discharge Erie Insurance Co. from its primary liability for the full amount of the policies ceded. However, it makes the Exchange liable to Erie Insurance Co. to the extent of the business ceded. The pooling agreement provides that it may be amended or terminated at the end of any calendar year by agreement of the parties. Effective January 1, 1995, the pooling agreement was amended to provide that the Exchange's share of the pool be reduced from 95% to 94.5% and that Erie Insurance Co. and Erie NY have a 5.5% share of the pool. Prior to January 1, 1992, all property/casualty insurance business of Erie Insurance Co. was reinsured 100% with the Exchange under the terms of a quota share reinsurance treaty. Erie P&C and Flagship, a subsidiary of the Exchange, reinsure 100% of their property/casualty insurance business with the Exchange under the terms of quota share reinsurance treaties with the Exchange.

The Company and the Exchange periodically purchase annuities from EFL for use in connection with the structured settlement of insurance claims. The Company's share of such purchases, through its subsidiaries, Erie Insurance Co. and Erie NY, amounted to $983,574, $977,932 and $742,722 for the years ended December 31, 1998, 1997 and 1996, respectively, and the reserves held by EFL at December 31, 1998 for such annuities were approximately $7,061,011. In addition, the Erie Insurance Group Retirement Plan for Employees has, from time to time, purchased individual annuities from EFL for each retired vested employee or beneficiary receiving benefits. Such purchases amounted to $6,413,460, $1,992,060 and $4,894,042 for the years ended December 31, 1998, 1997 and 1996, respectively. The reserves held by EFL for all such annuities were approximately $41,834,220 at December 31, 1998.

On December 29, 1995, EFL issued a surplus note to the Company for $15 million. The note bears an annual interest rate of 6.45% and all payments of interest and principal of the note may be repaid only out of unassigned surplus of EFL and are subject to the prior approval of the Pennsylvania Insurance Commissioner. Interest on the surplus note is scheduled to be paid semi-annually. The note will be payable on demand on or after December 31, 2005. Payment of principal and/or interest is subordinated to payment of all other liabilities of EFL. During 1998 and 1997, EFL paid the Company interest totaling $967,500 in each year.

Information with respect to certain relationships with Company directors is incorporated by reference to page 22 of the Company's proxy dated April 1, 1999 relating to the annual meeting of shareholders to be held on April 27, 1999.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) Financial statements, financial statement schedules and exhibits filed:

(1) Consolidated Financial Statements

(2) Financial Statement Schedules

All other schedules have been omitted since they are not required, not applicable or the information is included in the financial statements or notes thereto.

* Refers to the respective page of Erie Indemnity Company's 1998 Annual Report to Shareholders. The Consolidated Financial Statements and Notes to Consolidated Financial Statements and Auditors' Report thereon on pages 40 to 56 are incorporated by reference. With the exception of the portions of such Annual Report specifically incorporated by reference in this Item and Items 1, 5, 6, 7 and 8, such Annual Report shall not be deemed filed as part of this Form 10-K Report or otherwise subject to the liabilities of Section 18 of the Securities Exchange Act of 1934.

(3) Exhibits

Exhibit Number	Description of Exhibit
3.1*	Articles of Incorporation of Registrant
3.2**	Amended and Restated By-laws of Registrant
3.3	Amended and Restated By-laws of Registrant dated March 9, 1999
4A*	Form of Registrant's Class A Common Stock certificate
4B*	Form of Registrant's Class B Common Stock certificate
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10.2***	Restatement of Supplemental Retirement Plan for Certain Members of the Erie Insurance Group Retirement Plan for Employees, effective as of January 1, 1990
10.3***	Deferred Compensation Plan of Registrant
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10.16****	Stock Redemption Plan of Registrant as restated December 12, 1995
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Exhibit Number	Description of Exhibit
11	Statement re computation of per share earnings
13	1998 Annual Report to Security Holders. Reference is made to the Annual Report furnished to the Commission, herewith.
21	Subsidiaries of Registrant
27	Financial Data Schedule
99.1	Report of the Special Committee to the Board of Directors

* Such exhibit is incorporated by reference to the like numbered exhibit in Registrant's Form 10 Registration Statement Number 0-24000 filed with the Securities and Exchange Commission on May 2, 1994.

** Such exhibit is incorporated by reference to the like numbered exhibit in Registrant's Form 10/A Registration Statement Number 0-24000 filed with the Securities and Exchange Commission on August 3, 1994.

*** Such exhibit is incorporated by reference to the like titled but renumbered exhibit in Registrant's Form 10 Registration Statement Number 0-24000 filed with the Securities and Exchange Commission on May 2, 1994.

**** Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-K annual report for the year ended December 31, 1995 that was filed with the Commission on March 25, 1996.

***** Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-K/A amended annual report for the year ended December 31, 1995 that was filed with the Commission on April 25, 1996.

****** Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-K annual report for the year ended December 31, 1996 that was filed with the Commission on March 21, 1997.

Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-K annual report for the year ended December 31, 1997 that was filed with the Commission on March 25, 1998.

(b) Reports on Form 8-K:

During the quarter ended December 31, 1998, Registrant did not file any reports on Form 8-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 9, 1999 ERIE INDEMNITY COMPANY
(Registrant)

Principal Officers

/s/ Stephen A. Milne
Stephen A. Milne, President and CEO

/s/ Jan R. Van Gorder
Jan R. Van Gorder, Executive Vice President, Secretary & General Counsel

/s/ Philip A. Garcia
Philip A. Garcia, Executive Vice President & CFO

/s/ Timothy G. NeCastro
Timothy G. NeCastro, Senior Vice President & Controller

Board of Directors

/s/ Peter B. Bartlett Peter B. Bartlett	Edmund J. Mehl
/s/ Samuel P. Black, III Samuel P. Black, III	/s/ Stephen A. Milne Stephen A. Milne
/s/ J. Ralph Borneman J. Ralph Borneman	/s/ John M. Petersen John M. Petersen
/s/ Patricia A. Goldman Patricia A. Goldman	/s/ Jan R. Van Gorder Jan R. Van Gorder
Susan Hirt Hagen	/s/ Harry H. Weil Harry H. Weil
/s/ F. William Hirt F. William Hirt	

INDEPENDENT AUDITORS' REPORT

To The Board of Directors and Shareholders
Erie Indemnity Company

We have audited the consolidated statements of financial position of Erie Indemnity Company and subsidiaries (Company) as of December 31, 1998 and 1997 and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1998, as contained in the 1998 annual report, incorporated by reference in the annual report on Form 10-K for the year ended December 31, 1998. In connection with our audits of the financial statements, we also have audited the financial statement schedules, as listed in the accompanying index. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Erie Indemnity Company and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles. Also in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ Brown Schwab Bergquist & Co.

Erie, Pennsylvania
February 16, 1999

SCHEDULE I - SUMMARY OF INVESTMENTS OTHER THAN INVESTMENTS IN RELATED PARTIES

	DECEMBER 31, 1998		
Type of Investment	Cost or Amortized Cost	Fair Value	Amount at which Shown in the Balance Sheet
(In Thousands)			
Available-for-Sale Securities			
Common Stocks			
U.S. Industrial and Miscellaneous	$ 57,436	$ 87,051	$ 87,051
Foreign Industrial and Miscellaneous	3,186	3,179	3,179
Non-Redeemable Preferred Stocks			
U.S. Banks, Trusts and Insurance Companies	42,807	45,338	45,338
U.S. Industrial and Miscellaneous	59,858	60,463	60,463
Foreign Industrial and Miscellaneous	6,690	6,773	6,773
Fixed Maturities			
U.S. Treasuries & Government Agencies	13,018	13,707	13,707
Foreign Governments	1,990	1,809	1,809
Obligations of State and Political Subdivisions	48,307	51,599	51,599
Special Revenues	132,025	139,236	139,236
Public Utilities	13,116	13,416	13,416
U.S. Industrial and Miscellaneous	195,296	203,695	203,695
Foreign Industrial and Miscellaneous	5,159	5,238	5,238
Redeemable Preferred Stocks	12,191	12,653	12,653
Total Available-for-Sale Securities	$ 591,079	$ 644,157	$ 644,157
Real Estate Mortgage Loans	$ 8,287	$ 8,287	$ 8,287
Other Invested Assets	17,493	17,494	$ 17,494
Total Investments	$ 616,859	$ 669,938	$ 669,938

SCHEDULE IV - REINSURANCE

	Direct	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percentage of amount Assumed to Net
December 31,1998					
Premiums for the year					
Property and Liability Insurance	$338,162,409	$343,051,100	$117,828,137	$112,939,446	104.3%
December 31,1997					
Premiums for the year					
Property and Liability Insurance	$334,771,551	$340,165,100	$112,743,217	$107,349,668	105.0%
December 31,1996					
Premiums for the year					
Property and Liability Insurance	$321,735,580	$324,617,961	$104,392,140	$101,509,759	102.8%

SCHEDULE VI - SUPPLEMENTAL INFORMATION CONCERNING PROPERTY/CASUALTY INSURANCE OPERATIONS

(In Thousands)	Deferred Policy Acquisition Costs	Reserves for Unpaid Loss & LAE Expenses	Discount, if any deducted from reserves *	Unearned Premiums
@ 12/31/98				
Consolidated P&C Entities	$ 10,863	$426,165	$ 1,562	$229,057
Unconsolidated P&C Entities	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0
Total	$ 10,863	$426,165	$ 1,562	$229,057
@ 12/31/97				
Consolidated P&C Entities	$ 10,283	$413,409	$ 0	$219,211
Unconsolidated P&C Entities	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0
Total	$ 10,283	$413,409	$ 0	$219,211
@ 12/31/96				
Consolidated P&C Entities	$ 9,541	$386,425	$ 0	$216,938
Unconsolidated P&C Entities	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0
Total	$ 9,541	$386,425	$ 0	$216,938

* Worker's compensation incurred but not reported (IBNR) loss and loss adjustment expenses were discounted at 2.5% in 1998.

SCHEDULE VI - SUPPLEMENTAL INFORMATION CONCERNING PROPERTY-CASUALTY INSURANCE OPERATIONS (CONTINUED)

(In Thousands)	Earned Premiums	Net Investment Income	Loss and Loss Adjustment Expenses Incurred Related to (1) Current Year	(2) Prior Years
@ 12/31/98				
Consolidated P&C Entities	$112,939	$ 16,887	$ 80,637	$ (746)
Unconsolidated P&C Entities	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0
Total	$112,939	$ 16,887	$ 80,637	$ (746)
@ 12/31/97				
Consolidated P&C Entities	$107,350	$ 13,569	$ 77,345	$ 2,625
Unconsolidated P&C Entities	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0
Total	$107,350	$ 13,569	$ 77,345	$ 2,625
@ 12/31/96				
Consolidated P&C Entities	$101,510	$ 11,032	$ 85,311	$ (240)
Unconsolidated P&C Entities	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0
Total	$101,510	$ 11,032	$ 85,311	$ (240)

SCHEDULE VI - SUPPLEMETAL INFORMATION CONCERNING PROPERTY-CASUALTY INSURANCE OPERATIONS (CONTINUED)

(In Thousands)	Amortization of Deferred Policy Acquisition Costs	Net Loss & LAE Paid	Premiums Written
@ 12/31/98			
Consolidated P&C Entities	$ 21,357	$ 77,933	$115,094
Unconsolidated P&C Entities	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0
Total	$ 21,357	$ 77,933	$115,094
@ 12/31/97			
Consolidated P&C Entities	$ 20,103	$ 75,343	$110,282
Unconsolidated P&C Entities	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0
Total	$ 20,103	$ 75,343	$110,282
@ 12/31/96			
Consolidated P&C Entities	$ 18,909	$ 79,208	$105,020
Unconsolidated P&C Entities	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0
Total	$ 18,909	$ 79,208	$105,020

EXHIBIT INDEX

(Pursuant to Item 601 of Regulation S-K)

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11	Statement re computation of per share earnings	51
13	1998 Annual Report to Security Holders. Reference is made to the Annual Report furnished to the Commission, herewith.	52-104
21	Subsidiaries of Registrant	105
27	Financial Data Schedule	106
99.1	Report of the Special Committee to the Board of Directors	107-144

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AMENDMENT AND RESTATEMENT OF
BYLAWS

-- of --

ERIE INDEMNITY COMPANY

March 9, 1999

ARTICLE I

Offices

Section 1.01. Principal Office. The principal office of Erie Indemnity Company, a Pennsylvania business corporation, shall be located in the City of Erie, Pennsylvania.

ARTICLE II

Meetings of Shareholders

Section 2.01. Annual Meeting. The Annual Meeting of Shareholders shall be held each year, at a day and time fixed by the Board of Directors. At the Annual Meeting, the Shareholders then entitled to vote shall elect Directors and shall transact such other business as may properly be brought before the meeting. In elections for Directors, voting need not be by ballot, except upon demand made by a Shareholder entitled to vote at the election and before the voting begins.

Section 2.02. Special Meetings.

(a) Call of Special Meetings. Special meetings of the Shareholders may be called at any time by:

(1) the Chairman of the Board,

(2) the Chief Executive Officer,

(3) the Board of Directors,

(4) the Chairman of the Executive Committee, or

(5) Shareholders entitled to cast at least twenty percent (20%) of the votes that all Shareholders are entitled to cast at the particular meeting.

(b) Fixing of Time for Meeting. At any time, upon written request of any person who has called a special meeting, it shall be the duty of the

Secretary to fix the day and time of the meeting, which shall be held not more than 60 days after the receipt of the request. If the Secretary neglects or refuses to fix the day and time of the meeting, the person or persons calling the meeting may do so.

Section 2.03. Place of Meeting. The place of meeting for any Annual or Special Meeting of Shareholders of the corporation shall be at the principal office of the corporation, unless another place is designated by the Board of Directors in the notice of the meeting.

Section 2.04. Notice of Meeting.

(a) General Rule. Written notice of every meeting of the Shareholders stating the place, day and time of the meeting shall be given by, or at the direction of, the Secretary to each Shareholder of record entitled to vote at the meeting at least:

(1) ten days prior to the day named for a meeting called to consider a fundamental transaction under 15 Pa.C.S. Chapter 19; or

(2) five days prior to the day named for the meeting in any other case.

If the Secretary neglects or refuses to give notice of a meeting, the person or persons calling the meeting may do so. In the case of a Special Meeting of Shareholders, the notice shall specify the general nature of the business to be transacted.

(b) Manner of Giving Notice. Whenever written notice is required to be given to any Shareholder, it may be given either personally or by sending a copy thereof by first class or express mail, postage prepaid, or by telegram (with messenger service specified), telex or TWX (with answerback received) or courier service, charges, prepaid, or by telecopier, to the address (or to the telex, TWX, telecopier or telephone number) of the Shareholder appearing on the books of the corporation. If the notice is sent by mail, telegraph or courier service, it shall be deemed to have been given to the person entitled thereto when deposited in the United States mail or with a telegraph office or courier service for delivery to that person or, in the case of telex or TWX, when dispatched or, in the case of telecopier, when received.

(c) Adjourned Shareholder Meetings. When a meeting of Shareholders is adjourned, it shall not be necessary to give any notice of the adjourned meeting or of the business to be transacted at an adjourned meeting, other than by announcement at the meeting at which the adjournment is taken, unless the Board fixes a new record date for the adjourned meeting.

(d) Notice of Action by Shareholders on Bylaws. In the case of a meeting of Shareholders that has as one of its purposes action on the bylaws, written notice shall be given to each Shareholder that the purpose, or one of the purposes, of the meeting is to consider the adoption, amendment or repeal of the bylaws. There shall be included in, or enclosed with, the notice a copy of the proposed amendment or a summary of the changes to be effected thereby.

Section 2.05. Quorum.

(a) General Rule. A meeting of Shareholders of the corporation duly called shall not be organized for the transaction of business unless a quorum is present. The presence, in person or by proxy, of Shareholders entitled to cast at least a majority of the votes that all Shareholders are entitled to cast on a particular matter to be acted upon at the meeting shall constitute a quorum for the purposes of consideration and action on the matter. Shares of the corporation owned, directly or indirectly, by it and controlled, directly or indirectly, by the Board of Directors of this corporation, as such, shall not be counted in determining the total number of outstanding shares for quorum purposes at any given time.

(b) Withdrawal of a Quorum. The Shareholders present at a duly organized meeting can continue to do business until adjournment, notwithstanding the withdrawal of enough Shareholders to leave less than a quorum.

(c) Adjournment for Lack of Quorum. If a meeting cannot be organized because a quorum has not attended, those present may, except as provided in the Business Corporation Law, adjourn the meeting to such time and place as they may determine.

(d) Adjournments Generally. Any meeting at which Directors are to be elected shall be adjourned only from day to day, or for such longer periods not exceeding 15 days each as the Shareholders present and entitled to vote shall direct, until the Directors have been elected. Any other regular or special meeting may be adjourned for such period as the Shareholders present and entitled to vote shall direct.

Section 2.06. Informal Action by Shareholders. Any action required or permitted to be taken at a meeting of the Shareholders or of a class of Shareholders may be taken without a meeting if, prior or subsequent to the action, a consent or consents thereto by all of the Shareholders who would be entitled to vote at a meeting for such purpose shall be filed in writing with the Secretary of the corporation.

Section 2.07. Waiver of Notice. Whenever any written notice is required to be given to any Shareholder, a waiver thereof in writing signed by the Shareholder entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of the notice. Attendance of a person at any meeting shall constitute a waiver of notice of the meeting except where a person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting was not lawfully called or convened.

Section 2.08. Voting and Other Action by Proxy.

(a) General Rule.

(1) Every Shareholder entitled to vote at a meeting of

Shareholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person to act for the Shareholder by proxy.

(2) The presence of, or vote or other action at a meeting of Shareholders, or the expression of consent or dissent to corporate action in writing, by a proxy of a Shareholder shall constitute the presence of, or vote or action by, or written consent or dissent of the Shareholder.

(3) Where two or more proxies of a Shareholder are present, the corporation shall, unless otherwise expressly provided in the proxy, accept as the vote of all shares represented thereby the vote cast by a majority of them and, if a majority of the proxies cannot agree whether the shares represented shall be voted or upon the manner of voting the shares, the voting of the shares shall be divided equally among those persons.

(b) Minimum Requirements. Every proxy shall be executed in writing by the Shareholder or by the duly authorized attorney-in-fact of the Shareholder and filed with the Secretary of the corporation. A proxy, unless coupled with an interest, shall be revocable at will, notwithstanding any other agreement or any provision in the proxy to the contrary, but the revocation of a proxy shall not be effective until written notice thereof has been given to the Secretary of the corporation. An unrevoked proxy shall not be valid after three years from the date of its execution unless a longer time is expressly provided therein. A proxy shall not be revoked by the death or incapacity of the maker unless, before the vote is counted or the authority is exercised written notice of the death or incapacity is given to the Secretary of the corporation.

(c) Expenses. Unless otherwise restricted in the articles, the corporation shall pay the reasonable expenses of solicitation of votes, proxies or consents of Shareholders by or on behalf of the Board of Directors or its nominees for election to the Board, including solicitation by professional proxy solicitors and otherwise.

Section 2.09. Voting by Fiduciaries and Pledgees. Shares of the corporation standing in the name of a trustee or other fiduciary and shares held by an assignee for the benefit of creditors or by a receiver may be voted by the trustee, fiduciary, assignee or receiver. A shareholder whose shares are pledged shall be entitled to vote the shares until the shares have been transferred into the name of the pledgee, or a nominee of the pledgee, but nothing in this section shall affect the validity of a proxy given to a pledgee or nominee.

Section 2.10. Voting by Joint Holders of Shares.

(a) General Rule. Where shares of the corporation are held jointly or as tenants in common by two or more persons, as fiduciaries or otherwise:

(1) if only one or more of such persons is present in person or by proxy, all of the shares standing in the names of such persons

shall be deemed to be represented for the purpose of determining a quorum and the corporation shall accept as the vote of all the shares the vote cast by a joint owner or a majority of them; and

(2) if the persons are equally divided upon whether the shares held by them shall be voted or upon the manner of voting the shares, the voting of the shares shall be divided equally among the persons without prejudice to the rights of the joint owners or the beneficial owners thereof among themselves.

(b) Exception. If there has been filed with the Secretary of the corporation a copy, certified by an attorney-at-law to be correct, of the relevant portions of the agreement under which the shares are held or the instrument by which the trust or estate was created or the order of court appointing them or of an order of court directing the voting of the shares, the persons specified as having such voting power in the document latest in date of operative effect so filed, and only those persons, shall be entitled to vote the shares but only in accordance therewith.

Section 2.11. Voting by Corporations.

(a) Voting by Corporate Shareholders. Any corporation that is a Shareholder of this corporation may vote by any of its officers or agents, or by proxy appointed by any officer or agent, unless some other person, by resolution of the Board of Directors of the other corporation or a provision of its articles or bylaws, a copy of which resolution or provision certified to be correct by one of its officers has been filed with the Secretary of this corporation, is appointed its general or special proxy in which case that person shall be entitled to vote the shares.

(b) Controlled Shares. Shares of this corporation owned, directly or indirectly, by it and controlled, directly or indirectly, by the Board of Directors of this corporation, as such, shall not be voted at any meeting and shall not be counted in determining the total number of outstanding shares for voting purposes at any given time.

Section 2.12. Determination of Shareholders of Record.

(a) Fixing Record Date. The Board of Directors may fix a time prior to the date of any meeting of Shareholders as a record date for the determination of the Shareholders entitled to notice, or to vote at, the meeting, which time, except in the case of an adjourned meeting, shall be not more than 90 days prior to the date of the meeting of Shareholders. Only Shareholders of record on the date fixed shall be so entitled notwithstanding any transfer of shares on the books of the corporation after any record date fixed as provided in this subsection. The Board of Directors may similarly fix a record date for the determination of Shareholders of record for any other purpose. When a determination of Shareholders of record has been made as provided in this section for purposes of a meeting, the determination shall apply to any adjournment thereof unless the Board fixes a new record date for the adjourned meeting.

(b) Determination When a Record Date is not Fixed. If a record date is not fixed:

(1) The record date for determining Shareholders entitled to notice of or to vote at a meeting of Shareholders shall be at the close of business on the day next preceding the day on which notice is given or, if notice is waived, at the close of business on the day immediately preceding the day on which the meeting is held.

(2) The record date for determining Shareholders entitled to express consent or dissent to corporate action in writing without a meeting, when prior action by the Board of Directors is not necessary, shall be the close of business on the day on which the first written consent or dissent is filed with the Secretary of the corporation.

(3) The record date for determining Shareholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

Section 2.13. Voting Lists.

(a) General Rule. The officer or agent having charge of the transfer books for shares of the corporation shall make a complete list of the Shareholders entitled to vote at any meeting of Shareholders, arranged in alphabetical order, with the address of and the number of shares held by each. The list shall be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any Shareholder during the whole time of the meeting for the purposes thereof.

(b) Effect of List. Failure to comply with the requirements of this section shall not affect the validity of any action taken at a meeting prior to a demand at the meeting by any Shareholder entitled to vote thereat to examine the list. The original share register or transfer book, or a duplicate thereof kept in this Commonwealth, shall be prima facie evidence as to who are the Shareholders entitled to examine the list or share register or transfer book or to vote at any meeting of Shareholders.

Section 2.14. Judges of Election.

(a) Appointment. In advance of any meeting of Shareholders of the corporation, the Board of Directors may appoint Judges of Election, who need not be Shareholders, to act at the meeting or any adjournment thereof. If Judges of Election are not so appointed, the presiding officer of the meeting may, and on the request of any Shareholder shall, appoint Judges of Election at the meeting. The number of Judges shall be one or three. A person who is a candidate for office to be filled at the meeting shall not act as a Judge.

(b) Vacancies. In case any person appointed as a Judge fails to appear or fails or refuses to act, the vacancy may be filled by appointment made by the Board of Directors in advance of the convening of the meeting or at the meeting by the presiding officer thereof.

(c) Duties. The Judges of Election shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, the authenticity, validity and effect of proxies, receive votes or ballots, hear and determine all challenges and questions in any way arising in connection with the right to vote, count and tabulate all votes, determine the result and do such acts as may be proper to conduct the election or vote with fairness to all Shareholders. The Judges of Election shall perform their duties impartially, in good faith, to the best of their ability and as expeditiously as is practical. If there are three Judges of Election, the decision, act or certificate of a majority shall be effective in all respects as the decision, act or certificate of all.

(d) Report. On request of the presiding officer of the meeting, or of any Shareholder, the Judges shall make a report in writing of any challenge or question or matter determined by them, and execute a certificate of any fact found by them. Any report or certificate made by them shall be prima facie evidence of the facts stated therein.

ARTICLE III

Directors

Section 3.01. General Powers. All powers vested by law in the corporation shall be exercised by or under the authority of, and the business and affairs of the corporation shall be managed under the direction of, the Board of Directors.

Section 3.02. Number, Tenure and Qualifications. The Board of Directors shall consist of not less than seven (7), nor more than sixteen (16), Directors (the exact number to be fixed from time to time by resolution of the Board), the majority of whom shall be citizens and residents of the United States, each of whom shall be at least eighteen (18) years of age, elected at the Annual Meeting of Shareholders, to serve until the ensuing Annual Meeting and until a successor is elected and qualified or until his or her earlier death, resignation or removal. Not less than one-third of the Directors shall be persons who are not officers or employees of the corporation or of any entity controlling, controlled by, or under common control with the corporation and who are not beneficial owners of a controlling interest in the voting securities of the corporation. "Control," "controlling," "controlled by" and "under common control with" as used herein, shall be given those meanings prescribed by Section 1201 of Pennsylvania Act 178 of 1992 (40 P.S. ss.991.1401). No person who is seventy (70) years of age or older shall be elected a Director unless already a Director in office and qualifying under one or more of the following exceptions if such person is: (a) seventy-five (75) years of age or older on the date of the 1990 Annual Meeting; or (b) under seventy-five (75) years of age on the date of the 1990 Annual Meeting, provided however, that such person cannot continue to serve beyond the end of the term in which becoming seventy-five (75) years of age; or (c) seventy (70) years of age or older and serving as a Trustee of the H. O. Hirt Trust, so long as the Trust holds the majority Class B, or equivalent, voting shares of the corporation; or (d) seventy (70) years of age or older and serving, or previously served, in at least one of the two highest full-time executive positions of the corporation for a period of at least one (1) year.

Section 3.03. Meetings. The Annual Meeting of the Board of Directors shall be held immediately after the Annual Meeting of Shareholders for the purpose of organization and the election of officers, and notice thereof shall be given in the same manner as hereinbefore provided in the case of the Annual Meeting of Shareholders. The Board of Directors shall provide, by resolution, for the holding of at least four (4) regular meetings including the annual meeting on specified days or dates without notice. Special meetings of the Board of Directors may be called by or at the request of the Chairman of the Board or by the President, or by at least three (3) Directors. Written notice of every special meeting of Directors stating the place, day and time of the meeting shall be given not less than five (5) days before the meeting, either personally or by first class or express mail or by telegraph, telex or TWX (with answerback received) or courier services, charges prepaid, or by telecopier. If the notice is sent by mail, telegraph or courier service, it shall be deemed to have been given to the person entitled thereto when deposited in the United States mail or with a telegraph office or courier service for delivery to that person or, in the case of telex or TWX, when dispatched or, in the case of telecopier, when received.

Section 3.04. Waiver of Notice. Whenever any written notice is required to be given to any Director, a waiver thereof in writing signed by the Director entitled to the notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of the notice. Attendance of a person at any meeting shall constitute a waiver of notice of the meeting except where a person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting was not lawfully called or convened.

Section 3.05. Quorum. A majority of the Directors in office of the corporation shall be necessary to constitute a quorum for the transaction of business; provided, however, that a quorum shall consist of at least five (5) Directors if the Board consists of only seven (7) Directors. At least one Director who is not an officer of employee of the corporation or of any entity controlling, controlled by or under common control with the corporation and who is not a beneficial owner of a controlling interest in the voting securities of the corporation must be present for a quorum of Directors. The acts of a majority of the directors present and voting at a meeting at which a quorum is present shall be the acts of the Board of Directors.

Section 3.06. Limiting Liability of Directors.

A. A Director of the corporation shall stand in a fiduciary relation to the corporation and shall perform his duties as a Director, including his duties as a member of any committee of the Board of Directors upon which he may serve, in good faith, in a manner he reasonably believes to be in the best interest of the corporation, and with such care, including reasonable inquiry, skill and diligence, as a person of ordinary prudence would use under similar circumstances. In performing his duties, a Director shall be entitled to rely in good faith on information, opinions, reports or statements, including financial statements and other financial data, in each case prepared or presented by any of the following:

(1) One or more officers or employees of the corporation whom the Director reasonably believes to be reliable and competent in the matters present, or

(2) Counsel, public accountants or other persons as to matters which the Director reasonably believes to be within the professional or expert competence of such persons, or

(3) A committee of the Board of Directors upon which he does not serve, duly designated in accordance with law, as to matters within its designated authority, which committee the Director reasonably believes to merit confidence.

A Director shall not be considered to be acting in good faith if he has knowledge concerning the matter in question that would cause his reliance to be unwarranted.

B. In discharging the duties of their respective positions, the Board of Directors, committees of the Board of Directors and individual Directors, may, in considering the best interest of the corporation, consider the effects of any action upon employees, upon suppliers and customers of the corporation and upon communities in which offices or other establishments of the corporation are located, and all other pertinent factors. The consideration of these factors shall not constitute a violation of subsection A of this section.

C. Absent breach of fiduciary duty, lack of good faith or self-dealing, any action taken as a Director or any failure to take any action as a Director shall be presumed to be in the best interests of the corporation.

D. Section 1715 of 15 Pa.C.S. shall not be applicable to the corporation. (Added 4/27/91.)

E. A Director of the corporation shall not be personally liable for monetary damages as such for any action taken, or any failure to take any action, unless:

(1) The Director has breached or failed to perform his duties of his office under subsections A through C of this section, and

(2) The breach or failure to perform constitutes self-dealing, willful misconduct or recklessness.

F. The provisions of subsection E of this section shall not apply to:

(1) The responsibility or liability of a Director pursuant to any criminal statute, or

(2) The liability of a Director for the payment of taxes pursuant to local, state or federal law.

Section 3.07. Executive Committee.

(a) General Rule. There shall be an Executive Committee which, except as provided in subsection (b), shall have and exercise all power and authority of the Board of Directors between meetings of the Board. The Executive Committee shall consist of not fewer than three (3) regular members including the Chief Executive Officer of the corporation who shall be Chairman of the Executive Committee, unless another member shall be designated by resolution of the Board. All of the regular members shall be designated by resolution of the Board. Not less than one-third of the committee must be Directors who are not officers or employees of the corporation or of any entity controlling, controlled by, or under common control with the corporation and who are not beneficial owners of a controlling interest in the voting securities of the corporation. The Executive Committee shall meet at any time and place designated and at least six hours oral or written notice given by or on behalf of the Chairman of the Executive Committee, and shall report promptly to the entire Board of Directors the substance of any action taken by the Executive Committee, which action may be changed by the Board without prejudice to intervening rights.

(b) Limitation on Authority. The Executive Committee shall not have any power or authority as to the following:

(1) The submission to Shareholders of any action requiring approval of Shareholders under the Business Corporation Law.

(2) The creation or filling of vacancies in the Board of Directors.

(3) The adoption, amendment or repeal of these bylaws.

(4) The amendment or repeal of any resolution of the Board that by its terms is amendable or repealable only by the Board.

(5) Action on matters committed by a resolution of the Board of Directors to another committee of the Board.

Section 3.08. Audit Committee and Audit.

(a) Appointment. The Board of Directors shall appoint annually an Audit Committee which shall consist of not less than three (3) Directors who are not officers or employees of the corporation or of any entity controlling, controlled by, or under common control with the corporation and who are not beneficial owners of a controlling interest in the voting securities of the corporation. The Audit Committee shall determine the nature and extent of the audit of the records and of the verification and certification of the accounts of the corporation, and not later than at the last meeting of the Board in a calendar year, shall recommend to the Board the engagement and compensation of an independent Certified Public Accountant or firm of such accountants to audit the said records and certify the said accounts for the ensuing calendar year. In making said audit, verification and certification, said accountant or firm shall be under the direction of the Audit Committee and shall be responsible to and shall report to the Board of Directors and not to the officers of the corporation. The Chief Executive Officer and the President, if not also the Chief Executive Officer, shall be non-voting, ex-officio members of the Audit Committee.

(b) Audit. The Audit Committee shall present the audit in full to the Board of Directors at a meeting of the Board which shall be held at least two weeks prior to the next Annual Meeting of Shareholders. The audit of the corporation need not be mailed to Shareholders, but it shall be available for inspection by any Shareholders at the office of the corporation during usual business hours and at the Annual Meeting.

Section 3.09. Nominating Committee. The Board of Directors shall appoint annually a Nominating Committee which shall consist of not less than three (3) Directors who are not officers or employees of the corporation or of any entity controlling, controlled by, or under common control with the corporation and who are not beneficial owners of a controlling interest in the voting securities of the corporation. The Nominating Committee shall, prior to the annual meeting, determine and nominate candidates for the office of Director of the corporation to be elected by the shareholders to serve terms as established by the bylaws and until their successors are appointed.

Section 3.10. Executive Compensation Committee. The Board of Directors shall appoint annually an Executive Compensation committee which shall consist of not less than three (3) Directors who are not officers or employees of the corporation or of any entity controlling, controlled by, or under common control with the corporation and who are not beneficial owners of a controlling interest in the voting securities of the corporation. The Executive Compensation Committee shall be responsible for evaluating the performance of the principal officers of the corporation and recommending to the Board of Directors the selection and compensation of the principal officers. The Executive Compensation Committee shall also be responsible for the drafting of reports, disclosures, evaluations and other documents relating to executive compensation for filing with State and Federal regulatory authorities.

Section 3.11. Alternate Committee Members. The Board of Directors may designate one or more Directors as alternate members of any committee who may replace any absent or disqualified member at any meeting of the committee or for the purpose of any written action by the committee. In the absence or disqualification of a member and alternate member or members of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint another Director to act at the meeting in the place of the absent or disqualified member.

Section 3.12. Other Committees. The Board of Directors may designate from time to time any other committees as the Board may deem necessary and appropriate. The Board may set the number of members of any such committee and may appoint such members. Not less than one-third of any committee created hereunder must be Directors who are not officers or employees of the corporation or of any entity controlling, controlled by, or under common control with the corporation and who are not beneficial owners of a controlling interest in the voting securities of the corporation.

Section 3.13. Informal Action by Directors. Any action required or permitted to be taken at a meeting of the Directors may be taken without a meeting if, prior or subsequent to the action, a consent or consents thereto by all of the Directors in office is filed with the Secretary of the corporation. Any action without a meeting of the Board shall be limited to those situations where time is of the essence and not in lieu of a regularly scheduled meeting.

Section 3.14. Vacancies. Vacancies in the Board of Directors, including vacancies resulting from an increase in the number of Directors, may be filled by a majority vote of the remaining members of the Board though less than a quorum, or by a sole remaining Director, and each person so selected shall be a director to serve for the balance of the unexpired term, and until a successor has been selected and qualified or until his or her earlier death, resignation or removal.

Section 3.15. Removal of Directors.

(a) Removal by the Shareholders. The entire Board of Directors, or any class of the Board, or any individual Director may be removed from office without assigning any cause by the vote of Shareholders, or of the holders of a class or series of shares, entitled to elect Directors, or the class of Directors. In case the Board or a class of the Board or any one or more Directors are so removed, new Directors may be elected at the same meeting. The Board of Directors may be removed at any time with or without cause by the unanimous vote or consent of Shareholders entitled to vote thereon.

(b) Removal by the Board. The Board of Directors may declare vacant the office of a Director who has been judicially declared of unsound mind or who has been convicted of an offense punishable by imprisonment for a term of more than one year or if, within 60 days after notice of his or her selection, the Director does not accept the office either in writing or by attending a meeting of the Board of Directors.

Section 3.16. Compensation. The Board of Directors has the responsibility and authority to determine the compensation of directors and officers elected by the Board of Directors in connection with their service to the corporation and a Director may be a salaried officer of the corporation, who shall not receive any additional compensation as a Director. The acceptance of gifts of significant value from persons associated with the corporation may impair the ability of the Board of Directors to establish appropriate levels of compensation and incentives for directors and officers elected by the Board of Directors that the Board considers appropriate. For these reasons, a director or an officer elected by the Board of Directors may not accept, or arrange for any member of his or her immediate family to receive, gifts or gratuities of other than nominal or insignificant value from any of the following persons or members of their immediate families: a director or officer elected by the Board of Directors, an employee of the corporation, or any person elected by the Board of Directors who is known to be a beneficial owner of more than 5 percent of the outstanding capital stock of any class of the corporation. If a gift or gratuity of more than nominal or insignificant value is received from any such persons, the gift or gratuity must be returned and the Board of Directors notified. Gifts or gratuities from any person to any member of the immediate family of such person are not prohibited by this bylaw.

ARTICLE IV

Officers

Section 4.01. Number. The officers of the corporation shall be a Chairman of the Board, a President, a Secretary, a Treasurer, and as many

Executive Vice Presidents, and Senior Vice Presidents as from time to time may be determined by the Board of Directors. The President, Secretary and Treasurer may not be the same person. The Treasurer must be a natural person. There shall also be as many Vice Presidents and Assistant Officers as from time to time may be determined by the Chief Executive Officer. Other officers, including the office of Vice Chairman of the Board, as from time to time may be determined may be added by resolution of the Board of Directors.

Section 4.02. Election, Appointment and Term of Office. The Board of Directors shall elect annually at their first meeting following the Annual Meeting of Shareholders, the following officers to serve until the next Annual Meeting of Directors and until their successors are duly elected and qualified or until their earlier death, resignation or removal:

(1) the three highest paid officers of the corporation,

(2) the Chairman of the Board and the President if they are not among the three highest paid officers, and

(3) such other officers as the Board of Directors from time to time may designate by resolution.

All officers not required to be elected by the Board or not designated by the Board to be elected by the Board shall be appointed by the Chief Executive Officer to serve at his or her pleasure.

Section 4.03. Standard of Care. An officer of the corporation shall perform his or her duties as an officer in good faith, in a manner he or she reasonably believes to be in the best interests of the corporation and with such care, including reasonable inquiry, skill and diligence, as a person of ordinary prudence would use under similar circumstances. A person who so performs his or her duties shall not be liable by reason of having been an officer of this corporation.

Section 4.04. Duties and Responsibilities. Officers of the corporation shall have the duties and responsibilities assigned to them in their respective position descriptions approved by the Chief Executive Officer in addition to the following duties and responsibilities of the various offices:

(a) Chairman of the Board. The Chairman of the Board shall be the Chief Executive Officer of the corporation unless otherwise provided by resolution of the Board of Directors and shall have general supervision of the business, affairs and property of the corporation and over its several officers. The Chairman of the Board shall preside at all meetings of the Shareholders and of the Board of Directors, and shall perform such other duties as from time to time may be assigned by the Board of Directors. The Chairman of the Board shall be ex-officio member of all committees, if any, but shall have no vote on the Audit Committee and the Executive Compensation Committee.

(b) President. The President, in the absence of the Chairman of the Board, or a Vice Chairman of the Board, if any, shall preside at all meetings of the Shareholders and the Board of Directors. The President shall have and exercise all the powers and authority of the Chairman of the Board when the Chairman and a Vice Chairman, if any, are absent or unable to act during a vacancy in the office of the Chairman of the Board. The President shall also have such other duties and responsibilities as from time to time may be assigned by the Chief Executive Officer or the Board of Directors.

(c) Secretary. The Secretary, or an Assistant Secretary, shall be present at all meetings of the Board of Directors and of the Shareholders, and the Secretary shall keep a record of all proceedings of the Board and its committees and the Shareholders. The Secretary shall notify the Shareholders and members of the Board of all regular and special meetings, have charge of the corporate seal and of the books and records of the corporation pertaining to actions of the Board or the Shareholders, and shall have such other duties and authority as prescribed by the Pennsylvania Business Corporation Law and any other applicable law. The Secretary shall also perform such duties as are customary and incident to the office of the Secretary and shall have such other duties as from time to time may be assigned by the Chief Executive Officer or the Board of Directors.

(d) Treasurer. The Treasurer shall have the care and custody of all funds and securities of the corporation, depositing the same in the name of the corporation with such bank or banks as the Board of Directors may select. The Treasurer shall also perform such duties as are customary and incident to the office of Treasurer and shall have such other duties as from time to time may be assigned by the Chief Executive Officer or the Board of Directors.

(e) Executive Vice Presidents. An Executive Vice President shall, in the absence of the President, perform all the duties of the President. If there is more than one Executive Vice President, the Chief Executive Officer may designate one of them to be senior. Executive Vice Presidents shall also have such other duties and responsibilities as from time to time may be assigned by the Chief Executive Officer or the Board of Directors.

(f) Senior Vice Presidents, Vice Presidents, Assistant Vice Presidents and Other Officers. Senior Vice Presidents, Vice Presidents and Assistant Vice Presidents and other officers shall perform such duties as from time to time may be assigned by the Chief Executive Officer. The duties and responsibilities of the Vice Chairman of the Board shall be assigned by resolution of the Board of Directors.

Section 4.05. Compensation. The compensation of officers elected by the Board of Directors shall be fixed by the Board of Directors subject to change from time to time as the Board may determine; and the compensation of officers, assistant officers, and agents appointed by the Chief Executive Officer shall be fixed by the Chief Executive Officer subject to change from time to time as the Chief Executive Officer shall determine.

ARTICLE V

Share Certificates and Their Transfer

Section 5.01. Share Certificates.

(a) Form. Certificates for shares of the corporation shall be in such form as approved by the Board of Directors, and shall state that the corporation is incorporated under the laws of Pennsylvania, the name of the person to whom issued, and the number and class of shares and the designation of the series (if any) that the certificate represents. The share register or transfer books and blank share certificates shall be kept by the Secretary or by any transfer agent or registrar designated by the Board of Directors for that purpose.

(b) Issuance. The share certificates of the corporation shall be numbered, dated, and registered in the share register on transfer books of the corporation as they are issued. They shall be signed by the Chairman of the Board or the President and by the Secretary or the Treasurer, and shall bear the corporate seal, which may be a facsimile, engraved or printed; but where such certificate is signed by a transfer agent or a registrar the signature of any corporate officer upon such certificate may be a facsimile, engraved or printed. In case any officer who has signed, or whose facsimile signature has been placed upon, any share certificate shall have ceased to be such officer because of death, resignation or otherwise, before the certificate is issued, it may be issued with the same effect as if the officer had not ceased to be such at the date of its issue. The provisions of this Section 5.01 shall be subject to any inconsistent or contrary agreement at the time between the corporation and any transfer agent or registrar.

Section 5.02. Transfer of Shares. Transfer of shares of the corporation shall be made on the books of the corporation by the registered holder thereof or by his attorney thereunto authorized by a power of attorney, duly executed and filed with the Secretary of the corporation and upon surrender for cancellation of the certificate or certificates for such shares. No transfer shall be made inconsistent with the provisions of the Uniform Commercial Code, 13 Pa.C.S. ss.ss.8101 et. seq., and its amendments and supplements.

Section 5.03. Record Holder of Shares. The corporation shall be entitled to treat the person in whose name any share or shares of the corporation stand on the books of the corporation as the absolute owner thereof, and shall not be bound to recognize any equitable or other claim to, or interest in, such share or shares on the part of any other person.

Section 5.04. Lost, Destroyed or Mutilated Certificates. The holder of any shares of the corporation shall immediately notify the corporation of any loss, destruction or mutilation of the certificate therefore, and the Secretary may, in his discretion, cause a new certificate or certificates to be issued to such holder, in case of mutilation of the certificate, upon the surrender of the mutilated certificate or, in case of loss or destruction of the certificate, upon satisfactory proof of such loss or destruction and, if the Secretary shall so determine, the deposit of a bond in such form and in such sum, and with such surety or sureties, as he may direct.

ARTICLE VI

Corporate Actions

Section 6.01. Voting Securities of Other Corporations. Securities held by the corporation in any other corporation shall be voted in person or by proxy by the Chief Executive Officer or any other person duly authorized by the Chief Executive Officer.

ARTICLE VII

Indemnification of Directors, Officers & Employees

Section 7.01. (The provisions of this Section were adopted by the Shareholders on April 28, 1987.)

The Company shall indemnify any Director, officer or employee, who was or is a party to, or is threatened to be made a party to or who is called as a witness in connection with any threatened, pending, or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, including an action by or in the right of the corporation by reason of the fact that he is or was a Director, officer or employee of the corporation, or is or was serving at the request of the corporation as a Director, officer or employee of another corporation, partnership, joint venture, trust or other enterprise, against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding unless the act or failure to act giving rise to the claim for indemnification is determined by a court to have constituted willful misconduct or recklessness.

The indemnification and advancement of expenses provided by, or granted pursuant to, this Article VII shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any bylaw, agreement, contract, vote of Shareholders, vote of disinterested Directors or pursuant to the direction, howsoever embodied, of any court of competent jurisdiction or otherwise, both as to action in his official capacity and as to action on another capacity while holding such office. It is the policy of the corporation that indemnification of, and advancement of expenses to, Directors, officers and employees of the corporation shall be made to the fullest extent permitted by law. To this end, the provisions of this Article VII shall be deemed to have been amended for the benefit of Directors, officers and employees of the corporation effective immediately upon any modification of the Business Corporation Law of the Commonwealth of Pennsylvania (the "BCL") or the Directors' Liability Act of the Commonwealth of Pennsylvania (the "DLA") which expands or enlarges the power or obligation of corporations organized under the BCL or subject to the DLA to indemnify, or advance expenses to, Directors, officers and employees of the corporation.

The corporation shall pay expenses incurred by an officer, Director or other employee, in defending a civil or criminal action, suit or proceeding in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such person to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the corporation.

The indemnification and advancement of expenses provided by, or granted pursuant to, this Article VII shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a Director, officer or employee and shall inure to the benefit of the heirs, executors and administrators of such person.

The corporation shall have the authority to create a fund of any nature, which may, but need not be, under the control of a trustee, or otherwise secure or insure in any manner, its indemnification obligations, whether arising under these Bylaws or otherwise. This authority shall include, without limitation, the authority to (i) deposit funds in trust or in escrow, (ii) establish any form of self-insurance, (iii) secure its indemnity obligation by grant of a security interest, mortgage or other lien on the assets of the corporation, or (iv) establish a letter of credit, guaranty or surety arrangement for the benefit of such persons in connection with the anticipated indemnification or advancement of expenses contemplated by this Article VII. The provision of this Article VII shall not be deemed to preclude the indemnification of, or advancement of expenses to, any person who is not specified in Section 7.01 of this Article VII, but whom the corporation has the power or obligation to indemnify, or to advance expenses for, under the provisions of the BCL or the DLA or otherwise. The authority granted by this section shall be exercised by the Board of Directors of the corporation.

Section 7.02. Proceedings Initiated by Indemnified Persons. Notwithstanding any other provision of this Article VII, the corporation shall not indemnify any person under this Article VII for any liability incurred in an action, suit or proceeding initiated (which shall not be deemed to include counterclaims or affirmative defenses) or participated in as an intervenor or amicus curiae by the person seeking indemnification unless such initiation of or participation in the action, suit or proceeding is authorized, either before or after its commencement, by the affirmative vote of a majority of the Directors in office. This section does not apply to successfully prosecuting or defending the rights of any person to indemnification granted by or pursuant to this Article VII.

ARTICLE VIII

Amendments

Section 8.01. Amendments. These bylaws may be altered, amended or repealed and new bylaws adopted, either (i) by vote of the Shareholders at any duly organized annual or special meeting of Shareholders, or (ii) with respect to those matters that are not by statute committed expressly to the Shareholders and regardless of whether the Shareholders have previously adopted or approved the bylaw being amended or repealed, by vote of a majority of the Board of Directors of the corporation in office at any regular or special meeting of Directors. Any change in these bylaws shall take effect when adopted unless otherwise provided in the resolution affecting the change.

I hereby certify that the foregoing Bylaws were adopted at the 46th Annual Meeting of Shareholders of the ERIE INDEMNITY COMPANY held on the 27th day of April 1971, and were amended at the following meetings: the 52nd Annual Meeting of Shareholders, April 26, 1977; the Special Shareholders Meeting, August 21, 1979; the 233rd Board of Directors Meeting, November 13, 1979; the 242nd Board of Directors Meeting, March 4, 1981; and 248th Board of Directors Meeting, August 24, 1982; the 62nd Annual Meeting of Shareholders, April 28, 1987; the 280th Board of Directors Meeting, April 24, 1990; by unanimous consent resolution adopted by the Board of Directors on April 27, 1991; the 288th Board of Directors Meeting, December 19, 1991; the 297th Board of Directors Meeting, September 27, 1993; and the 299th Board of Directors Meeting, March 1, 1994; the 313th Board of Directors Meeting, September 17, 1996; 320th Board of Directors Meeting, March 11, 1998, and the 325th Board of Directors Meeting, March 9, 1999.

/s/ J. R. Van Gorder

J. R. Van Gorder, Secretary

EXHIBIT 11. - STATEMENT RE COMPUTATION OF PER SHARE EARNINGS

	1998	1997	1996
Class A common shares outstanding (stated value $.0292)	$ 67,032,000	$ 67,032,000	$ 67,032,000
Class B common shares outstanding (stated value $70)	3,070	3,070	3,070
Conversion of Class B shares to shares (One share of Class B for 2,400 shares of Class A)	7,368,000	7,368,000	7,368,000
Total	74,400,000	74,400,000	74,400,000
Net income	$134,551,494	$118,581,190	$105,132,359
Per-share amount	$1.81	$1.59	$1.41

Note: At the Annual Meeting of the Company's shareholders held on May 1, 1996, the number of authorized shares of the Company's Class A Common Stock was increased pursuant to a vote of the shareholders and a three-for-one stock split was effected.

At the December 16, 1998 regular meeting of the board of directors of the Erie Indemnity Company, the board approved a stock repurchase plan beginning January 1, 1999, under which the Company may repurchase as much as $70 million of its outstanding Class A common stock through December 31, 2001. The Company may purchase the shares from time to time in the open market or by privately negotiated transactions, depending on prevailing market conditions and alternative uses of the Company's capital.

INCORPORATED BY REFERENCE, PAGE 19 OF THE COMPANY'S 1998 ANNUAL REPORT TO SHAREHOLDERS

Selected Consolidated Financial Data

	Years ended December 31				
	1998	1997	1996	1995	1994
	(dollars in thousands, except per share data)				
OPERATING DATA:					
Net revenue from management operations	$ 145,243	$ 134,201	$ 127,320	$ 111,276	$ 96,328
Underwriting gain (loss)	567	(2,259)	(11,579)	(3,738)	(8,250)
Total revenue from investment operations	50,547	42,978	36,307	30,473	16,939
Income before income taxes	196,357	174,920	152,048	138,011	105,017
Provision for income taxes	61,806	56,339	46,916	44,460	33,288
Net Income	$ 134,551	$ 118,581	$ 105,132	$ 93,551	$ 71,729
PER SHARE:					
Net income per share	$1.81	$1.59	$1.41	$1.26	$0.96
Dividends declared per Class A share (2)	$0.4425	$0.3925	$0.345	$0.28	$0.225
Dividends declared per Class B share	$66.375	$58.875	$51.75	$41.75	$33.75
FINANCIAL POSITION:					
Investments (1)	$ 709,417	$ 620,162	$ 484,784	$ 360,555	$255,449
Receivables from Exchange and affiliates	489,914	495,861	478,304	451,778	433,109
Total assets	1,453,432	1,293,440	1,150,639	1,022,432	869,531
Shareholders' equity	655,223	539,383	435,759	354,064	260,934
Book value per share (2)	$8.81	$7.25	$5.86	$4.76	$3.51

(1) Includes investment in Erie Family Life Insurance Company.
(2) All per share data has been adjusted to reflect the three-for-one stock split of Class A Common Stock effective May 2, 1996.

INCORPORATED BY REFERENCE, PAGE 36 OF THE COMPANY'S 1998 ANNUAL REPORT TO SHAREHOLDERS

Selected Market & Geographic Information

The Company's 5.5 percent share of direct premiums written by the Erie Insurance Exchange and affiliated insurers, under the intercompany reinsurance pooling agreement, through its subsidiaries, Erie Insurance Company and Erie Insurance Company of New York for each of the three years ended December 31, were as follows:

	Years Ended December 31		
	1998	1997	1996
	(in thousands)		
Premiums Written:			
District of Columbia	$ 242	$ 240	$ 210
Indiana	4,203	3,959	3,708
Maryland	13,025	12,905	12,278
New York	1,503	860	493
North Carolina	3,629	2,852	2,164
Ohio	8,381	7,937	7,674
Pennsylvania	64,473	63,488	60,159
Tennessee	1,311	1,113	914
Virginia	8,975	8,898	8,907
West Virginia	5,199	4,907	4,486
Total Premiums Written	$ 110,941	$ 107,159	$ 100,993
Reinsurance Assumed Premiums - Unaffiliated	5,762	4,452	5,135
Reinsurance Ceded Premiums - Unaffiliated	(1,608)	(1,329)	(1,108)
Net Premiums Written	$ 115,095	$ 110,282	$ 105,020

The following table sets forth the premiums written and loss and loss adjustment expense ratios by line of insurance for the Company's insurance subsidiaries prepared in accordance with statutory accounting practices prescribed or permitted by state insurance authorities, for the periods indicated.

	Years Ended December 31 1998	1997 (in thousands)	1996
Premiums Written:			
Commercial:			
Automobile	$ 7,611	$ 7,516	$ 7,156
Workers' Compensation	7,124	7,541	8,906
Commercial multi-peril	8,187	7,186	6,586
Other	2,227	2,414	2,303
Total Commercial	$ 25,149	$ 24,657	$ 24,951
Personal:			
Automobile	$ 68,954	$ 67,701	$ 62,933
Homeowners	15,841	13,851	12,201
Other	997	950	908
Total Personal	$ 85,792	$ 82,502	$ 76,042
Total Premiums Written	$ 110,941	$ 107,159	$ 100,993
Statutory Loss and Loss Adjustment Expense Ratios:			
Commercial:			
Automobile	65.6%	77.0%	83.9%
Workers' Compensation	56.0	52.1	36.8
Commercial multi-peril	68.4	65.6	82.2
Other	25.2	15.5	36.8
Commercial Loss Ratios	59.8%	59.7%	61.6%
Personal:			
Automobile	72.3%	81.0%	87.1%
Homeowners	67.3	65.3	114.8
Other	54.2	48.2	64.6
Personal Loss Ratios	71.2%	78.0%	91.2%
Total Loss Ratios (Excluding Unaffiliated Rein	68.6%	73.7%	83.7%

INCORPORATED BY REFERENCE, PAGES 20 AND 21 OF THE COMPANY'S ANNUAL REPORT TO SHAREHOLDERS

ERIE INDEMNITY COMPANY
Management's Discussion and
Analysis of Financial Condition and
Results of Operations

The following discussion and analysis should be read in conjunction with the audited financial statements and related notes found on pages 37 to 53 as they contain important information helpful in evaluating the Company's operating results and financial condition. (Note: A glossary of certain terms used in this discussion can be found on page 35, herein. Defined terms are italicized the first time they appear in the text.)

Overview

Erie Indemnity Company (the Company) is a Pennsylvania business corporation formed in 1925 to be the attorney-in-fact for Erie Insurance Exchange (the Exchange), a Pennsylvania-domiciled reciprocal insurance exchange. The Company's principal business activity consists of management of the affairs of the Exchange. Management fees received from the Exchange account for the majority of the Company's consolidated revenues. The Company also is engaged in the property/casualty insurance business through its wholly-owned subsidiaries, Erie Insurance Company, Erie Insurance Property & Casualty Company, and Erie Insurance Company of New York and through its management of Flagship City Insurance Company (Flagship), a subsidiary of the Exchange. The Company also has investments in both affiliated and unaffiliated entities, including a 21.63 percent common stock interest in Erie Family Life Insurance Company (EFL), an affiliated life insurance company. Together with the Exchange, the Company and its subsidiaries and affiliates operate collectively under the name Erie Insurance Group.

In its role as attorney-in-fact for the Policyholders of the Exchange, the Company may charge a management fee up to 25.0 percent of the affiliated assumed and direct premiums written by the Exchange. The Company=s Board of Directors has the authority to change the management fee at its discretion. The management fee is compensation for: (a) acting as attorney-in-fact for the Exchange, (b) managing the business and affairs of the Exchange, and (c) paying certain general administrative expenses, including sales commissions, salaries, Employee benefits, taxes, rent, depreciation, data processing expenses and other general and administrative expenses not incurred in the adjustment of losses or the management of investments. All premiums collected, less the management fee paid to the Company, are retained by the Exchange for the purpose of paying losses, loss adjustment expenses, investment expenses and other miscellaneous expenses including taxes, licenses and fees. The Company pays certain loss adjustment and investment expenses on behalf of the Exchange and is reimbursed fully for these expenses by the Exchange. The management fee rate charged the Exchange was set at the following rates:

January 1, 1995 to March 31, 1995	25.00 percent
April 1, 1995 to March 31, 1996	24.50 percent
April 1, 1996 to December 31, 1997	24.00 percent
January 1, 1998 to December 31, 1998	24.25 percent

The management fee rate was set by the Board at 25.0 percent for the period January 1, 1999 through December 31, 1999. In determining the management fee rate, the Company=s Board of Directors reviews the relative financial positions of the Erie Insurance Exchange and the Company and considers the long-term needs of the Exchange to ensure its continued growth, competitiveness, and superior financial strength, which ultimately benefits the Company.

The Company's wholly-owned subsidiary, Erie Insurance Company, participates in an intercompany pooling arrangement with the Exchange. This pooling arrangement provides for Erie Insurance Company to share proportionately in the results of all property/casualty insurance operations of the Exchange and the Company=s subsidiaries. Since the inception of this pooling arrangement on January 1, 1992, Erie Insurance Company's proportionate share of the reinsurance pool has been 5.0 percent.

INCORPORATED BY REFERENCE, PAGES 21 AND 22 OF THE COMPANY'S ANNUAL REPORT TO SHAREHOLDERS

On January 1, 1995, the Exchange began retroceding to the Erie Insurance Company of New York, a wholly-owned subsidiary of Erie Insurance Company, as part of the existing intercompany pooling arrangement, 0.5 percent of its total direct and assumed writings. Erie Insurance Company maintained its 5.0 percent participation in the pool which, when combined with the 0.5 percent participation of the Erie Insurance Company of New York, results in a 5.5 percent participation level for the Company owned affiliates since 1995.

The results of the Company's insurance operations are affected by the conditions that affect all property/casualty insurance companies, such as increased competition, catastrophic events, changes in the regulatory and legislative environments, and changes in general economic and investment conditions.

Result of Operations

Overview

Consolidated net income in 1998 was a record $134,551,494, or $1.81 per share, which exceeded the 1997 net income of $118,581,190, or $1.59 per share, by 13.5 percent. The 1998 results, when compared with the 1997 results, improved in all operating segments. Management operations improved in 1998 as the Exchange continued to experience written premium growth rates that exceeded industry growth rates. Insurance underwriting operations results improved as a result of loss cost severity-management programs introduced by the Company combined with a generally favorable claims environment and mild weather conditions. Revenues from investment operations improved as the Company's excess cash flows were reinvested. The 1997 net income exceeded the 1996 net income of $105,132,359, or $1.41 per share, by 12.8 percent. The 1997 results, when compared with 1996's results, improved in all operating segments. In the two prior years, the underwriting results of the Company's property/casualty insurance subsidiaries were affected negatively by severe winter weather in the first quarter of 1996 and losses related to Hurricane Fran in the third quarter of 1996.

Analysis of Management Operations

Net revenues from management operations rose 8.2 percent to $145,243,209 in 1998 from $134,200,893 in 1997 and 5.4 percent from $127,319,678 in 1996. Gross margins from management operations improved to 28.8 percent in 1998 compared to gross margins of 28.2 percent in 1997 and 28.3 percent in 1996.

Total revenues from management operations rose $28,574,661 for the year ended December 31, 1998, an increase of 6.0 percent. Management fee revenue derived from the direct premiums of the Exchange rose $21,545,111, or 4.6 percent, for the year ended December 31, 1998. The direct premiums of the Exchange grew 3.5 percent in 1998. The rate of growth in management fee revenue was greater than the rate of growth in direct premium of the Exchange because the management fee rate charged the Exchange in 1998 was 24.25 percent compared to 24.0 percent in 1997.

Several factors influenced the rate of growth in premiums written by the Exchange. First, the Exchange's involuntary automobile premiums have decreased over the last year as a result of fewer assignments from the Pennsylvania Assigned Risk Plan. Involuntary automobile business is written on substandard risks and historically has produced underwriting results much worse than the preferred risks voluntarily written by the Exchange. Second, the Exchange's overall premium growth was negatively influenced by rate reductions in Pennsylvania workers' compensation insurance driven by legislative reforms and competitive pressures in workers' compensation insurance in general. When the effect of workers' compensation and involuntary automobile insurance premium decrease is excluded, the direct premiums of the Exchange increased 4.7 percent for the twelve months ended December 31, 1998 when compared to the same period in 1997. Finally, severe rate pressures in the personal lines automobile market, which the Company believes will continue into 1999, affected the growth in premium. The Company has decreased private passenger automobile rates in several jurisdictions effective in 1999. The effect of these rating actions will reduce 1999 written premium by about $60 million which will adversely affect the growth in the management fee revenue of the Company in 1999.

Total revenues from management operations for the year ended December 31, 1997 grew $26,799,865 or 6.0 percent. The growth in direct premiums was 6.1 percent in 1997. The Exchange's overall premium growth was negatively influenced by rate reductions in Pennsylvania workers' compensation insurance driven by Pennsylvania legislative reforms. Total direct written premiums, excluding workers' compensation, increased 8.2 percent in 1997.

INCORPORATED BY REFERENCE, PAGES 22 AND 23 OF THE COMPANY'S ANNUAL REPORT TO SHAREHOLDERS

Service agreement revenue grew 97.5 percent to $13,878,922 in 1998 from $7,026,373 in 1997. Beginning September 1, 1997 the Company is being reimbursed by the Exchange for a portion of service charges collected by the property/casualty insurers of the Group from Policyholders to compensate for the costs incurred by the Company in providing extended payment terms on policies written by them. Service charges amounted to $7,163,895 and $2,011,181 in 1998 and 1997, respectively. Also included in service agreement revenue is service income received from the Exchange as compensation for the management and administration of voluntary assumed reinsurance from non-affiliated insurers. The Company receives a 7.0 percent service fee on the premiums from this business. These fees totaled $6,715,027, $5,015,192, and $5,069,140 for 1998, 1997, and 1996, respectively.

The cost of management operations rose $17,532,345 or 5.1 percent for the year ended December 31, 1998. The largest component of the cost of management operations, Agent commission expense, rose 6.2 percent to $244,895,269 in 1998 from $230,659,805 in 1997 and 10.0 percent in 1997 from $209,756,209 in 1996. Commissions on direct business rose 6.2 percent to $234,287,822 in 1998 from $220,662,335 in 1997 and rose 8.5 percent in 1997 from $203,367,469 in 1996. Promotional incentive and Agent contingency bonus costs increased 6.1 percent to $10,607,447 in 1998 from $9,997,470 in 1997 and increased 56.5 percent in 1997 from $6,388,740 in 1996. The increases in 1998 and 1997 were due to the improved underwriting profitability of the insurance operations of the Group, which resulted in higher Agent profitability bonuses.

The cost of management operations, excluding commission costs, increased 3.0 percent in 1998 to $114,428,137 from $111,131,256 in 1997. The Company's personnel costs, net of reimbursement from affiliates, totaled $67,467,067, $66,410,377, and $68,949,232 in 1998, 1997 and 1996, respectively. Personnel costs are the second largest cost component in the cost of management operations after commissions. Personnel costs increased 1.6 percent in 1998 compared to a decrease of 3.7 percent in 1997. As attorney-in-fact for the Exchange, the Company pays almost all expenses of the Group and allocates those costs to the respective Company responsible for them in accordance with intercompany agreements. Increased reimbursements in 1998 to the Company for personnel costs of the loss adjustment function were the result of an increased ratio of loss adjustment personnel to total personnel. The increased ratio resulted in a larger share of staff department overhead being allocated to the loss adjustment function resulting in higher reimbursements to the Company. The 1997 decline is the result of increased expense reimbursements from the Exchange and a decrease in pension costs.

Management Fee Revenue
By State and Line of Business
For the Year Ended December 31, 1998

(Dollars in thousands)

State	Private Passenger Auto	Homeowners	Workers' Compensation	Commercial Auto	Commercial Multi Peril	All Other Lines of Business	Total by State
District of Columbia	$ 300	$ 154	$ 329	$ 37	$ 186	$ 60	$ 1,066
Indiana	10,706	3,265	1,348	1,082	1,549	582	18,532
Maryland	34,709	9,119	3,317	4,526	3,529	2,229	57,429
New York	3,698	874	452	584	819	198	6,625
North Carolina	5,886	2,479	2,076	2,509	2,269	782	16,001
Ohio	23,434	6,547	---	2,438	3,439	1,094	36,952
Pennsylvania	186,860	38,602	18,434	15,743	17,923	6,703	284,265
Tennessee	2,268	736	795	792	952	239	5,782
Virginia	20,347	5,142	4,658	3,951	3,794	1,680	39,572
West Virginia	15,818	2,927	---	1,893	1,636	649	22,923
Total by line of business	$304,026	$ 69,845	$ 31,409	$ 33,555	$ 36,096	$ 14,216	$489,147

INCORPORATED BY REFERENCE, PAGES 24 AND 25 OF THE COMPANY'S ANNUAL REPORT TO SHAREHOLDERS

Analysis of Insurance Underwriting Operations

The Company recorded an underwriting gain of $567,275 in 1998 compared to underwriting losses of $2,259,425 and $11,579,211 for the years 1997 and 1996, respectively. The 1998 insurance underwriting results improved as a result of loss cost severity-management programs introduced by the Company combined with a generally favorable claims environment and mild weather conditions. In 1997 mild winter weather conditions and a lack of catastrophe losses in the Company's operating territories positively affected insurance underwriting results. The 1996 underwriting results were impacted negatively by severe winter weather in the first quarter of 1996 and catastrophe losses experienced from Hurricane Fran in the eastern United States, particularly North Carolina, and other storm-related catastrophe losses elsewhere in our operating territories during the third quarter of 1996. Losses resulting from these catastrophes were about $8.1 million in 1996, or about $.07 per share, after federal income taxes.

Catastrophes are an inherent risk of the property/casualty insurance business. Catastrophes can have a material impact on the Company=s insurance underwriting operating results. However, the Company's insurance subsidiaries have in effect a reinsurance agreement with the Exchange that would mitigate the effect of catastrophe losses on the Company's operating results and financial position. Catastrophic losses, as classified by the Company's property/casualty insurance subsidiaries, were $3,739,284 and $701,414 in 1998 and 1997, respectively.

Losses, loss adjustment expenses and underwriting expenses incurred increased $2,763,078, or 2.5 percent, for the year ended December 31, 1998 compared to a decrease of $3,479,877, or 3.1 percent, for the year ended December 31, 1997. Generally favorable claims experience resulted in a slight decrease of $89,437 for loss and loss adjustment expenses incurred in 1998. In 1997, losses and loss adjustment expenses incurred fell 6.0 percent to $79,970,102 due to the lack of catastrophe losses and milder weather conditions in 1997 compared to 1996. The Company continually reviews its methods for estimating its liability for losses and loss adjustment expenses, which includes an estimate for losses incurred but not reported. Such liabilities are based necessarily on estimates and, while management believes the amounts reserved are adequate, the ultimate liabilities may be in excess of, or less than, amounts provided.

Included in the other underwriting expenses are assessments made by state insurance guaranty associations. These assessments are mandated by statute and are used by the various state insurance guaranty associations to guarantee the property/casualty policies of companies that have become insolvent. These mandatory assessments totaled $1,222,958 and $171,557 in 1998 and 1997, respectively. The 1998 increased expense resulted from assessments from state guaranty associations which were prompted by several large insurer insolvencies in the states where the Group conducts business.

The 1998 combined ratio for the Company's property/casualty operations calculated under Generally Accepted Accounting Principles (GAAP) was 99.5 compared to a ratio of 102.1 in 1997 and 111.4 in 1996. The GAAP combined ratio for 1998, 1997 and 1996, excluding catastrophe losses, as classified by the Company, was 96.2, 101.5, and 103.4, respectively.

Analysis of Investment Operations

Total revenue from investment operations was $50,546,973 in 1998, compared to $42,978,156 in 1997 and $36,307,324 in 1996, increases of 17.6 percent and 18.4 percent, respectively. Net investment income rose $5,674,117, or 17.2 percent, for the year ended December 31, 1998 and $7,028,902, or 27.1 percent, for the year ended December 31, 1997. These increases were consistent with the growth in the Company's cash, cash equivalents and investments, which increased 23.8 percent, 23.1 percent and 21.9 percent in 1998, 1997 and 1996, respectively.

The Company's earnings from its 21.63 percent ownership of Erie Family Life Insurance Company (EFL) totaled $4,777,089 in 1998, up from $4,230,909 in 1997 and $3,820,957 in 1996. This investment is accounted for under the equity method of accounting. Consequently, the Company's investment earnings in 1998, 1997 and 1996 were a direct result of its share of EFL's net income of $22,085,479, $19,560,368, and $17,666,250, respectively. The 12.9 percent increase in EFL's net income in 1998 was the result of an 8.7 percent increase in policy revenues as well as a 23.9 percent decrease in death claims. The increase in EFL's net income in 1997 was due to increased policy revenues (up 13.1 percent in 1997 compared to 1996) and to increased investment income of 8.6 percent.

Financial Condition

Investments

The Company's investment strategy takes a long-term perspective emphasizing investment quality, diversification and superior investment returns. Investments are managed on a total return approach that focuses on current income and capital appreciation. The Company's investment strategy also provides for liquidity to meet the short- and long-term commitments of the Company. At December 31, 1998 and 1997, the Company's investment portfolio of investment-grade bonds, common stock and preferred stock, all of which are readily marketable, represent 44.3 percent and 40.0 percent, respectively, of total assets. These investments provide the liquidity the Company requires to meet the demands on its funds.

Distribution of Invested Assets
Carrying Value at December 31,

(Dollars in thousands)

	1998	%	1997	%
Fixed maturities	$441,353	66	$349,973	66
Equity securities:				
Common stock	90,230	13	80,170	15
Preferred stock	112,574	17	84,963	16
Real estate mortgage loans	8,287	1	8,392	2
Other invested assets	17,494	3	7,932	1
Total invested assets	$669,938	100%	$531,430	100%

The Company's investments are subject to certain risks, including interest rate and reinvestment risk. Fixed maturity and preferred stock security values generally fluctuate inversely with movements in interest rates. Certain of the Company's corporate and municipal bond investments contain call and sinking fund features which may result in early redemptions. Declines in interest rates could cause early redemptions or prepayments which could require the Company to reinvest at lower rates. Mortgage loans and real estate investments have the potential for higher returns but also carry more risk, including less liquidity and greater uncertainty in the rate of return. Consequently, these investments have been kept to a minimum by the Company.

Fixed Maturities

The Company's investment strategy includes maintaining a fixed maturities portfolio that is of very high quality and well diversified within each market sector. The fixed maturities portfolio is managed conservatively with the goal of achieving reasonable returns while limiting exposure to risk. At December 31, 1998, the carrying value of fixed maturity investments represented 66.0 percent of total invested assets.

The Company invests in both taxable and tax-exempt securities as part of its strategy to maximize after-tax income. This strategy considers, among other factors, the impact of the alternative minimum tax.

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Diversification of Fixed Maturities
at December 31, 1998

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U. S. government & agencies	$ 13,018	$ 689	$ 0	$ 13,707
States & political subdivisions	48,307	3,293	0	51,600
Special revenue	132,025	7,215	5	139,235
Public utilities	13,116	300	0	13,416
U. S. industrial & miscellaneous	195,296	9,028	629	203,695
Foreign governments	1,990	0	181	1,809
Foreign industrial & miscellaneous	5,159	165	86	5,238
Total bonds	408,911	20,690	901	428,700
Redeemable preferred stock	12,191	577	115	12,653
Total fixed maturities	$ 421,102	$ 21,267	$ 1,016	$ 441,353

The Company's fixed maturity investments consist of high-quality, marketable bonds all of which were rated at investment-grade levels (Ba/BB or better) at December 31, 1998. Included in this investment-grade category are $244.9 million, or 55.5 percent, of the highest quality bonds rated Aaa/AAA or Aa/AA or bonds issued by the United States government. Generally, the fixed maturities in the Company's portfolio are rated by external rating agencies; if such bonds are not rated externally, they are rated by the Company on a basis consistent with that used by the rating agencies.

Management classifies all fixed maturities as available-for-sale securities, allowing the Company to meet its liquidity needs and provide greater flexibility for its investment managers to restructure the Company's investments in response to changes in market conditions or strategic direction. Securities classified as available-for-sale are carried at market value with unrealized gains and losses included in shareholders' equity. At December 31, 1998 and 1997, unrealized gains on fixed maturities amounted to $13,164,000 and $10,944,000, respectively, net of deferred taxes.

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The Company attempts to achieve a balanced maturity schedule in order to stabilize investment income in the event of a reduction in interest rates in a year in which a large amount of securities could mature.

Equity Securities
Diversification of Equity Securities
at December 31, 1998

(Dollars in thousands)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Common stock:				
U.S. banks, trusts and insurance companies	$ 3,522	$ 197	$ 231	$ 3,488
U.S. industrial and miscellaneous	53,914	37,158	7,509	83,563
Foreign industrial and miscellaneous	3,186	271	278	3,179
Preferred stock:				
U.S. banks, trusts and insurance companies	42,807	2,561	30	45,338
U.S. industrial and miscellaneous	59,858	2,024	1,419	60,463
Foreign industrial and miscellaneous	6,690	228	145	6,773
Total equity securities	$ 169,977	$ 42,439	$ 9,612	$202,804

Equity securities are carried on the Consolidated Statements of Financial Position at market value. At December 31, 1998 and 1997, equity securities held by the Company include net unrealized gains of $21,338,000 and $13,656,000, respectively, net of deferred taxes. Investment characteristics of common and preferred stocks differ substantially from one another. The Company's preferred stock portfolio provides a source of highly predictable current income that is competitive with investment-grade bonds. The preferred stocks are of very high quality and marketable. Common stock provides capital appreciation potential within the portfolio. Common stock investments inherently provide no assurance of producing income because dividends are not guaranteed. Preferred stocks generally provide for fixed rates of return which, while not guaranteed, resemble fixed income securities. As with all investments, the continuing value of common stock is subject to change based on the underlying value of the issuer. Common stocks also are subject to valuation fluctuations driven by investment market conditions. The current appreciation in the value of the Company=s equity security investments is subject to these risks. Management addresses these risks by providing for investment strategies which tend to balance investment holdings along the lines of type of investment, maturity dates, industry and geographic concentrations and income-producing characteristics.

Investment in EFL

The Company owns 21.63 percent of the outstanding common stock of EFL, a member company of the Erie Insurance Group. EFL markets various life insurance products, principally non-participating individual and group life policies, including universal life and individual and group annuity products, in nine jurisdictions. The Company's investment in EFL is accounted for under the equity method of accounting; consequently, the Company's carrying value of $39,478,746 represents 21.63 percent of the shareholders' equity of EFL at December 31, 1998.

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Liquidity and Capital Resources

Liquidity is a measure of an entity's ability to secure enough cash to meet its contractual obligations and operating needs. The Company's major sources of funds from operations are the net cash flow generated from management operations, the net cash flow from Erie Insurance Company's and Erie Insurance Company of New York's 5.5 percent participation in the underwriting results of the reinsurance pool with the Exchange, and investment income from affiliated and non-affiliated investments.

The Company generates sufficient net positive cash flow from its operations to fund its commitments and to build its investment portfolio, thereby increasing future investment returns. The Company maintains a high degree of liquidity in its investment portfolio in the form of readily marketable fixed maturities, equity securities, and short-term investments. The Company purchased investments totaling $235,568,211 in 1998 compared with purchases of $146,394,800 in 1997. The Company's Consolidated Statements of Cash Flows indicate that net cash flows provided from operating activities in 1998, 1997 and 1996 were $150,498,495, $118,905,654, and $103,362,034, respectively. Net cash used in investing activities totaled $121,045,167, $58,829,631, and $119,001,849 in 1998, 1997 and 1996, respectively. In 1998, the Company purchased computer software totaling $3.9 million to enhance product development capabilities as well as to provide support to our agency force.

The Company incurs substantially all general and administrative expenses on behalf of the Exchange and other affiliated companies. The Exchange generally reimburses the Company for these expenses on a paid basis when calculating the management fee due for the month. Since management fees traditionally have not been paid to the Company by the Exchange until the premiums from Policyholders are collected, the change in the premium receivable balance is used in determining the actual monthly amount transferred.

Management fee and expense reimbursements due at December 31 from the Exchange were $106,986,856 and $111,577,074 in 1998 and 1997, respectively. A receivable from Erie Family Life Insurance Company for expense reimbursements totaled $1,625,408 at December 31, 1998 compared to $1,153,057 at December 31, 1997. The Company also has a receivable due from the Exchange for reinsurance recoverable from losses and unearned premium balances ceded to the pool. Such amounts totaled $381,301,722 and $383,131,027, respectively, in 1998 and 1997.

On December 16, 1998, the Board of Directors approved a stock repurchase plan beginning January 1, 1999, under which the Company may repurchase as much as $70 million of its outstanding Class A common stock through December 31, 2001. The Company may purchase the shares from time to time in the open market or by privately negotiated transactions, depending on prevailing market conditions and alternative uses of the Company's capital.

In 1989, the shareholders adopted the Erie Indemnity Company Stock Redemption Plan (the Plan). The Plan entitles estates of qualified shareholders to cause the Company to redeem shares of stock of the Company at a price equal to the fair market value of the stock at time of redemption. On December 12, 1995, the Board of Directors amended and restated the Plan. The restatement limits the redemption amount to an aggregation of: (1) an initial amount of $10 million as of December 31, 1995 and (2) beginning in 1996 and annually thereafter, an additional annual amount, as determined by the Board in its sole discretion, not to exceed 20.0 percent of the Company's net income from management operations during the prior fiscal year. This aggregate amount is reduced by redemption amounts paid. However, at no time shall the aggregate redemption limitation exceed 20.0 percent of the Company's retained earnings determined as of the close of the prior year. In addition, the restated plan limits the repurchase from any single shareholder's estate to 33.0 percent of total share holdings of such shareholder. At the Board of Directors meeting on March 11, 1997, the Board approved an increase in the redemption amount of $16,655,226 to $41,005,412. On April 28, 1998, the Board approved an increase in the redemption amount of $17,791,624 to $58,797,036. There were no shares of stock redeemed under this Plan during 1998 or 1997.

Dividends declared to shareholders totaled $29,865,438, $26,490,811, and $23,284,957 in 1998, 1997, and 1996, respectively. There are no regulatory restrictions on the payment of dividends to the Company's shareholders, although there are state law restrictions on the payment of dividends from the Company=s subsidiaries to the Company. Dividends from subsidiaries are not material to the Company's cash flows.

Temporary differences between the financial statement carrying amounts and tax basis of assets and liabilities that give rise to deferred tax assets and liabilities resulted in net deferred tax liabilities at December 31, 1998 and 1997 of $17,121,777 and $7,101,371, respectively. The primary reason for the increase in the deferred tax liability is due to an increase in unrealized gains from available-for-sale securities in 1998 and 1997. The deferred tax liability generated from these unrealized gains amounted to $18,590,000 as of 1998 and $13,246,000 as of 1997, an increase of $5,344,000. Management believes it is likely that the Company will have sufficient taxable income in future years to realize the benefits of the deferred tax assets.

Financial Ratings

The following table summarizes the current A. M. Best Company ratings for the insurers managed by the Company:

Erie Insurance Exchange	A++
Erie Insurance Company	A++
Erie Insurance Property & Casualty Company	A++
Erie Insurance Company of New York	A++
Flagship City Insurance Company	A++
Erie Family Life Insurance Company	A+

According to A. M. Best, a superior rating (A++ or A+) is assigned to those companies which, in A. M. Best=s opinion, have achieved superior overall performance when compared to the standards established by A. M. Best and have a very strong ability to meet their obligations to policyholders over the long term. Financial strength ratings have become increasingly important to the insurers managed by the Company and to the industry in marketing insurance products.

Regulatory Risk-Based Capital

The NAIC standard for measuring the solvency of insurance companies, referred to as Risk-Based Capital (RBC), is a method of measuring the minimum amount of capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The RBC formula is used by state insurance regulators as an early warning tool to identify, for the purpose of initiating regulatory action, insurance companies that potentially are inadequately capitalized. In addition, the formula defines minimum capital standards that will supplement the current system of low fixed minimum capital and surplus requirements on a state-by-state basis. At December 31, 1998, the Company's property/casualty insurance subsidiaries' RBC levels are all substantially in excess of levels that would require regulatory action.

Reinsurance

Effective January 1, 1994, the property/casualty insurers managed by the Company have discontinued all ceded reinsurance treaties, other than with affiliated insurers, due to the strong surplus position of the insurers managed by the Company, the cost of reinsurance, and the low ratio of the premium writings of the insurers managed by the Company to their surplus. The Company does not believe this discontinuance of reinsurance treaties will have a material adverse effect, over the long term, on the results of operations of the insurance companies managed by the Company. However, the absence of such treaties could have an adverse effect on the results of operations of the insurance companies managed by the Company in a given year, if the frequency or severity of claims were substantially higher than historical averages because of an unusual event during a short-term period. Although the Company experienced significant winter storm losses in 1996, the Company would not have recognized any recoveries from these discontinued treaties had they been in effect during that year. The insurers managed by the Company continue to maintain facultative reinsurance on certain individual property/casualty risks.

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Effective January 1, 1997, Erie Insurance Company and Erie Insurance Company of New York placed in effect an all lines aggregate excess of loss reinsurance agreement with the Exchange that supersedes the prior catastrophe excess of loss reinsurance agreement between the parties. Under the new agreement, Erie Insurance Company and Erie Insurance Company of New York reinsure their net retained share of the intercompany reinsurance pool such that once Erie Insurance Company and Erie Insurance Company of New York have sustained ultimate net losses that exceed an amount equal to 72.5 percent of Erie Insurance Company and Erie Insurance Company of New York's net premiums earned, the Exchange will be liable for 95.0 percent of the amount of such excess up to, but not exceeding, an amount equal to 95.0 percent of 15.0 percent of Erie Insurance Company's and Erie Insurance Company of New York's net premiums earned. Erie Insurance Company and Erie Insurance Company of New York retain losses equal to 5.0 percent of the ultimate net loss in excess of the retention under the contract. The annual premium for this reinsurance treaty is 1.01 percent of the net premiums earned by Erie Insurance Company and Erie Insurance Company of New York during the term of this agreement subject to a minimum premium of $800,000. The annual premium for this agreement with the Exchange was $1,158,245 in 1998 compared to $1,102,868 in 1997, a 5.0 percent increase. There were no loss recoveries by Erie Insurance Company or Erie Insurance Company of New York under this agreement for 1998 or 1997. This reinsurance treaty is excluded from the intercompany reinsurance pooling agreement and replaces the earlier reinsurance agreement between the Company and Erie Insurance Company and Erie Insurance Company of New York, which is described below.

During 1996, Erie Insurance Company and Erie Insurance Company of New York had in effect a Property Catastrophe Excess of Loss Reinsurance Treaty with the Exchange. The coverage included in the treaty for Erie Insurance Company was $25,000,000 in excess of $10,000,000 and was excluded from the aforementioned pooling arrangement. The coverage included in the treaty for Erie Insurance Company of New York was $2,250,000 in excess of $250,000 and also was excluded from the aforementioned pooling arrangement. The annual premium for these agreements to the Exchange was $424,170 in 1996.

Effects of Inflation

Inflationary considerations can impact the Company's activities in several ways. Inflationary expectations can impact the market value of the Company's portfolio of securities, particularly fixed maturities and preferred stock. At December 31, 1998, the Company's investments totaled $669,938,120. Of this amount, $553,927,529 was invested in interest rate sensitive bonds and preferred stock. At December 31, 1998 the market value exceeded the book value of the Company's interest rate sensitive bonds and preferred stock by $23,471,207.

Inflation also can affect the loss costs of property/casualty insurers and, as a consequence, insurance rates. Insurance premiums are established before loss and loss adjustment expenses, and the extent to which inflation may impact such expenses, are known. Consequently, in establishing premium rates, the Company attempts to anticipate the potential impact of inflation.

Property/Casualty Loss Reserves

General

The reserve liabilities for property/casualty losses and loss adjustment expenses (LAE) represent estimates of the ultimate net cost of all unpaid losses and loss adjustment expenses incurred through December 31, 1998 and 1997. The reserves are determined using adjusters' individual case estimates and statistical projections. These projections are employed in four specific areas: (1) to calculate incurred but not reported (IBNR) reserves, (2) to test the adequacy of case basis estimates of loss reserves, (3) to calculate allocated LAE reserves and (4) to calculate unallocated LAE reserves. These projections are reviewed continually and adjusted as necessary, as experience develops and new information becomes known. Such adjustments are reflected in current operations.

The IBNR reserve is based on the historical relationship of the emergence of reported claims to earned premiums. The calculation includes components for changes in claim costs resulting from trends in claims frequency and severity. Allocated LAE reserves are based on long-term historical relationships of incurred loss adjustment expenses to incurred losses. Unallocated LAE reserves are based on the historical relationships of paid unallocated expenses to paid losses.

Environmental-Related Claims

The Company's property/casualty subsidiaries had 38 reported open claims concerning environmental-related liabilities at December 31, 1998 and 36 and 31 such claims at December 31, 1997 and 1996, respectively. The Company's property/casualty subsidiaries' share of direct losses paid related to environmental-related claims was $5,049, $1,621, and $5,308 related to years ended December 31, 1998, 1997 and 1996, respectively. The Company's property/casualty subsidiaries' share of unpaid direct losses related to environmental claims amounted to $86,466, $40,583, and $42,194 for the years ended December 31, 1998, 1997 and 1996, respectively.

In establishing the liability for unpaid losses and loss adjustment expenses related to environmental claims, management considers facts currently known and the current state of the law and coverage litigation. Establishing reserves for these types of claims is subject to uncertainties that are generally greater than those represented by other types of claims. Factors contributing to those uncertainties include a lack of historical data, long reporting delays, uncertainty as to the number and identity of insureds with potential exposure, unresolved legal issues regarding policy coverage, and the extent and timing of any such contractual liability. Courts have reached different and sometimes inconsistent conclusions as to when the loss occurred and what policies provide coverage, what claims are covered, whether there is an insured obligation to defend, how policy limits are determined, how policy exclusions are applied and interpreted, and whether cleanup costs represent insured property damage. Further, even if and when the courts rule definitively on the various legal issues, many cases will still present complicated factual questions affecting coverage that will need to be resolved.

The insurers managed by the Company have incurred few environmental claims and, as a result, have made few indemnity payments to date. Because these payments have not been significant in the aggregate and have varied in amount from claim to claim, management cannot determine whether past claims experience will be representative of future claims experience. The Company's property/casualty subsidiaries have established reserves for these exposures in amounts, which they believe to be adequate, based on information currently known by them. Management does not believe that these claims will have a material impact on the Company's liquidity, results of operations, cash flows, or financial condition.

Factors That May Affect Future Results

Management Operations

Management Fee Rate. The management fee paid to the Company as attorney-in-fact for the Exchange is subject to approval by the Company's Board of Directors. The rate may be changed periodically by the Board at their discretion but may not exceed 25.0 percent. The Board considers several factors in determining the management fee rate, including the relative financial position of the Exchange and the Company and the long-term capital needs of the Exchange in order to foster growth, competitiveness, and maintain its superior financial strength. Because the management fee revenue from the Exchange provides the majority of the Company's revenue, the income of the Company is dependent upon the ability of the Exchange to offer competitive insurance products in the marketplace.

Competition. Intense price competition in private passenger automobile insurance, the Group's largest line of business, has affected the premium growth rate of the insurers managed by the Company and, as a consequence, the growth in the Company's management revenue. Favorable underwriting trends for personal automobile writers, along with strong investment returns, have created an environment of significant decreases in personal automobile rate levels. Additionally, direct response writers, with their low-cost operating models, are positioning themselves to take advantage of these trends. These writers are segmenting the personal automobile marketplace and offering significantly lower premium rates to drivers with favorable risk characteristics. The Group is responding by decreasing its private passenger automobile rates in several jurisdictions effective in 1999. The effect of these competitive rate actions will reduce 1999 written premiums by about $60 million, which will adversely affect the growth in management fee revenue of the Company in 1999. To maintain the competitive position of the insurers managed by the Company in the private passenger automobile insurance marketplace, additional rate actions that reduce written premiums are possible in 1999 or 2000.

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Insurance Operations

Underwriting Exposure. The insurers managed by the Company, including its wholly-owned subsidiaries, are subject to the risk of losses due to catastrophic events. In addressing this risk, the Company employs what it believes are conservative underwriting standards and monitors its exposures by geographic region. The Company also evaluates other means available to insurers to effectively manage risk. Catastrophic events are a perpetual factor that could impact future results of the industry as a whole as well as the Company. The current aggregate excess of loss reinsurance agreement between the Company's property/casualty insurance subsidiaries and the Exchange substantially lessens the effect of catastrophe losses on the Company.

Geographic Expansion. The Exchange, the Erie Insurance Company and EFL are licensed in the State of Illinois effective January 1, 1999. The companies began operating and marketing all lines of business in Illinois at that time. The expansion into a new operating territory offers the opportunity for growth in property/casualty premiums of the Exchange upon which management fee revenue of the Company is based. Over the last five years, geographic expansion has made a significant contribution to the property/casualty premium growth rate of The ERIE. The Company anticipates that the Illinois market eventually will contribute to the growth and profitability of The ERIE.

Investment Operations

The Company's portfolio of fixed maturities and equity securities is subject to the ongoing risks associated with fluctuations in interest rates and stock market conditions in general. Current investment results may not be indicative of performance in future periods.

Regulatory

Pennsylvania Commercial Deregulation. Pennsylvania enacted legislation providing for the deregulation of rates and forms for certain commercial insureds. Effective February 19, 1999, insurers are no longer required to file for approval, rates and forms with the Pennsylvania Insurance Department for larger commercial risks [defined as commercial entities generating an aggregate annual premium of $25,000 or more (exclusive of workers' compensation) or which have twenty-five employees and an insurance manager, consultant or buyer]. Risks that are smaller than large commercial risks are now to be rated under a flex band (+ or - 10%) from the filed rates. The law allows greater flexibility in the rating of commercial risks and a faster response to changing market conditions than under the prior system. The new law could impact all insurance companies operating in Pennsylvania, either negatively or positively, depending on the market and the aggressiveness of the insurer in retaining and/or writing new commercial risks in Pennsylvania. The Company believes, generally, that commercial deregulation will result in lower rather than higher premium rate levels.

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Financial Services Reform. Federal action begun in 1997 could culminate in significant changes in the way insurance companies, banks and securities firms are regulated in the future. The elimination of some regulatory barriers to banks entering the insurance market, and the interjection of Federal governmental agencies into the traditionally state-regulated insurance industry could dramatically change the ground rules under which insurance products are marketed. Further action and advancing technology will likely influence the way the property/casualty and life insurance industries distribute, price and service their products.

Urban Insurance Issues. Federal regulators have heightened their scrutiny of the property/casualty insurance industry, particularly its underwriting and marketing practices relative to homeowners insurance. Assertions have been made and complaints filed against various insurers for an alleged practice called "redlining," a term used to describe an insurer=s illegal and unfair discrimination against minority communities, which are typically located in economically depressed inner cities. Much of the action at the Federal level has been initiated by the Department of Housing and Urban Development, with enforcement by the United States Department of Justice. A number of complaints have culminated in consent decrees under which insurers have agreed to pay substantial sums of money.

Auto-Choice Reform Act. Currently pending before Congress, the Auto Choice Reform Act is one of the more recent attempts at insurance regulation by the Federal government. The bill offers consumers a choice between traditional auto insurance (i.e., a tort liability system) or coverage at a reduced premium under a personal protection policy which allows insureds to recover economic damages from their insurer, but requires them to relinquish their right to sue or be sued for noneconomic damages. States could Aopt out@ of such a system by passing legislation to do so. Federal legislation that mandates auto premium rate reductions would adversely affect the management fee revenue of the Company and could affect its insurance underwriting profitability.

Year 2000 Readiness Disclosure

Erie Indemnity Company and the property/casualty insurance companies it manages are dependent on electronic processing and information systems to conduct business. Like all companies with such dependencies, the Company is continually faced with significant decisions and technology challenges. Among these challenges is the so-called "Year 2000 Issue," the inability of many computer systems to recognize dates beginning with the year 2000 and beyond. The Year 2000 Issue presents a profound risk management issue which is perhaps more pervasive than any previous issue faced by businesses of all types. To effectively manage the risks associated with the Year 2000 Issue, management has taken measures over the past six years designed to reduce the Company's potential for business interruption. References to the Company in the description below, including cost information, pertain to the Company and the property/casualty insurance companies under its management.

The effect of the Year 2000 Issue cannot be measured exactly with certainty; any forecasts about the effect of the Year 2000 Issue and remediation projections are necessarily forward-looking statements and are subject to the risks and uncertainties noted on page 34.

Company's State of Readiness

Exposure to systems failure is a risk faced by the Company every day. Unlike these other risks, the date change to the Year 2000 is predictable. Efforts to mitigate The ERIE's exposure through effective identification, remediation and contingency planning are organized and being conducted on all major business processes to minimize the risks.

To assure that the Company effectively addresses this risk at all levels of the organization, management has in place a structure that provides oversight of Year 2000 risk management activities, which are being conducted within the major business units of the Company. Oversight by Executive and Senior Management is being facilitated through a dedicated project office. This office, (the Y2K Office) is working in consultation with each business unit to assure consistency and adequacy of risk management activities and to collect companywide project status and cost information.

Within each business unit, each key business process is being evaluated to assure that underlying systems and components exposed to potential Year 2000 failure are appropriately identified and addressed. Underlying system components include internal operating systems (hardware and software), infrastructure elements including non-information technology components and systems, communications systems and devices, internally developed mainframe applications, personal computer hardware and software, external parties and providers and peripheral devices.

Each of these underlying components supporting key business processes was identified and mission critical business processes were prioritized during 1998. Priority was assigned based on the relative importance of the component to the business process and based on the importance of the business process relative to other business processes.

Efforts to remediate non-compliant internal components (principally mainframe applications) began in the mid-1990's as a routine part of systems development and maintenance. The Company's mainframe applications are believed to be 100 percent remediated. Management estimates that internal systems component testing will be completed during the first quarter, or early in the second quarter, of 1999.

Test plans for substantially all other key business process components identified during 1998 were developed during the first quarter of 1999. Where individual testing of these other key components is beneficial, testing is being conducted during the first quarter or early in the second quarter of 1999.

To supplement component testing and to provide a greater degree of assurance that our business functions will be uninterrupted, full systems Year 2000 simulation testing is planned for March, April and May of 1999. Full systems testing will entail simultaneous testing of underlying components necessary to the support of key business processes. Testing environments that closely approximate our operating environments for mainframe and LAN-based PC applications are being developed and are expected to be fully functional before the end of the first quarter of 1999. Each key business process (inclusive of underlying components and the operating environments) will be scheduled during the first quarter of 1999 as well. This effort incorporates key third parties with which we are coordinating our testing efforts.

As testing progresses, each business unit is consulting with the Y2K Office to develop contingency plans to address the possibility of component or business process failures. The extent of contingency planning will be responsive to the risk of failure and the relative importance of the component or business process. Contingency planning is addressing both business continuity and system recovery.

During the first quarter of 1999, the Company engaged an international professional services consulting firm to perform a Y2K project methodology evaluation. Their recommendations concerning certain aspects of our project methodology and remediation, testing, and planning efforts have been incorporated into our Y2K program.

Cost to Address Year 2000 Issues

Prior to 1998, the Company did not establish a specific budget to address the Year 2000 Issue. By including Year 2000 changes in the scope of each system development and maintenance project, the Year 2000 Issue became an extension of all system projects. It is estimated that through December 31, 1998 costs incurred for specific Y2K activities including programming, testing, integrated test planning, and administrative efforts approximate $1 million. This estimate includes the cost of our internal efforts based on rates for personnel engaged in these activities. Future costs will be incurred as testing and contingency planning continues during 1999.

Management believes that the cost of testing and administrative support will approximate $1.2 million during 1999 based on the project plans for these activities. This estimate includes the cost of personnel involved in testing ($575,000) and the cost to complete the technical test environment ($500,000). The cost of consulting resources engaged during the first quarter will approximate $100,000. Any costs that may be incurred to replace non-compliant software and hardware during 1999 are not expected to be significant.

In addition to these costs, the Company will incur internal personnel costs for the development and testing of contingency plans during 1999. Such costs are not yet determinable but are not believed to be material to the financial position or results of operations of the Company.

Risk of the Company's Year 2000 Issues

The proper functioning of the Company's computer systems and applications is critical to the continued operations of the Company. By addressing the Year 2000 Issue over several years in the ordinary course of business, the costs and uncertainty associated with it have been reduced significantly. Management believes that all critical business process systems and applications will be Year 2000 compliant sufficiently in advance of January 1, 2000 and, therefore, will not adversely affect the operations of the Company.

It is possible that certain key external parties will certify their systems as year 2000 compliant when in fact they are not. The inability of the Company to respond to uncontrollable circumstances is always a concern. For example, if numerous key third parties are unable to support the operations of the Company, operations could be adversely affected. The Company, as part of overall risk management, will be preparing contingency plans during 1999 in response to the possibility of key third party failure. Management does not anticipate these scenarios as having a greater than remote possibility of occurrence.

Company's Contingency Plans if a Vendor or the Company fail to Address Year 2000 Issues

This risk described above will be addressed through contingency planning. The level of contingency planning will be commensurate with the relative importance of the external party to the operations of the Company and the relative risk that the party will be unable to operate satisfactorily in 2000. Such contingency plans are being developed and will be finalized during the first nine months of 1999.

The statements containing the beliefs of management about the Company's state of readiness for Year 2000 Issues are necessarily forward-looking statements that involve risks and uncertainties. These risks and uncertainties include but are not limited to: human or mechanical errors in correcting Year 2000 Issues; incorrect or improper (intentional or otherwise) representations by third parties as to their compliance or remediation efforts; the failure of third parties to follow through on their remediation efforts; and the inability to identify and/or locate processing chips that are subject to Year 2000 problems.

"Safe Harbor" Statement Under the Private Securities Litigation Reform Act of 1995: Statements contained herein expressing the beliefs of management such as those contained in the "Analysis of Management Operations", "Analysis of Insurance Underwriting Operations", "Financial Condition", "Reinsurance", "Environmental-Related Claims" and "Factors That May Affect Future Results" sections hereof, and the other statements which are not historical facts contained in this report are forward-looking statements that involve risks and uncertainties. These risks and uncertainties include but are not limited to: legislative and regulatory changes, the impact of competitive products and pricing, product development, geographic spread of risk, weather and weather-related events, other types of catastrophic events, and technological difficulties and advancements.

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Glossary of Selected Insurance Terms

! Assume:

To receive from an insurer or a reinsurer all or part of the insurance or reinsurance written by an insurance or reinsurance entity.

! Attorney-in-fact:

Legal entity (Erie Indemnity Company, a corporate attorney-in-fact) which is legally appointed by another (subscribers of the Exchange) to transact business on its behalf.

! Cede:

To transfer to an insurer or a reinsurer all or part of the insurance or reinsurance written by an insurance or reinsurance entity.

! Direct premiums written:

Premiums on policies written by an insurer, excluding premiums for reinsurance assumed or ceded by an insurer.

! GAAP combined ratio:

Ratio of acquisition and underwriting expenses, losses and loss adjustment expenses incurred to premiums earned.

! Gross margins from management operations:

Net revenues from management operations divided by total revenues from management operations.

! Incurred but not reported reserves:

Estimated liabilities established by an insurer to reflect the losses estimated to have occurred but which are not yet known by the insurer.

! Losses:

An occurrence that is the basis for submission of a claim. Losses may be covered, limited or excluded from coverage, depending on the terms of the policy. "Loss" also refers to the amount of the insurer's liability arising out of the occurrence.

! Loss adjustment expenses (LAE):

The expenses of settling claims, including legal and other fees and expenses, and the portion of general expenses allocated to claim settlement costs.

! Loss reserves:

Estimated liabilities established by an insurer to reflect the estimated cost of claims payments and the related expenses that ultimately will be incurred in respect of insurance it has written.

! NAIC:

The National Association of Insurance Commissioners, an association of the top regulatory officials of all 50 states and the District of Columbia organized to promote consistency of regulatory practices and statutory accounting practices throughout the United States.

! Property/Casualty insurance:

Casualty insurance indemnifies an insured against legal liability imposed for losses caused by injuries to third persons (i.e. not the policyholder). It includes, but is not limited to, employers' liability, workers' compensation, public liability, automobile liability and personal liability. Property insurance indemnifies a person with an insurable interest in tangible property for his property loss, damage or loss of use.

! Reciprocal insurance exchange:

An unincorporated group of persons known as subscribers who, under a common name, exchange insurance contracts with each other for the purpose of providing indemnity among themselves from losses through a common attorney-in-fact. Each subscriber gives a power of attorney under which the attorney-in-fact represents each subscriber in exchanging insurance contracts with the other subscribers.

! Reinsurance:

An instrument under which an insurer cedes to another insurer all or a portion of the risk insured and conveys/pays to that other insurer a portion of the premium received from the insured. Reinsurance makes the assuming reinsurer liable to the extent of the coverage ceded. However, in the event the reinsurer is unable to pay the assumed portion of the loss, the ceding insurer would be responsible for the entire loss.

INCORPORATED BY REFERENCE, PAGE 55 OF THE COMPANY'S ANNUAL REPORT TO SHAREHOLDERS

Market Price of and Dividends on the Common Equity and Related Shareholder Matters

Common Stock Prices:

The Class A non-voting common stock of the Company trades on The NASDAQ Stock MarketK under the symbol "ERIE." The following sets forth the range of high and low trading prices by quarter as reported by The NASDAQ Stock Market.

Class A Trading Price

	1998		1997	
	Low	High	Low	High
First Quarter	26 1/2	32 3/4	26	35
Second Quarter	28 1/4	34	26 1/2	39 1/4
Third Quarter	25 1/2	32 15/16	30 1/2	40
Fourth Quarter	20 1/2	31 1/4	28 1/8	34 1/2

No established trading market exists for the Class B voting common stock.

On February 18, 1997, The Executive Committee of the Board of Directors approved an enhancement to the Company's 401(K) plan for Employees which permits participants to invest a portion of the Company's contributions to the Plan in shares of Erie Indemnity Class A common stock. The Plan's Trustee was authorized to buy Erie Indemnity Company Class A common stock on behalf of 401(K) plan participants beginning May 8, 1997.

At the December 16, 1998 regular meeting of the Board of Directors of the Erie Indemnity Company, the Board approved a stock repurchase plan beginning January 1, 1999, under which the Company may repurchase as much as $70 million of its outstanding Class A common stock through December 31, 2001. The Company may purchase the shares from time to time in the open market or through privately negotiated transactions, depending on prevailing market conditions and alternative uses of the Company's capital.

Common Stock Dividends:

The Company historically has declared and paid cash dividends on a quarterly basis at the discretion of the Board of Directors. The payment and amount of future dividends on the common stock will be determined by the Board of Directors and will depend on, among other things, earnings, financial condition and cash requirements of the Company at the time such payment is considered, and on the ability of the Company to receive dividends from its subsidiaries, the amount of which is subject to regulatory limitations.
Dividends declared for each class of stock during 1998 and 1997 are as follows:

Dividends Declared

	Class A Share	Class B Share
1998:		
First Quarter	$ .1075	$ 16.125
Second Quarter	.1075	16.125
Third Quarter	.1075	16.125
Fourth Quarter	.1200	18.000
	$ .4425	$ 66.375
1997:		
First Quarter	$ .0950	$ 14.250
Second Quarter	.0950	14.250
Third Quarter	.0950	14.250
Fourth Quarter	.1075	16.125
	$ .3925	$ 58.875

INCORPORATED BY REFERENCE, PAGE 55 OF THE COMPANY'S ANNUAL REPORT
TO SHAREHOLDERS

As of February 26, 1999 there were approximately 1,308 shareholders of record of the Company's Class A non-voting common stock and 27 shareholders of record of the Company's Class B voting common stock.

Of the 67,007,500 shares of the Company's Class A common stock outstanding as of February 26, 1999, approximately 24,617,867 shares are freely transferable without restriction or further registration under the Securities Act of 1933 (the Act), as amended unless purchased by affiliates of the Company as that term is defined in Rule 144 under the Act. The 42,389,633 remaining outstanding shares of Class A common stock (the Restricted Shares) are held by the Company's directors, executive officers and their affiliates and are restricted securities which are eligible to be sold publicly pursuant to an effective registration statement under the Act or in accordance with an applicable exemption, including, after September 28, 1994, Rule 144, from the registration requirements under the Act. The Company is unable to estimate the amount of Restricted Shares that may be sold under Rule 144 since this amount will depend in part on the price for the Class A common stock, the personal circumstances of the sellers and other factors. Sales of a substantial number of Restricted Shares in the public market, or the availability of such shares, could adversely affect the price of the Class A common stock.

In general, under Rule 144 as currently in effect, a person (or persons whose shares are aggregated for purposes of Rule 144) who beneficially has owned Restricted Shares for at least two years, including affiliates of the Company, is entitled to sell within any three-month period a number of shares that does not exceed the greater of: (1) one percent of the number of shares of Class A common stock then outstanding, or (2) the average weekly trading volume of the Class A common stock in The NASDAQ Stock MarketK during the four calendar weeks preceding the date on which notice of sale is filed with the SEC. Sales under Rule 144 are also subject to certain manner of sale provisions, notice requirements and the availability of current public information about the Company. However, a person (or persons whose shares are aggregated for purposes of Rule 144) who is deemed not to have been an affiliate of the Company at any time during the 90 days preceding a sale, and who beneficially has owned the Restricted Shares for at least three years at the time of sale, would be entitled to sell such shares under Rule 144(k) without regard to the aforesaid limitations.

The Company serves as its own transfer agent and registrar.

Index to Graphs included in the
Management's Discussion and Analysis

Graph #1

ERIE INSURANCE GROUP
Organizational Structure/Major Business Units

Property/Casualty Insurance	Pooling Participation
Erie Insurance Exchange	94.5%
Erie Insurance Company***	5.0%
Erie Insurance Company of New York**	0.5%
Erie Insurance Property & Casualty Company***	0.0%
Flagship City Insurance Company*	0.0%

*Wholly-owned by Erie Insurance Exchange
**Wholly-owned by Erie Insurance Company
***Wholly-owned by Erie Indemnity Company

Management Operations

Erie Indemnity Company is the Attorney-in-Fact for the Erie Insurance Exchange (A Reciprocal Insurance Exchange)

Life Insurance Operations

Erie Family Life Insurance Company

52.2% ownership by Erie Insurance Exchange
21.6% ownership by Erie Indemnity Company

Graph #2

NET INCOME
(In millions of dollars)

	1996	1997	1998
Net Income for Year Ended December 31	$105.1	$118.6	$134.6

Graph #3

NET REVENUES FROM MANAGEMENT
OPERATIONS AND GROSS MARGINS
(In millions of Dollars, except ratios)

	1996	1997	1998
Net Revenues from Management Operations	$127.3	$134.2	$145.2
Gross Margin from Management Operations	28.3%	28.2%	28.8%

Graph #4

PREMIUMS EARNED AND GAAP
COMBINED RATIO EXCLUDING CATASTROPHES
(In millions of Dollars, except ratios)

	1996	1997	1998
Premiums Earned for Year Ended December 31	$101.5	$107.3	$112.9
GAAP Combined Ratio Excluding Catastrophes	103.4	101.5	96.2

Index to Graphs included in the
Management's Discussion and Analysis
(Continued)

Graph #5 REVENUE FROM INVESTMENT OPERATIONS
(In millions of dollars)

	1996	1997	1998
Realized Gain on Loss on Investments	$ 6.6	$ 5.8	$ 7.2
Equity in Earnings of EFL	$ 3.8	$ 4.2	$ 4.8
Net Investment Income	$25.9	$32.9	$38.6

Graph #6 DIVERSIFICATION OF FIXED MATURITIES
at December 31, 1998 - Carrying Value

U.S. Industrial & Misc.	46%
Special Revenue	31%
Political Subdivisions	12%
U.S. Gov'ts.	3%
Public Utilities	3%
Redeemable Preferred Stock	3%
Foreign Gov'ts, Industrial & Misc.	2%

Graph #7 QUALITY* OF FIXED MATURITIES
at December 31, 1998 - Carrying Value

Aaa/AAA	40%
A	23%
Aa/AA	16%
Baa/BBB	19%
Ba/BB	2%

* As rated by Standard & Poor's or Moody's Investor's Service, Inc.

Graph #8 TERM TO MATURITY OF FIXED MATURITIES

Subsequent to 2009	41%
2000-2004	30%
2005-2009	21%
1999	8%

Graph #9 DIVERSIFICATION OF EQUITY SECURITIES
At December 31, 1998 - Carrying Value

(1) U.S. Industrial & Misc.	41%
(2) U.S. Industrial & Misc.	30%
(2) Banks & Insurance	22%
(2) Foreign Industrial & Misc.	3%
(1) Foreign Industrial & Misc.	2%
(1) Banks & Insurance	2%

(1) Common Stocks
(2) Preferred Stocks

INCORPORATED BY REFERENCE, PAGE 37 OF THE COMPANY'S ANNUAL REPORT TO SHAREHOLDERS

INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors and Shareholders
Erie Indemnity Company
Erie, Pennsylvania

We have audited the accompanying consolidated statements of financial position of Erie Indemnity Company and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Erie Indemnity Company and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

/s/ Brown, Schwab, Bergquist & Co.

Erie, Pennsylvania
February 16, 1999

INCORPORATED BY REFERENCE, PAGE 39 OF THE COMPANY'S ANNUAL REPORT TO SHAREHOLDERS

ERIE INDEMNITY COMPANY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of December 31, 1998 and 1997

ASSETS	1998	1997
Investments:		
Fixed maturities, at fair value (amortized cost of $421,101,561 and $333,135,959, respectively)	$ 441,353,427	$ 349,972,703
Equity securities, at fair value (cost of $169,976,774 and $144,123,112, respectively)	202,804,068	165,132,504
Real estate mortgage loans	8,287,129	8,392,518
Other invested assets	17,493,496	7,932,571
Total investments	$ 669,938,120	$ 531,430,296
Cash and cash equivalents	53,580,043	53,148,495
Accrued investment income	7,252,439	6,128,725
Note receivable from Erie Family Life Insurance Company	15,000,000	15,000,000
Premiums receivable from policyholders	114,695,231	108,057,986
Prepaid federal income taxes	2,508,908	1,681,573
Reinsurance recoverable from Erie Insurance Exchange	381,301,722	383,131,027
Other receivables from Erie Insurance Exchange and affiliates	108,612,264	112,730,131
Reinsurance recoverable non-affiliates	938,894	241,664
Deferred policy acquisition costs	10,863,107	10,283,372
Property and equipment	12,388,650	10,130,230
Equity in Erie Family Life Insurance Company	39,478,746	34,687,640
Other assets	36,873,922	25,892,642
Total assets	$1,453,432,046	$1,292,543,781

LIABILITIES AND SHAREHOLDERS' EQUITY	1998	1997
LIABILITIES		
Unpaid losses and loss adjustment expenses	$ 426,164,578	$ 413,408,941
Unearned premiums	229,056,597	219,210,522
Accrued commissions	85,005,699	81,150,931
Accounts payable and accrued expenses	20,252,904	17,041,120
Deferred income taxes	17,121,777	7,101,371
Dividends payable	8,099,100	7,255,444
Employee benefit obligations	12,508,130	7,992,300
Total liabilities	$ 798,208,785	$ 753,160,629
SHAREHOLDERS' EQUITY		
Capital stock		
Class A common, stated value $.0292 per share; authorized 74,996,930 shares; 67,032,000 shares issued and outstanding	$ 1,955,100	$ 1,955,100
Class B common, stated value $70 per share; authorized 3,070 shares; 3,070 shares issued and outstanding	214,900	214,900
Additional paid-in capital	7,830,000	7,830,000
Accumulated other comprehensive income	40,178,626	29,024,573
Retained earnings	605,044,635	500,358,579
Total shareholders' equity	$ 655,223,261	$ 539,383,152
Total liabilities and shareholders' equity	$1,453,432,046	$1,292,543,781

See accompanying notes to consolidated financial statements.

INCORPORATED BY REFERENCE, PAGE 38 OF THE COMPANY'S ANNUAL REPORT TO SHAREHOLDERS

ERIE INDEMNITY COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 1998, 1997 and 1996

	1998	1997	1996
MANAGEMENT OPERATIONS:			
Management fee revenue	$ 489,147,394	$ 467,602,283	$ 442,904,376
Service agreement revenue	13,878,922	7,026,373	5,069,140
Other operating revenue	1,540,299	1,363,298	1,218,573
Total revenue from management operations	$ 504,566,615	$ 475,991,954	$ 449,192,089
Cost of management operations	359,323,406	341,791,061	321,872,411
Net revenue from management operations	$ 145,243,209	$ 134,200,893	$ 127,319,678
INSURANCE UNDERWRITING OPERATIONS:			
Premiums earned	$ 112,939,446	$ 107,349,668	$ 101,509,759
Losses and loss adjustment expenses incurred	$ 79,880,665	$ 79,970,102	$ 85,070,861
Policy acquisition and other underwriting expenses	32,491,506	29,638,991	28,018,109
Total losses and expenses	$ 112,372,171	$ 109,609,093	$ 113,088,970
Underwriting gain (loss)	$ 567,275	($ 2,259,425)	($ 11,579,211)
INVESTMENT OPERATIONS:			
Equity in earnings of Erie Family Life Insurance Company	$ 4,777,089	$ 4,230,909	$ 3,820,957
Net investment income	38,606,178	32,932,061	25,903,159
Net realized gain on investments	7,163,706	5,815,186	6,583,208
Total revenue from investment operations	$ 50,546,973	$ 42,978,156	$ 36,307,324
Income before income taxes	$ 196,357,457	$ 174,919,624	$ 152,047,791
Provision for income taxes	61,805,963	56,338,434	46,915,432
NET INCOME	$ 134,551,494	$ 118,581,190	$ 105,132,359
Net income per share	$ 1.81	$ 1.59	$ 1.41

See accompanying notes to consolidated financial statements.

INCORPORATED BY REFERENCE, PAGE 41 OF THE COMPANY'S ANNUAL REPORT TO SHAREHOLDERS

ERIE INDEMNITY COMPANY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years Ended December 31, 1998, 1997 and 1996

	Total Shareholders' Equity	Comprehensive Income	Retained Earnings
Balance, January 1, 1996	$ 354,064,241		$ 326,420,798
Comprehensive income			
Net income	105,132,359	105,132,359	105,132,359
Other comprehensive loss, net of tax:			
Unrealized holding gains arising during year	4,126,133	4,126,133	
Less: reclassification adjustment for gains included in net income	(4,279,085)	(4,279,085)	
Other comprehensive loss, net of tax		(152,952)	
Comprehensive income		$ 104,979,407	
Dividends:			
Class A $.345 per share	(23,126,084)		(23,126,084)
Class B $51.75 per share	(158,873)		(158,873)
Balance, December 31, 1996	$ 435,758,691		$ 408,268,200
Balance, January 1, 1997			
Comprehensive income			
Net income	118,581,190	118,581,190	118,581,190
Other comprehensive income, net of tax:			
Unrealized holding gains arising during year	15,313,953	15,313,953	
Less: reclassification adjustment for gains included in net income	(3,779,871)	(3,779,871)	
Other comprehensive income, net of tax		11,534,082	
Comprehensive income		$ 130,115,272	
Dividends:			
Class A $.3925 per share	(26,310,064)		(26,310,064)
Class B $58.875 per share	(180,747)		(180,747)
Balance, December 31, 1997	$ 539,383,152		$ 500,358,579
Balance, January 1, 1998			
Comprehensive income			
Net income	134,551,494	134,551,494	134,551,494
Other comprehensive income, net of tax:			
Unrealized holding gains arising during year	15,810,462	15,810,462	
Less: reclassification adjustment for gains included in net income	(4,656,409)	(4,656,409)	
Other comprehensive income, net of tax		11,154,053	
Comprehensive income		$ 145,705,547	
Dividends:			
Class A $.4425 per share	(29,661,666)		(29,661,666)
Class B $66.375 per share	(203,772)		(203,772)
Balance, December 31, 1998	$ 655,223,261		$ 605,044,635

See accompanying notes to consolidated financial statements.

INCORPORATED BY REFERENCE, PAGE 41 OF THE COMPANY'S ANNUAL REPORT TO SHAREHOLDERS

ERIE INDEMNITY COMPANY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years Ended December 31, 1998, 1997 and 1996

	Accumulated Other Comprehensive Income	Class A Common	Class B Common	Additional Paid-in Capital
Balance, January 1, 1996	$ 17,643,443	$ 1,955,100	$ 214,900	$ 7,830,000
Comprehensive income				
Net income				
Other comprehensive loss, net of tax:				
Unrealized holding gains arising during year				
Less: reclassification adjustment for gains included in net income				
Other comprehensive loss, net of tax	(152,952)			
Comprehensive income				
Dividends:				
Class A $.345 per share				
Class B $51.75 per share				
Balance, December 31, 1996	$ 17,490,491	$ 1,955,100	$ 214,900	$ 7,830,000
Balance, January 1, 1997				
Comprehensive income				
Net income				
Other comprehensive income, net of tax:				
Unrealized holding gains arising during year				
Less: reclassification adjustment for gains included in net income				
Other comprehensive income, net of tax	11,534,082			
Comprehensive income				
Dividends:				
Class A $.3925 per share				
Class B $58.875 per share				
Balance, December 31, 1997	$ 29,024,573	$ 1,955,100	$ 214,900	$ 7,830,000
Balance, January 1, 1998				
Comprehensive income				
Net income				
Other comprehensive income, net of tax:				
Unrealized holding gains arising during year				
Less: reclassification adjustment for gains included in net income				
Other comprehensive income, net of tax	11,154,053			
Comprehensive income				
Dividends:				
Class A $.4425 per share				
Class B $66.375 per share				
Balance, December 31, 1998	$ 40,178,626	$ 1,955,100	$ 214,900	$ 7,830,000

See accompanying notes to consolidated financial statements.

INCORPORATED BY REFERENCE, PAGE 40 OF THE COMPANY'S ANNUAL REPORT TO SHAREHOLDERS

ERIE INDEMNITY COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 1998, 1997 and 1996

	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 134,551,494	$ 118,581,190	$ 105,132,359
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,000,816	1,888,660	1,428,376
Deferred income tax expense	4,677,456	440,871	1,255,163
Amortization of deferred policy acquisition costs	21,356,677	20,102,986	18,909,001
Realized gain on investments	(7,163,706)	(5,815,186)	(6,583,208)
Net amortization of bond discount	(88,636)	(158,240)	(19,640)
Undistributed earnings of Erie Family Life	(3,550,749)	(3,127,202)	(2,799,190)
Deferred compensation	1,081,594	345,450	(151,646)
Increase in accrued investment income	(1,123,714)	(558,686)	(589,879)
Increase in receivables	(1,387,303)	(21,845,530)	(30,842,709)
Policy acquisition costs deferred	(21,936,412)	(20,845,360)	(19,438,265)
Increase in prepaid expenses and other assets	(10,194,185)	(4,503,392)	(3,655,923)
Increase (decrease) in accounts payable and accrued expenses	6,646,018	(2,864,021)	(2,200,926)
Increase in accrued commissions	3,854,768	5,632,338	2,820,729
(Decrease) increase in income taxes payable	(827,335)	2,375,401	(3,124,595)
Increase in loss reserves	12,755,637	26,983,922	29,090,892
Increase in unearned premiums	9,846,075	2,272,453	14,131,495
Net cash provided by operating activities	$ 150,498,495	$ 118,905,654	$ 103,362,034
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments:			
Fixed maturities	($ 132,217,320)	($ 69,647,276)	($ 129,218,290)
Equity securities	(90,404,633)	(73,953,554)	(71,925,472)
Mortgage loans	(159,612)	(1,222,747)	(2,933,110)
Other invested assets	(12,786,646)	(1,571,223)	(3,114,141)
Sales/maturities of investments:			
Fixed maturities	45,147,935	37,995,727	58,677,994
Equity securities	70,847,725	51,482,876	32,959,337
Mortgage loans	265,257	124,108	68,519
Other invested assets	3,308,459	648,453	1,422,557
Purchase of property and equipment	(394,493)	(558,824)	(2,129,961)
Purchase of computer software	(3,864,743)	(1,618,530)	(898,016)
Loans to agents	(2,431,326)	(1,729,022)	(3,086,074)
Collections on agent loans	1,644,230	1,220,381	1,174,808
Net cash used in investing activities	($ 121,045,167)	($ 58,829,631)	($ 119,001,849)
CASH FLOW FROM FINANCING ACTIVITY			
Dividends paid to shareholders	($ 29,021,780)	($ 25,647,152)	($ 22,497,544)
Net cash used in financing activity	($ 29,021,780)	($ 25,647,152)	($ 22,497,544)
Net increase (decrease) in cash and cash equivalents	431,548	34,428,871	(38,137,359)
Cash and cash equivalents at beginning of year	53,148,495	18,719,624	56,856,983
Cash and cash equivalents at end of year	$ 53,580,043	$ 53,148,495	$ 18,719,624

Supplemental disclosures of cash flow information:
Cash paid during the year ended December 31, 1998, 1997 and 1996 for income taxes was $57,928,552, $55,166,001 and $48,784,864 respectively.

See accompanying notes to consolidated financial statements.

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
All amounts are in thousands of dollars except per share data

NOTE 1. NATURE OF BUSINESS

Erie Indemnity Company (Company) is the attorney-in-fact for the Erie Insurance Exchange (Exchange), a reciprocal insurance exchange. The Company earns a management fee for administrative and underwriting services provided to the Exchange and its affiliates. The Exchange is a property/casualty insurer rated A++, Superior, by A. M. Best. See also Note 9.

The Company's property/casualty insurance subsidiaries share proportionately in the results of all property/casualty insurance underwriting operations of the Exchange. The Exchange, Erie Insurance Company (EIC), a wholly-owned subsidiary of the Company and the Erie Insurance Company of New York (EINY), a wholly-owned subsidiary of the EIC, are part of an intercompany pooling agreement. Under this agreement, EIC and EINY cede 100% of their property/casualty insurance business, including property/casualty insurance operations assets and liabilities, to the Exchange. The Exchange retrocedes to EIC and EINY a specified percentage (5% for EIC and .5% for EINY during 1998, 1997 and 1996) of all pooled property/casualty insurance business, including insurance operations assets and liabilities. Insurance ceded by EIC and EINY to the Exchange does not relieve EIC and EINY from their primary liability as the original insurers. See also Note 11.

The property and casualty insurers operate in nine states and the District of Columbia. Business consists, to a large extent, of private passenger and commercial automobile, homeowners and workers' compensation insurance in Pennsylvania, Ohio, West Virginia, Maryland and Virginia.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles that differ from statutory accounting practices prescribed or permitted for insurance companies by regulatory authorities.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Reclassifications

Certain amounts reported in the 1997 and 1996 financial statements have been reclassified to conform to the current year's financial statement presentation.

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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.

Investments

Fixed maturities determined by management not to be held-to-maturity and marketable equity securities are classified as available-for-sale. Equity securities consist primarily of common and nonredeemable preferred stocks while fixed maturities consist of bonds and notes. Available-for-sale securities are stated at fair value, with the unrealized gains and losses, net of tax, reported as a separate component of comprehensive income and shareholders' equity.
There are no securities classified as "trading" or "held-to-maturity".

Realized gains and losses on sales of investments, including losses from declines in value of specific securities determined by management to be other-than-temporary, are recognized in income on the specific identification method.
Interest and dividend income is recorded as earned.

Mortgage loans on real estate are recorded at unpaid balances, adjusted for amortization of premium or discount. A valuation allowance is provided for impairment in net realizable value based on periodic valuations. The change in the allowance is reflected on the Statements of Operations in net realized gain on investments.

Other invested assets (primarily investments in real estate limited partnerships) are recorded under the equity method of accounting.

Fair values of available-for-sale securities are based on quoted market prices, where available, or dealer quotations. The carrying value of short-term investments approximates fair value because of the short-term maturity of these instruments. The carrying value of receivables and liabilities arising in the ordinary course of business approximates their fair values.

Cash equivalents

Cash equivalents include, primarily, investments in bank money market funds. The carrying amounts reported in the Statements of Financial Position approximate fair value due to the short-term maturity of these investments.

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recognition of premium revenues and losses

Property and liability premiums are generally recognized as revenue on a pro rata basis over the policy term. Unearned premiums are established for the unexpired portion of premiums written. Losses and loss adjustment expenses are recorded as incurred. Premiums earned and losses and loss expenses incurred are reflected in the Statements of Operations net of amounts ceded to the Exchange. See also Note 11.

Deferred policy acquisition costs

Commissions and other costs of acquiring insurance that vary with and are primarily related to the production of new and renewal business are deferred and amortized over the terms of the policies or reinsurance treaties to which they relate. The amount of costs to be deferred would be reduced to the extent future policy premiums and anticipated investment income would not exceed related losses, expenses and Policyholder dividends. Amortization equaled $21,357, $20,103 and $18,909 in 1998, 1997 and 1996, respectively.

Insurance liabilities

Losses refer to amounts paid or expected to be paid for events which have occurred. The cost of investigating, resolving and processing these claims are referred to as loss adjustment expenses. A liability is established for the total unpaid cost of losses and loss adjustment expenses, which covers events occurring in current and prior years.

The liability for losses and loss adjustment expenses includes an amount determined from loss reports and individual cases and an amount, based on past experience, for losses incurred but not reported. Inflation is provided for in the reserving function through analysis of costs, trends and reviews of historical reserving results. Such liabilities are necessarily based on estimates and, while management believes the amount is appropriate, the ultimate liability may differ from the amounts provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in earnings current. Loss reserves are set at full expected cost except for loss reserves for workers' compensation which have been discounted at 2.5%. The effect of discounting workers' compensation loss reserves on profit and loss for 1998 was $1,562, a reduction loss and loss adjustment expenses. The reserves for losses and loss adjustment expenses is reported net of receivables for salvage and subrogation of $2,970 and $2,957 at December 31, 1998 and 1997, respectively.

Environmental-related claims

In establishing the liability for unpaid losses and loss adjustment expenses related to environmental claims, management considers facts currently known and the current state of the law and coverage litigation. Liabilities are recognized for known claims (including the cost of related litigation) when sufficient information has been developed to indicate the

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

involvement of a specific insurance policy, and management can reasonably estimate its liability. In addition, liabilities have been established to cover additional exposures on both known and unasserted claims. Estimates of the liabilities are reviewed and updated continually.

Liability for guaranty fund and other assessments

The Company may be required, under the solvency or guaranty laws of the various states in which it is licensed, to pay assessments up to prescribed limits to fund Policyholder losses or liabilities of insolvent insurance companies. Certain states permit these assessments, or a portion thereof, to be recovered as an offset to future premium taxes. Assessments are recognized when they are imposed or information indicates it is probable one will be imposed, or an event obligating the Company has occurred and the amount is reasonably estimated. When the assessment is subject to credit against future premium taxes and judged to be recoverable, it may be capitalized and amortized on a basis consistent with the credits to be realized under applicable state law. The Company's estimated liability for guaranty fund and other assessments at December 31, 1998 and 1997 totaled $1,189 and $489, respectively.

Reinsurance

The Statements of Operations are reflected net of reinsurance activities. Gross losses and expenses incurred are reduced for amounts expected to be recovered under reinsurance agreements. Reinsurance transactions are recorded "gross" on the Statements of Financial Position. Estimated reinsurance recoverables and receivables for ceded unearned premiums are recorded as assets with liabilities recorded for related unpaid losses and expenses and unearned premiums.

Income taxes

Provisions for income taxes include deferred taxes resulting from changes in cumulative temporary differences between the tax bases and financial statement bases of assets and liabilities. Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Property and equipment

Property and equipment are stated at cost. Improvements and replacements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred.

Depreciation of property and equipment is computed using straight line and accelerated methods over the estimated useful lives of the assets. The costs and accumulated depreciation and amortization of property sold or retired are removed from the accounts and gains or losses, if any, are reflected in earnings for the year.

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In March of 1998, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This SOP provided guidance on accounting for the costs of computer software developed or obtained for internal use. The Company adopted this SOP in the first quarter of 1998. Software development costs totaling $3,639 in 1998 were capitalized. These costs will be amortized on a straight line basis over the expected life of the product once the software is ready for its intended use.

Property and equipment as of December 31 is summarized as follows:

	1998	1997
Land	$ 737	$ 737
Buildings	5,858	5,857
Leasehold improvements	251	242
Computer software	12,497	8,632
Computer equipment	3,030	2,645
Transportation equipment	450	450
	$ 22,823	$ 18,563
Less accumulated depreciation	10,434	8,433
	$ 12,389	$ 10,130

Earnings per share

Earnings per share is based on the weighted average number of Class A shares outstanding, giving effect to the conversion of the weighted average number of Class B shares outstanding at a rate of 2,400 Class A shares for one Class B share. The total weighted average number of Class A equivalent shares outstanding (including conversion of Class B shares) is 74,400,000.

Comprehensive income

The Company adopted the provisions of the Statement of Financial Accounting Standards (FAS) No. 130, "Reporting Comprehensive Income," in 1998. Comprehensive income is defined as any change in equity from transactions and other events originating from nonowner sources. The Company began displaying comprehensive income in the first quarter of 1998 and has displayed accumulated comprehensive income in the Statements of Shareholders' Equity at December 31, 1998.

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. INVESTMENTS

The following tables summarize the cost and market value of available-for-sale securities at December 31, 1998 and 1997 based on current year classifications.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 1998				
Fixed Maturities:				
U.S. treasuries & government agencies	$ 13,018	$ 689	$ 0	$ 13,707
States & political subdivisions	48,307	3,293	0	51,600
Special revenue	132,025	7,215	5	139,235
Public utilities	13,116	300	0	13,416
U. S. industrial & miscellaneous	195,296	9,028	629	203,695
Foreign industrial & miscellaneous	5,159	165	86	5,238
Foreign governments-agency	1,990	0	181	1,809
Total bonds	408,911	20,690	901	428,700
Redeemable preferred stock	12,191	577	115	12,653
Total fixed maturities	$ 421,102	$ 21,267	$ 1,016	$ 441,353
Equity Securities:				
Common stock:				
U. S. banks, trusts & insurance companies	$ 3,522	$ 197	$ 231	$ 3,488
U. S. industrial & miscellaneous	53,914	37,158	7,509	83,563
Foreign industrial & miscellaneous	3,186	271	278	3,179
Non-redeemable preferred stock:				
U. S. banks, trusts & insurance companies	42,807	2,561	30	45,338
U. S. industrial & miscellaneous	59,858	2,024	1,419	60,463
Foreign industrial & miscellaneous	6,690	228	145	6,773
Total equity securities	$ 169,977	$ 42,439	$ 9,612	$ 202,804
Total available-for-sale securities	$ 591,079	$ 63,706	$ 10,628	$ 644,157

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. INVESTMENTS (CONTINUED)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 1997				
Fixed Maturities:				
U. S. treasuries & government agencies	$ 12,771	$ 432	$ 3	$ 13,200
Foreign governments-agency	1,989	0	418	1,571
States & political subdivisions	41,931	2,840	0	44,771
Special revenue	116,052	7,850	1	123,901
Public utilities	7,171	160	0	7,331
U. S. industrial & miscellaneous	150,666	6,317	401	156,582
Foreign industrial & miscellaneous	2,556	61	0	2,617
Total fixed maturities	$ 333,136	$ 17,660	$ 823	$ 349,973
Equity Securities:				
Common stock:				
U. S. banks, trusts & insurance companies	$ 3,138	$ 3,379	$ 0	$ 6,517
U. S. industrial & miscellaneous	58,415	19,650	6,874	71,191
Foreign industrial & miscellaneous	3,209	53	800	2,462
Non-redeemable preferred stock:				
Public utilities	2,619	27	0	2,646
U. S. banks, trusts & insurance companies	46,901	3,347	0	50,248
U. S. industrial & miscellaneous	25,909	2,006	1	27,914
Foreign industrial & miscellaneous	3,932	223	0	4,155
Total equity securities	$ 144,123	$ 28,685	$ 7,675	$ 165,133
Total available-for-sale securities	$ 477,259	$ 46,345	$ 8,498	$ 515,106

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. INVESTMENTS (CONTINUED)

The amortized cost and estimated fair value of fixed maturities at December 31, 1998, by remaining contractual term to maturity, are shown below.

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 34,272	$ 34,288
Due after one year through five years	131,820	134,131
Due after five years through ten years	85,657	90,449
Due after ten years	169,353	182,485
	$ 421,102	$ 441,353

Changes in unrealized gains consist of the following for the years ended December 31:

	1998	1997	1996
Equity securities	$ 11,818	$ 5,462	$ 5,830
Fixed maturities	3,415	7,754	(2,955)
Other	32	63	(69)
Equity in unrealized gains (losses) of Erie Family Life Insurance Company	1,232	2,880	(1,994)
Deferred federal income taxes	(5,343)	(4,625)	(965)
Increase (decrease) in unrealized gains	$ 11,154	$ 11,534	($ 153)

Net investment income consists of the following for the years ended December 31:

	1998	1997	1996
Fixed maturities	$ 25,562	$ 21,929	$ 18,071
Equity securities	8,227	7,059	6,897
Other	5,256	4,237	1,201
Total investment income	39,045	33,225	26,169
Investment expense	439	293	266
Net investment income	$ 38,606	$ 32,932	$ 25,903

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. INVESTMENTS (CONTINUED)

Realized gains and losses on investments reflected in operations are summarized below for the years ended December 31:

	1998	1997	1996
Realized gains:			
Fixed maturities	$ 809	$ 252	$ 1,015
Equity securities	9,663	6,613	5,969
Other invested assets	688	0	299
Total gains	$ 11,160	$ 6,865	$ 7,283
Realized losses:			
Fixed maturities	$ 1	$ 19	$ 198
Equity securities	3,397	1,031	378
Other invested assets	598	0	124
Total losses	$ 3,996	$ 1,050	$ 700
Net realized gain on on investments	$ 7,164	$ 5,815	$ 6,583

NOTE 4. EQUITY IN ERIE FAMILY LIFE INSURANCE COMPANY

The following represents condensed financial information for Erie Family Life Insurance Company (EFL):

	1998	1997	1996
Investments	$ 774,882	$ 703,033	$ 653,917
Total assets	917,606	832,534	740,651
Liabilities	735,075	672,155	608,020
Shareholders' equity	182,531	160,379	132,631
Revenues	96,210	91,037	82,720
Net income	22,085	19,560	17,666
Dividends paid to shareholders	5,528	5,009	4,615

The Company's share of EFL's net unrealized gains or losses on securities is reflected in shareholders' equity ($5,656, $4,425 and $1,545 at December 31, 1998, 1997 and 1996, respectively.) The 1998, 1997 and 1996 changes in this net unrealized gain on securities were $1,232, $2,880 and ($1,994), respectively.

Deferred federal income taxes have not been provided on the Company's equity in undistributed earnings of EFL. It is management's current intent to reinvest undistributed earnings indefinitely and not liquidate its investment in EFL. The estimated deferred tax liability unrecognized at December 31, 1998, 1997 and 1996 is $2,737, $2,401 and $1,981, respectively.

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. BENEFIT PLANS

The following benefit plan information is presented in accordance with FAS 132, "Employers' Disclosures about Pensions and Other Post-retirement Benefits." FAS132 addresses only disclosure requirements of pensions and other post-retirement benefits, not measurement or recognition issues.

Pension plan for Employees

The Company has a non-contributory defined benefit pension plan covering substantially all Employees of the Company. Information about this plan follows for the years ended December 31:

	1998	1997
Net periodic benefit cost:		
Service cost	$ 5,119	$ 4,451
Interest cost	6,214	5,550
Expected return on plan assets	(9,419)	(8,060)
Amortization of prior service cost	448	447
Recognized actuarial gain	(1,252)	(979)
Amortization of unrecognized initial net obligation	(234)	(234)
Net periodic benefit cost	$ 876	$ 1,175
Fair Value of Plan Assets:		
Fair value of plan assets at January 1	$ 117,644	$ 98,761
Actual return on plan assets	12,330	12,796
Employer contributions	6,491	6,290
Benefits paid	(3,088)	(203)
Fair value of plan assets at December 31	$ 133,377	$ 117,644
Benefit obligation:		
Benefit obligation at January 1	$ 83,575	$ 72,016
Service cost	5,119	4,451
Interest cost	6,214	5,550
Actuarial gain	8,461	1,761
Benefits paid	(3,088)	(203)
Benefit obligation at December 31	$ 100,281	$ 83,575
Funded status:		
Funded status at December 31	$ 33,096	$ 34,069
Unrecognized net actuarial gain	(23,073)	(29,875)
Unrecognized prior service cost	2,929	3,376
Unrecognized initial net obligation	(1,168)	(1,402)
Net asset recognized on Statements of Financial Condition	$ 11,784	$ 6,168

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. BENEFIT PLANS (CONTINUED)

The plan assets include cash, treasury bonds, corporate bonds, common and preferred stocks and mortgages.

Assumptions used in accounting for the pension plan were as follows:

	1998	1997
Weighted average discount rate used to measure projected benefit obligation	6.75%	7.25%
Weighted average rate of compensation increase used to measure projected benefit obligation	5.00%	5.00%
Weighted average expected long-term rate of return on plan assets	8.25%	8.25%

The Company's funding policy is to contribute amounts sufficient to meet minimum ERISA funding requirements plus such additional amounts as may be determined to be appropriate.

The pension plan purchases individual annuities periodically from EFL to settle retiree benefit payments. Such purchases equaled $6,413, $1,992 and $4,894 in 1998, 1997 and 1996, respectively. These are non-participating annuity contracts under which EFL has unconditionally contracted to provide specified benefits to beneficiaries in return for a fixed premium from the plan. However, the plan remains the primary obligor to the beneficiaries and a contingent liability exists in the event EFL could not honor the annuity contracts. The benefit obligation has been reduced for these annuities purchased for retirees.

The accumulated benefit obligation was $59,537 and $50,290, respectively, as of December 31, 1998 and 1997.

Pension plans for officers and outside directors

The Company has an unfunded supplemental pension plan for its officers and an unfunded pension plan for its outside directors. The pension plan for outside directors froze accruals effective April 30, 1997. The benefits for all active participants were settled effective July 31, 1997 through participants' elections to transfer the lump sum values of these benefits to a deferred compensation plan for outside directors. The effect of curtailments on the Company was not significant. Information about the plans follow for the years ended December 31:

	1998	1997
Net periodic benefit cost:		
Service cost	$ 363	$ 225
Interest cost	628	404
Amortization of prior service cost	528	216
Recognized actuarial loss	364	388
Net periodic benefit cost	$ 1,883	$ 1,233

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. BENEFIT PLANS (CONTINUED)

	1998	1997
Benefit obligation:		
Benefit obligation at January 1	$ 5,049	$ 3,915
Service cost	363	225
Interest cost	628	401
Amendments	3,138	109
Actuarial loss	993	1,693
Benefits paid	(70)	(1,294)
Benefit obligation at December 31	$ 10,101	$ 5,049
Funded status:		
Funded status at December 31	$ 10,101	$ 5,049
Unrecognized net actuarial gain	(3,423)	(2,455)
Unrecognized prior service cost	(3,299)	(689)
Net liability recognized on Statements of Financial Condition	$ 3,379	$ 1,905
Amounts recognized in the Statements of Financial Condition consist of:		
Accrued benefit liability	$ 6,678	$ 2,690
Intangible asset	(3,299)	(785)
Net amount recognized	$ 3,379	$ 1,905

The weighted average discount rate used for purposes of determining the projected benefit obligation of the officers' supplemental pension plan was 6.75% and 7.25% in 1998 and 1997, respectively. The weighted average rate of compensation increase used to measure the projected benefit obligation of the officers' supplemental pension plan was 5.0% in 1998 and 1997.

An intangible asset has been recorded to reflect the transition of the additional liability of the Company.

The accumulated benefit obligation was $6,678 and $2,690, respectively, as of December 31, 1998 and 1997.

Post-retirement benefits other than pensions

The Company provides post-retirement medical coverage for eligible retired Employees and eligible dependents. The Company pays the obligation when due. Actuarially determined costs are recognized over the period the Employee provides service to the Company. Information about this plan follows for the years ended December 31:

	1998	1997
Net periodic benefit cost:		
Service cost	$ 333	$ 288
Interest cost	319	290
Amortization of prior service cost	(37)	(37)
Recognized actuarial gain	(40)	(30)
Net periodic benefit cost	$ 575	$ 511

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. BENEFIT PLANS (CONTINUED)

	1998	1997
Change in benefit obligation:		
Benefit obligation at January 1	$ 4,071	$ 4,475
Service cost	333	288
Interest cost	319	290
Amendments	0	(513)
Actuarial loss (gain)	423	(358)
Benefits paid	(112)	(111)
Benefit obligation at December 31	$ 5,034	$ 4,071
Funded status:		
Funded status at December 31	$ 5,034	$ 4,071
Unrecognized net actuarial loss	356	755
Unrecognized initial net obligation	440	476
Net amount recognized	$ 5,830	$ 5,302

The cash payments for such benefits were $112, $176 and $213 in 1998, 1997 and 1996, respectively.

The weighted average discount rate used to measure the accumulated post-retirement benefit obligation was 6.75% and 7.25% in 1998 and 1997, respectively. The December 31, 1998 accumulated benefit obligation was based on a 9.0% increase in the cost of covered health care benefits during 1998. The expected health care cost trend rate assumption for 1999 is 8.5%. This rate is assumed to decrease gradually to 5% per year in 2006 and to remain at that level thereafter.

	1998	1997
Effect on total of service and interest cost components:		
1% Increase	$ 113	$ 100
1% Decrease	(94)	(83)
Effect on post-retirement benefit obligation:		
1% Increase	$ 766	$ 640
1% Decrease	(647)	(541)

Employee savings plan

The Company has an Employee Savings Plan for its Employees. Eligible participants are permitted to make contributions of 1% to 8% of compensation to the plan on a pre-tax salary reduction basis in accordance with provisions of Section 401(k) of the Internal Revenue Code. The Company matches one-half of the participant contributions up to 6% of compensation. All full-time Employees are eligible to participate in the plan. The Company's matching contributions to the plan in 1998, 1997 and 1996 were $3,069, $2,892 and $2,688, respectively. Effective May 1997, Employees were permitted to invest a portion of employer contributions in the Class A common stock of the Company. The plan will acquire shares necessary to meet the obligations of the plan in the open market.

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. BENEFIT PLANS (CONTINUED)

Deferred compensation and incentive plans

The Company has deferred compensation and incentive plans for certain eligible Employees of the Company and its affiliates. Compensation deferred under these plans and charged to operations amounted to $2,817, $1,347 and $259 during 1998, 1997 and 1996, respectively.

Health and dental benefits

The Company has self-funded health and dental care plans for all of its Employees and eligible dependents. Estimated unpaid claims incurred are accrued as a liability at December 31, 1998 and 1997. Operations were charged $13,057, $12,646 and $9,899 in 1998, 1997 and 1996, respectively, for the cost of health and dental care provided under these plans.

The above mentioned benefit plan expenses are presented gross, prior to reimbursement from the Exchange and EFL. See also Note 9.

NOTE 6. INCOME TAXES

The provision for income taxes consists of the following for the years ended December 31:

	1998	1997	1996
Federal			
Current	$ 57,129	$ 55,897	$ 45,660
Deferred	4,677	441	1,255
	$ 61,806	$ 56,338	$ 46,915

A reconciliation of the provision for income taxes with amounts determined by applying the statutory federal income tax rates to pre-tax income is as follows:

	1998	1997	1996
Income tax at statutory rates	$ 68,725	$ 61,222	$ 53,217
Deduct:			
Undistributed earnings of affiliate	(1,242)	(1,095)	(980)
Tax-exempt interest	(3,192)	(3,009)	(3,338)
Dividends received deduction	(1,782)	(1,628)	(1,483)
Other	(703)	848	(501)
Provision for income taxes	$ 61,806	$ 56,338	$ 46,915

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. INCOME TAXES (CONTINUED)

Temporary differences and carryforwards which give rise to deferred tax assets and liabilities are as follows:

	December 31, 1998	December 31, 1997
Deferred tax assets:		
Loss reserve discount	$ 3,497	$ 4,012
Unearned premiums	3,884	3,733
Alternative minimum tax paid	1,108	2,305
Employee benefit plan obligations	2,526	1,943
Other	275	95
Total deferred tax assets	$ 11,290	$ 12,088
Deferred tax liabilities:		
Deferred policy acquisition costs	$ 3,802	$ 3,599
Unrealized gains	18,590	13,246
Pension and other benefits	3,469	1,472
Capitalized salaries and benefits	589	0
Accrual of discount	988	792
Property and equipment	547	80
Other	427	0
Total deferred tax liabilities	$ 28,412	$ 19,189
Net deferred tax liability	$ 17,122	$ 7,101

A reconciliation of the provision for income taxes with comprehensive income reported on the Statements of Shareholders' Equity is as follows:

	1998	1997	1996
Unrealized gains (losses) on securities:			
Unrealized holding gains arising during year	$ 24,324	$ 23,560	$ 6,348
Less: reclassification adjustment for gains included in net income	7,164	5,815	6,583
Net unrealized holding gains (losses) arising during year	$ 17,160	$ 17,745	($ 235)
Income tax (expense) benefit related to unrealized gains (losses)	($ 6,006)	($ 6,211)	$ 82
Other comprehensive income (loss), net of tax	$ 11,154	$ 11,534	($ 153)

Erie Indemnity Company, as a corporate attorney-in-fact for a reciprocal insurer, is not subject to state corporate taxes.

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. CAPITAL STOCK

Class A and B shares

Holders of Class B shares may, at their option, convert their shares into Class A shares at the rate of 2,400 Class A shares for each Class B share. There is no provision for conversion of Class A shares to Class B shares and Class B shares surrendered for conversion cannot be reissued. Each share of Class A common stock outstanding at the time of the declaration of any dividend upon shares of Class B common stock shall be entitled to a dividend payable at the same time, at the same record date, and in an amount at least equal to 2/3 of 1% of any dividend declared on each share of Class B common stock. The Company may declare and pay a dividend in respect of Class A common stock without any requirement that any dividend be declared and paid in respect of Class B common stock. Sole voting power is vested in Class B common stock except insofar as any applicable law shall permit Class A common stock to vote as a class in regards to any changes in the rights, preferences and privileges attaching to Class A common stock.

Redemption provisions

The Erie Indemnity Company Stock Redemption Plan entitles heirs of shareholders to cause the Company to redeem shares of stock of the Company at a price equal to the fair market value of the stock as determined in the Board's sole discretion after consideration of certain factors at time of redemption. The redemption amount is limited to an aggregation of: (1) an initial amount of $10 million as of December 31, 1995 and (2) beginning in 1996 and annually thereafter, an additional annual amount as determined by the Board in its sole discretion, not to exceed 20% of the Company's net income from management operations during the prior fiscal year. This aggregate amount is reduced by redemption amounts paid. However, at no time shall the aggregate redemption limitation exceed 20% of the Company's retained earnings determined as of the close of the prior year. In addition, the plan limits the repurchase from any single shareholder's estate to 33% of total shareholdings of such shareholder. On March 11, 1997, the Board of Directors approved an increase in the redemption amount of $16,655 to $41,005. On April 28, 1998, the Board approved an increase in the redemption amount of $17,792 to $58,797. There were no shares of stock redeemed during 1998, 1997 or 1996.

Stock repurchase plan

At the December 16, 1998 regular meeting of the Board of Directors of the Erie Indemnity Company, the board approved a stock repurchase plan beginning January 1, 1999, under which the Company may repurchase as much as $70 million of its outstanding Class A common stock through December 31, 2001. The Company may purchase the shares from time to time in the open market or through privately negotiated transactions, depending on prevailing market conditions and alternative uses of the Company's capital.

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8. UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The following table provides a reconciliation of beginning and ending liability balances for 1998, 1997 and 1996 for the Company's wholly-owned property/casualty subsidiaries.

	1998	1997	1996
Total unpaid losses and loss adjustment expenses at January 1, gross	$ 413,409	$ 386,425	$ 357,334
Less reinsurance recoverables	323,910	301,553	278,325
Net balance at January 1	89,499	84,872	79,009
Incurred related to:			
Current year	80,627	77,345	85,311
Prior years	(746)	2,625	(240)
Total incurred	79,881	79,970	85,071
Paid related to:			
Current year	46,645	42,792	49,901
Prior years	31,278	32,551	29,307
Total paid	77,923	75,343	79,208
Net balance at December 31	91,457	89,499	84,872
Plus reinsurance recoverables	334,708	323,910	301,553
Total unpaid losses and loss adjustment expenses at December 31, gross	$ 426,165	$ 413,409	$ 386,425

NOTE 9. RELATED PARTY TRANSACTIONS

Management fee

A management fee is charged to the Exchange for administrative and underwriting services. The fee is recorded as revenue and computed monthly as a percentage of Exchange direct and affiliated assumed premiums written. The percentage rate is adjusted periodically within specified limits by the Company's Board of Directors. The management fee was charged to the Exchange at the following rates:

April 1, 1995 to March 31, 1996	24.5%
April 1, 1996 to December 31, 1997	24%
January 1, 1998 to December 31, 1998	24.25%

Beginning January 1, 1999 through December 31, 1999, the management fee rate charged the Exchange was set at 25%. The Company's Board of Directors may change the management fee rate at its discretion, but it may not exceed 25%.

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. RELATED PARTY TRANSACTIONS (CONTINUED)

Service agreement revenue

A service arrangement fee is charged to the Exchange to compensate the Company for its management of non-affiliated assumed reinsurance business on behalf of the Exchange. The Company receives a fee of 7% of voluntary reinsurance premiums assumed from non-affiliated insurers and is responsible for accounting and operating expenses in connection with the administration of this business.

Effective September 1, 1997 the Company was reimbursed by the Exchange a portion of the service charges collected from Policyholders as reimbursement for the costs incurred by the Company in providing extended payment terms on policies written by the insurers managed by the Company. Service charge revenue amounted to $7,164 in 1998 and $2,011 in 1997.

Expense reimbursements

The Company pays for and is reimbursed by the Exchange for expenses incurred in connection with adjustment of claims and by EFL for administrative expenses. Reimbursements are made to the Company from these affiliates monthly. The amounts of such expense reimbursements were as follows for the years ended December 31:

	1998	1997	1996
Erie Insurance Exchange	$ 123,577	$ 109,076	$ 95,820
EFL	13,346	13,038	10,095
	$ 136,923	$ 122,114	$ 105,915

Office leases

The Company occupies certain office facilities owned by the Exchange and EFL. The Company leases office space on a year-to-year basis from the Exchange. Rent expenses under these leases totaled $11,344, $11,288 and $10,949 in 1998, 1997 and 1996, respectively. The Company has a lease commitment in excess of one year with EFL for a branch office. Rentals paid to EFL under this lease totaled $343 in 1998 and $423 in 1997 and 1996.

Note receivable from EFL

EFL issued a surplus note to the Company for $15,000. The note bears an annual interest rate of 6.45% and all payments of interest and principal of the note may be repaid only out of unassigned surplus of EFL and are subject to prior approval of the Pennsylvania Insurance Commissioner. Interest on the surplus note is scheduled to be paid semi-annually. The note will be payable on demand on or after December 31, 2005. During 1998 and 1997, EFL paid interest to the Company totaling $968 each year.

Structured settlements with EFL

The Company and Exchange periodically purchase annuities from EFL in connection with the structured settlements of claims. The Company's pro-rata share (5.5%) of such annuities purchased equaled $984, $978 and $743 in 1998, 1997 and 1996, respectively.

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. RECEIVABLES FROM ERIE INSURANCE EXCHANGE AND CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially expose the Company to concentrations of credit risk include unsecured receivables from the Exchange. A significant amount of the Company's revenue and a receivable are from the Exchange and affiliates.

Management fee and expense reimbursements due from the Exchange were $106,987 and $111,577 in 1998 and 1997, respectively. A receivable from EFL for expense reimbursements totaled $1,625 at December 31, 1998 compared to $1,153 at December 31, 1997. The Company also has a receivable due from the Exchange for reinsurance recoverable from losses and unearned premium balances ceded to the pool. Such amounts totaled $381,302 and $383,131, respectively, in 1998 and 1997.

Premiums receivable from Policyholders at December 31, 1998 and 1997 equaled $114,695 and $108,058, respectively. A significant amount of these receivables are ceded to the Exchange as part of the intercompany pooling arrangement.

The property/casualty insurance business relates primarily to private passenger and commercial automobile, homeowners, commercial multi peril and workers' compensation insurance in ten jurisdictions. Premiums from insureds in Pennsylvania, Maryland, West Virginia, Virginia and Ohio account for a significant percentage of the business.

NOTE 11. REINSURANCE

EIC and EINY have a pooling arrangement with the Exchange, whereby EIC and EINY cede all of their direct property/casualty insurance to the Exchange, except for premium under the all lines aggregate excess of loss reinsurance agreement discussed below. EIC and EINY then assume 5% and 0.5%, respectively, of the total of the Exchange's insurance business (including the business assumed from EIC and EINY). The companies settle accounts between them by payment of such amounts within 30 days after the end of each quarterly accounting period. Amounts not settled within 30 days will accrue interest until such payments are made.

Effective January 1, 1997, EIC and EINY placed in effect an all lines aggregate excess of loss reinsurance agreement with the Exchange. Under this agreement, EIC and EINY reinsure their net retained share of the intercompany reinsurance pool such that once EIC and EINY have sustained ultimate net losses that exceed an amount equal to 72.5% of EIC and EINY's net premiums earned, the Exchange will be liable for 95% of the amount of such excess, up to but not exceeding, an amount equal to 95% of 15% of EIC and EINY's net premium earned. Losses equal to 5% of the net ultimate net loss in excess of the retention under the contract are retained net by EIC and EINY. The annual premium for this reinsurance treaty is 1.01% of the net premiums earned by EIC and EINY during the term of this agreement subject to a minimum premium of $800. This reinsurance treaty is excluded from the intercompany pooling agreement. The annual premium paid to the Exchange for the agreement totaled $1,158 in 1998 and $1,103 for 1997. There were no loss recoveries by EIC or EINY under the agreement for 1998 or 1997.

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. REINSURANCE (CONTINUED)

To the extent the Exchange assumes reinsurance business from affiliated and non-affiliated sources, the Company participates because of its pooling arrangement with the Exchange. Similarly, the Company also participates in the business ceded from the Exchange. Reinsurance premiums, commissions, expense reimbursements and reserves related to reinsurance business are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums ceded to the Exchange have been reported as a reduction of premium income. The Company's property and liability reinsurance assumed from foreign insurance companies is accounted for using the periodic method, whereby premiums are recognized as revenue over the policy term, and claims, including an estimate of claims incurred but not reported, are recognized as they occur. The amount of reinsurance business assumed from foreign insurance companies is not significant.

Reinsurance contracts do not relieve the Company from its primary obligations to Policyholders. A contingent liability exists with respect to reinsurance receivables in the event reinsurers are unable to meet their obligations under the reinsurance agreements.

The following summarizes insurance and reinsurance activities for the Company:

	1998	1997	1996
Premiums Earned:			
Direct	$ 338,162	$ 334,772	$ 321,736
Assumed - non-affiliates	4,889	5,393	2,882
Ceded to Erie Insurance Exchange	(343,051)	(340,165)	(324,618)
Assumed from Erie Insurance Exchange	112,939	107,350	101,510
Net	$ 112,939	$ 107,350	$ 101,510
Losses and Loss Adjustment Expenses Incurred:			
Direct	$ 269,710	$ 265,678	$ 261,097
Assumed - non-affiliates	3,912	5,896	2,511
Ceded to Erie Insurance Exchange	(273,622)	(271,574)	(263,608)
Assumed from Erie Insurance Exchange	79,881	79,970	85,071
Net	$ 79,881	$ 79,970	$ 85,071

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12. STATUTORY INFORMATION

The Company's insurance subsidiaries are required to file statutory financial statements with state insurance regulatory authorities. Accounting principles used to prepare statutory financial statements differ from financial statements prepared on the basis of generally accepted accounting principles.

Consolidated balances including amounts reported by the consolidated and unconsolidated insurance subsidiaries on the statutory basis would be as follows:

	1998	1997	1996
Shareholders' equity at December 31,	$ 638,859	$ 523,715	$ 414,674
Net income for the year ended December 31,	135,603	118,970	104,007

The amount of dividends the Company's Pennsylvania-domiciled property/casualty subsidiaries, EIC and Erie Insurance Property & Casualty Company, can pay without the prior approval of the Pennsylvania Insurance Commissioner is limited by Pennsylvania regulation to not more than the greater of: (a) ten percent of its statutory surplus as reported on its last annual statement, or (b) the net income as reported on its last annual statement. The amount of dividends that the Erie Insurance Company's New York-domiciled property/casualty subsidiary, EINY, can pay without the prior approval of the New York Superintendent of Insurance is limited to the lesser of (a) ten percent of its statutory surplus as reported on its last annual statement, or (b) one hundred percent of its adjusted net investment income during such period. At December 31, 1998, the maximum dividend the Company could receive from its property/casualty insurance subsidiaries was $14,624. No dividends were paid to the Company from its property/casualty insurance subsidiaries in 1998 or 1997.

The amount of dividends EFL, a Pennsylvania-domiciled life insurer, can pay to its shareholders without the prior approval of the Pennsylvania Insurance Commissioner is limited by statute to the greater of: (a) 10 percent of its statutory surplus as regards Policyholders as shown on its last annual statement on file with the commissioner, or (b) the net income as reported for the period covered by such annual statement, but shall not include pro rata distribution of any class of the insurer's own securities. Accordingly, the Company's share of the maximum dividend payout which may be made in 1999 without prior Pennsylvania Commissioner approval is $2,982. Dividends to the Company totaled $1,226 in 1998 and $1,104 in 1997.

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13. SEGMENT INFORMATION

The Company's principal operations consist of serving as attorney-in-fact for the Exchange which constitutes its management operations. The Company's property/casualty insurance operations arise by virtue of a pooling arrangement between its subsidiaries and the Exchange. The Company also has a 21.63% equity interest in EFL which comprises its life insurance operations segment.

Summarized financial information for these operations is presented below. Income amounts include each industry segment's share of investment income and realized gain or loss on investments which are reported in the investment operations segment on the Statements of Operations.

	1998	1997	1996
Revenue:			
Management operations	$ 533,449	$ 501,148	$ 470,538
Property/casualty insurance operations	129,827	120,918	112,541
Life insurance operations	4,777	4,231	3,821
Total revenue	$ 668,053	$ 626,297	$ 586,900
Income before income taxes:			
Management operations	$ 174,126	$ 159,380	$ 148,774
Property/casualty insurance operations	17,454	11,309	(547)
Life insurance operations	4,777	4,231	3,821
Total income before income taxes	$ 196,357	$ 174,920	$ 152,048
Net income:			
Management operations	$ 116,411	$ 106,513	$ 99,045
Property/casualty insurance operations	13,612	8,056	2,338
Life insurance operations	4,528	4,012	3,749
Net income	$ 134,551	$ 118,581	$ 105,132
Assets:			
Management operations	$ 666,781	$ 550,748	$ 456,598
Property/casualty insurance operations	747,172	707,108	665,355
Life insurance operations	39,479	34,688	28,686
Total assets	$ 1,453,432	$ 1,292,544	$ 1,150,639

INCORPORATED BY REFERENCE, PAGE 53 OF THE COMPANY'S ANNUAL REPORT TO SHAREHOLDERS

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1998				
Net revenue from management operations	$ 33,761	$ 39,065	$ 40,047	$ 32,370
Underwriting gain (loss)	1,428	(307)	(97)	(457)
Total revenue from investment operations	11,317	13,554	11,847	13,829
Net income	$ 31,699	$ 35,470	$ 35,697	$ 31,685
Net income per share	$ 0.43	$ 0.47	$ 0.48	$ 0.43
Comprehensive income	$ 40,641	$ 35,165	$ 23,990	$ 45,910
1997				
Net revenue from management operations	$ 31,754	$ 35,363	$ 36,541	$ 30,543
Underwriting loss	(48)	(783)	(299)	(1,129)
Total revenue from investment operations	9,636	10,138	11,750	11,454
Net income	$ 28,211	$ 30,444	$ 32,128	$ 27,798
Net income per share	$ 0.38	$ 0.41	$ 0.43	$ 0.37
Comprehensive income	$ 22,106	$ 41,442	$ 41,208	$ 25,359

EXHIBIT 21

SUBSIDIARIES OF REGISTRANT

Registrant owns 100% of the outstanding stock of the following companies:

Name	State of Formation
Erie Insurance Property & Casualty Company	Pennsylvania
Erie Insurance Company	Pennsylvania
EI Holding Corp.	Delaware
EI Service Corp.	Pennsylvania
Erie Insurance Company of New York - Wholly-owned by Erie Insurance Company	New York

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE DECEMBER 31, 1998 FORM 10-K AND RESTATED SUMMARY INFORMATION FOR THE YEARS ENDED DECEMBER 31,1997 AND 1996 FOR THE ERIE INDEMNITY COMPANY AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FORM 10-K

0000922621
ERIE INDEMNITY COMPANY
1,000

YEAR	YEAR	YEAR
DEC-31-1998	DEC-31-1997	DEC-31-1996
DEC-31-1998	DEC-31-1997	DEC-31-1996
441,353	349,973	310,176
0	0	0
0	0	0
202,804	165,133	131,618
8,287	8,393	7,294
0	0	0
669,938	531,430	456,098
53,581	53,148	18,720
939	242	164
10,863	10,283	9,541
1,453,432	1,292,544	1,150,639
426,165	413,408	386,425
229,057	219,211	216,938
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
2,170	2,170	2,170
653,053	537,213	433,589
1,453,432	1,292,544	1,150,639
112,939	107,350	101,510
39,083	37,163	29,724
7,164	5,815	6,583
0	0	0
79,881	79,970	85,071
32,492	29,639	28,098
0	0	0
196,357	174,920	152,048
61,806	56,338	46,915
0	0	0
0	0	0
0	0	0
0	0	0
134,551	118,581	105,132
1.81	1.59	1.41
1.81	1.59	1.41
413,409	386,425	357,334
80,637	77,345	85,311
(746)	2,625	(240)
46,645	42,792	49,901
31,278	32,551	29,307
426,165	413,409	386,425
(1,220)	8,883	132,649

Investment income has been restated to reflect the statement of investment expenses.

ERIE INDEMNITY COMPANY

Report

of

The Special Committee

to

The Board of Directors

March 9, 1999

EXHIBITS

Number	Description
1	April 1, 1998 Proxy Statement
2	H. O. Hirt Trust
3	Excerpt of September 27, 1993 Board of Directors' Minutes
4	Thomas B. Hagen's Termination Agreement
5A	August 13, 1996 Letter from Susan Hagen to Seth Schofield, with cover memo
5B	September 4, 1996 Letter from F. William Hirt to Seth Schofield
5C	September 5, 1996 Letter from Seth Schofield to Susan Hirt Hagen
5D	September 30, 1996 Letter from Susan Hirt Hagen to Seth Schofield
5E	October 24, 1996 Letter from Seth Schofield to Susan Hirt Hagen
5F	November 25, 1996 Letter from Susan Hirt Hagen to Seth Schofield
5G	December 13, 1996 Letter from F. William Hirt to Susan Hirt Hagen
5H	January 9, 1997 Letter from Susan Hagen to F. W. Hirt
5I	April 26, 1994 Letter from James Moffat, Mellon Bank, to Susan Hagen and F. William Hirt
6	Excerpt of July 21, 1994 Board of Directors' Minutes
7	February 5, 1996 letter from William H. Clark, Esq., to James M. Glockley
8	Excerpt of February 12, 1996 Board of Directors' Minutes

9 F. William Hirt's and Audrey Hirt's answer to the second set of interrogatories in Orphans' Court litigation

10	October 16, 1998 letters from Susan Hagen to Messrs. Milne, Petersen, Schofield and Van Gorder
11	October 22, 1998 letter from Seth Schofield to F. William Hirt
12	Excerpt of October 27, 1998 Board of Directors' Minutes
13	Excerpt of December 16, 1998 Board of Directors' Minutes
14	Corporate Personnel Manual, "Conflict of Interest and Outside Employment"
15	Conflict of Interest Questionnaire
16	Schiff, Hardin & Waite's August 15, 1989 Memorandum to F. William Hirt and Thomas Hagen Re: Estate Planning Recommendations
17	December 18, 1998 Letter from F. William Hirt to Bruce A. Baird
18	February 19, 1992 and March 20, 1992 letters re: stock transfers
19	F. William Hirt's handwritten lists re: Erie stock gifts, 1994-98
20	Typed lists re: Hirt gifts, 1994-98
21	Schiff, Hardin & Waite's September 5, 1996 letter to Doug Ziegler, with attached August 29, 1996 Memorandum Re: Legal Consequences of Mr. Hirt giving Erie stock to All Employees
22	October 27, 1998 and November 23, 1998 statements of F. W. Hirt
23	August 1998 letters from Messrs. Kochel and Hubbard
24	List of gifts by Doug Ziegler
25A	Excerpt of May 26, 1994 Board of Directors' Minutes
25B	Excerpt of April 25, 1995 Board of Directors' Minutes (draft)

25C	Excerpt of December 13, 1994 Board of Directors' Minutes
25D	Excerpt of September 21, 1995 Board of Directors' Minutes
25E	Excerpt of March 19, 1998 Board of Directors' Minutes
25F	Excerpt of December 16, 1997 Board of Directors' Minutes
25G	Excerpt of December 16, 1998 Board of Directors' Minutes
26A	Excerpt of December 16, 1993 Board of Directors' Minutes
26B	Excerpt of June 22, 1995 Board of Directors' Minutes
26C	Excerpt of March 26, 1996 Board of Directors' Minutes
26D	Excerpt of May 1, 1996 Board of Directors' Minutes
26E	May 7, 1996 Letter from Jan Van Gorder
26F	Excerpt of June 17, 1996 Board of Directors' Minutes
26G	Excerpt of September 29, 1994 Board of Directors' Minutes
26H	Excerpt of March 2, 1995 Board of Directors' Minutes
27	Erie in-house counsel's and Duane Morris & Heckscher's opinions re: indemnification of Mr. Sider
28	Messrs. Milne's and Van Gorder's 1997 employment agreements
29	Opinion Letter re: Special Committee's Independence
30	March 11, 1997 Board Minutes
31	November 4, 1998 Letter from Stephen J. Harmelin

32	November 24, 1998 Letter from Stephen J. Harmelin
33	Table of Stock Holdings and Dividend Payments, 1997-98
34	Team Dispatch Sales Analysis
35	February 18, 1999 Letter from Timothy Mehl
36	Body-Borneman & Associates, Inc. contract
37	Black & Associates, Inc. contract
38	Black & Associates, Inc.'s Premiums Received from Dispatch Printing and Edmund J. Mehl
39	Erie's Investments with Brown Brothers Harriman
40A	Brown Brothers Harriman Revenue from Erie
40B	Letter re: Brown Brothers Harriman total assets under management
41A	December 18, 1997 Brown Brothers Harriman memorandum
41B	October 14, 1998 Brown Brothers Harriman memorandum
41C	October 20, 1998 Brown Brothers Harriman memorandum
41D	January 19, 1999 Letter from Peter Bartlett, with attachments
42	February 11, 1999 Letter from Jan Van Gorder

March 9, 1999

The Board of Directors
Erie Indemnity Company
100 Erie Insurance Place
Erie, PA

To the Board:

The following is the Report of the Special Committee (the "Committee") of the Board of Directors (the "Board") of the Erie Indemnity Company ("Erie") regarding its investigation of whether gifts of Class A common stock of Erie made by F. William Hirt ("Mr. Hirt") and his wife (the "gifts") to directors John M. Petersen ("Mr. Petersen"), Stephen A. Milne ("Mr. Milne"), and Jan R. Van Gorder ("Mr. Van Gorder") and former director Seth E. Schofield ("Mr. Schofield") have resulted in violations of any applicable law, Erie policy or principle of corporate governance.

I. Description of the Report

This Report will begin with an Executive Summary that summarizes our investigation and its findings. Second, we will set forth the chronology of events and describe the scope of the investigation. Third, we will discuss relevant legal authorities. Fourth, we will describe the evidence with respect to Mr. Hirt's intent in giving the gifts and the recipients' intent in receiving them. Finally, we will set forth our conclusions and our recommendation for an addition to the corporate bylaws with respect to the acceptance of gifts by officers and directors from other directors and Erie employees and shareholders. Exhibits referred to in this Report are attached hereto in a separate volume.

II. Executive Summary

The Board established the Committee on October 27, 1998 to investigate allegations that gifts of Erie stock made by Mr. Hirt to certain other directors constituted violations of law, Erie policy or principles of corporate governance. During the following four months, the Committee and its independent counsel, Covington & Burling ("C&B"), conducted an extensive investigation which was substantially completed by the last week of February 1999.

Having concluded the investigation, the Committee makes the following findings, which are only summarized here and which should be read in the context of the entire Report:

First, the Committee concluded, with the advice of its counsel, that its members were disinterested and capable of objective judgment under Pennsylvania law with respect to the propriety of the gifts. Allegations to the contrary were made by director Susan Hirt Hagen ("Mrs. Hagen"), which the Committee carefully investigated and considered.

Second, the Committee considered possible violations of state and federal criminal laws and concluded that these laws had not been violated. Such violations require improper intent, and the evidence demonstrated overwhelmingly that Mr. Hirt gave the gifts out of generosity and not with the intent to influence anyone.

Third, the Committee considered any possible breach of fiduciary duty under Pennsylvania law, and concluded that no such breach had occurred. Again, there was an absence of evidence of improper intent by either Mr. Hirt or the gift recipients.

Fourth, the Committee considered possible violations of Erie's conflict of interest policy or any other principle of corporate governance. After considering both Erie's policy and comparable private and public policies, the Committee concluded that Erie's policy does not apply to the gifts and that the evidence failed to demonstrate any intent to violate the policy or any other principle of corporate governance.

Fifth, the Committee found no evidence either that Mr. Hirt intended to influence directors with respect to any issues before the Board, or that the directors who accepted Mr. Hirt's gifts believed that the gifts were intended to or did influence them with respect to matters affecting Erie. The evidence overwhelmingly establishes Mr. Hirt's and the gift recipients' integrity and good faith. The evidence is that they believed their actions were in the best interests of Erie and its shareholders.

Last, the Committee considered the benefits of adopting any new policies relating to gifts. Because of the Board's responsibility to govern compensation for Board members and officers elected by the Board, the Committee has recommended an additional corporate bylaw that will, in the future, prohibit Board members and officers elected by the Board from accepting significant gifts of cash or securities from directors, employees or large shareholders, except from those who are family members.

III. Chronology of Events

A. Erie Stock Ownership and Values

Erie was founded in 1925 by H. O. Hirt and a partner, and the descendants of H. O. Hirt own over 75 percent of the Erie voting stock. Other significant holders of voting stock include the family of director Samuel P. Black III ("Mr. Black") and Mr. Petersen, who is also a director. Exhibit 1. Samuel Black, Jr. was an early Erie employee and a director for over 70 years. Mr. Black, his son, succeeded him in 1997. Mr. Petersen is a former CFO and CEO of Erie who still manages many of its investments as a consultant.

The Hirt family voting stock was placed by H. O. Hirt by the time of his retirement in 1976 into two companion trusts for the benefit of his son, Mr. Hirt, and his daughter, Mrs. Hagen. The beneficiaries do not themselves control the voting of any of the stock in the trusts. Instead all the stock is voted as directed by a majority of the three trustees: Mr. Hirt, Mrs. Hagen and a corporate trustee that until recently has been Mellon Bank and is now Bankers Trust. Exhibit 2.

Until 1995, there were fewer than 500 shareholders of non-voting stock. In 1995 Erie surpassed 500 shareholders and became a reporting company under the federal securities laws. It is traded on the NASDAQ. The market capitalization of Erie and value of the holdings of long-time shareholders have increased dramatically since the 1980s. The nonvoting stock has split as follows:

1987 10 for one

1989 200 for one

1993 four for one

1996 three for one

The stock has recently traded in the range of $30 per share. Substantial credit for this large increase in value is given by all to Mr. Petersen, who has overseen the management of Erie's investments throughout the period.

The value of the Hirt family's stock has correspondingly increased. Compared to a value of several million dollars before the 1987 stock split, the Hirt family holdings are today worth well in excess of a billion dollars, divided approximately evenly between Mr. Hirt's family and Mrs. Hagen's family.

B. Erie Management

The management of Erie has also remained in the Hirt family until recently. H. O. Hirt was chairman of the Board and Chief Executive Officer until his retirement in 1976. Mr. Hirt, who had worked at Erie in a variety of senior executive positions since the early 1950s, succeeded his father as CEO and chairman of the Board and held these positions until 1990, when he retired and was succeeded in both positions by his sister's husband, Thomas B. Hagen ("Mr. Hagen"), who had also worked at Erie for some 40 years.

In 1993, the Board consisted of Mr. Hirt, Mr. Hagen, Mrs. Hagen, Samuel P. Black, Jr., J. Ralph Borneman ("Mr.Borneman"), Tim Hubbard, Steve Jones, Irvin Kochel, Jeff Leininger, Edmund J. Mehl ("Mr. Mehl"), Mr. Schofield, Mr. Petersen, and Mr. Van Gorder, Erie's general counsel. H. O. Hirt had asked most of these directors to join the Board, while Mr. Hagen had asked Messrs. Schofield, Borneman and Van Gorder. In September 1993, in compliance with an amendment to the Pennsylvania Insurance Company Law of 1921, the Board amended its bylaws and formed a nominating committee, with Mr. Schofield as its chairman. Mr. Schofield, who joined the Board in 1991, the same year he became CEO of US Airways, was the first prominent outsider to join the Board, whose members otherwise had ties to Erie or the Hirt family.

C. The Beginning of Conflict

By 1993 Erie employees and agents became concerned about an inappropriate relationship between Mr. Hagen and an Erie senior officer. Employees began complaining directly to the retired Mr. Hirt that the relationship was disrupting business decisions and causing the resignations of valuable employees. One of these was Mr. Milne, a well-regarded senior employee who left to become an insurance agent because of conflicts with both Mr. Hagen and the senior officer. The relationship was raised as a problem at a large meeting of the Erie agents advisory council. Finally, Mr. Hirt apprised Board members of what he knew of the situation and, at the September 27, 1993 Board meeting, directors Hirt, Petersen, Van Gorder, Black, Borneman, Hubbard, Jones, Leininger, Kochel, Mehl, and Schofield voted to terminate the employment of Mr. Hagen and the senior officer. Exhibit 3. Mr. Hagen's termination agreement gave him the right to remain as a director during 1994. Exhibit 4. Mr. Petersen became CEO and Mr. Hirt returned as chairman of the Board. Since this time there have been a number of Board votes on which the Hagens have not voted with the majority of the directors. Further, Mr. and Mrs. Hagen have made efforts to reconstitute the Board to obtain directors favorable to them, and Mr. Hirt and other directors have opposed these efforts. Exhibits 5A through 5I, Exhibit 7.

The first complaints were about Messrs. Hubbard and Jones, who agreed not to seek renomination in 1994. Mellon Bank also agreed that Mr. Leininger, a Mellon Bank officer, would not seek renomination.

The nominating committee considered suggestions from Mr. Hirt, the Hagens, Mellon Bank and others to replace the departing directors and proposed (1) Patricia A. Goldman ("Ms. Goldman"), who had extensive public relations, regulatory and federal government background and contacts, experience on a board of a significant family-owned corporation, a vacation home near Erie, and fulfilled the Board's goal to have another woman as a director; (2) Peter B. Bartlett ("Mr. Bartlett"), who would be Erie's first director associated with the New York investment community; and (3) Harry H. Weil ("Mr. Weil"), who had extensive corporate legal experience. On July 21, 1994, the Board approved a slate of proposed directors, including these three, over the Hagens' dissent. Exhibit 6.

At the end of 1995, Mr. Petersen retired as CEO, though he remained as a director and remained in charge of Erie's domestic equity portfolio. A search committee recommended Mr. Milne, who had returned to Erie after Mr. Hagen's departure. Through legal counsel, the Hagens unsuccessfully sought to condition their acceptance of Mr. Milne on the resignation of Mr. Van Gorder and a restructuring of the Board to ensure a number of directors who would "reflect the views" of the Hagens. Exhibit 7. The Board elected Mr. Milne

CEO and President on February 12, 1996. Exhibit 8. Other Board votes evidencing disagreement between the Hagens and other directors are set forth in Section V, B.2., infra.

In 1997, Samuel P. Black, Jr. retired and the nominating committee selected Mr. Black to fill his father's seat. In 1998, the Board did not renominate Mr. Hagen or Irvin Kochel who was of retirement age. These two directors have not been replaced.

D. The Allegations

On April 1, 1998, Mrs. Hagen filed an action in the Court of Common Pleas of Erie County, Orphans' Court Division, seeking to remove Mellon Bank as the corporate trustee ("the Mellon Bank case"). As part of that action, Mr. Hirt and his wife stated in answer to an interrogatory that "as part of annual gifting programs established pursuant to a comprehensive multi-year family estate plan designed by and within the advice of tax specialists," they had given 75 gifts of Class A Erie common stock since 1993 to past and present Erie directors and officers and members of their families. Exhibit 9. The Hirts identified, by year, the various recipients and the amount of Erie stock given. Specifically, over a period of four or five years, Mr. Milne's family received 13 gifts of stock, Mr. Van Gorder's family received 8 gifts of stock, Mr. Schofield's family received 10 gifts of stock, and Mr. Petersen's family received 8 gifts of stock. A complete list of the gifts to current and former Erie directors, officers, employees and agents and their values appears in Section V, B.1., infra.

Each director disclosed the transfers of stock on the SEC Forms 4 and 5 filed annually. None of the directors or Mr. Hirt disclosed the gifts on his annual Erie conflicts questionnaire. Nor did any other Erie employee who received gifts.

On October 16, 1998, Mrs. Hagen wrote to each of Messrs. Milne, Van Gorder, Schofield, and Petersen, stating that "The acceptance of these 'gifts' violates the Company's clear policy against acceptance of gifts," specifically section 720 of Erie's Corporate Personnel Manual, "Conflict of Interest and Outside Employment." Exhibit 10. Mrs. Hagen further stated to each, "I, therefore, demand your immediate resignation from the Board of Directors in order to protect the best interests of the stockholders." On October 22, 1998, Mr. Schofield resigned from the Board. His letter of resignation denied any violation of law or Erie policy, further stating "I believe even more strongly that I have done nothing inappropriate during my service as a director and my resignation is not in any way related to the allegations contained in Mrs. Hagen's October 16, 1998 letter to me, which I believe are unfounded and baseless." Exhibit 11.

On October 27, 1998, the Board held a special meeting, attended by all directors, to "consider and act upon the taking of any action deemed necessary or appropriate by the Board" in response to Mrs. Hagen's letters. The Board voted, with Messrs. Milne, Petersen, Hirt and Van Gorder abstaining, and Mrs. Hagen dissenting, to appoint Messrs. Bartlett, Black, Borneman, Mehl and Weil and Ms. Goldman to the Committee. Exhibit 12. At the December 16, 1998 meeting the Board passed with no dissent a resolution setting forth the Committee's responsibilities. Exhibit 13.

E. The Investigation

The investigation was conducted under the supervision of the Committee and on its behalf by C&B. The Committee and its individual members had meetings and telephone conferences with C&B throughout the investigation including three meetings with C&B on February 8, 17 and 26, 1999 after the bulk of the investigation was complete to discuss the facts and law, to determine the need for additional work, and to reach conclusions.

The investigation focused principally on the following issues arising out of Mrs. Hagen's allegations about the Hirt gifts:

- The disinterestedness and objectivity of the Committee members,
- Whether the giving or receipt of the gifts was unlawful under any applicable criminal law,
- Whether the giving or receipt of the gifts was unlawful under any other applicable law,
- Whether the giving or receipt of the gifts violated any Erie policy or principle of corporate governance, and
- The evidence of the intent of the giver and recipients of the gifts.

The investigation was carried out principally through interviews of relevant personnel conducted by C&B with follow-up questions and additional interviews determined by the Committee. In addition C&B obtained numerous relevant documents, Board materials, correspondence, and legal materials from Erie files, court files, and from counsel for Erie, for Mr. Hirt, for Messrs. Milne, Van Gorder and Petersen, and for Mrs. Hagen.[1]

1. Interviews

C&B conducted interviews involving the following individuals:

1. Thomas Abendroth, partner, Schiff, Hardin & Waite
2. Roy Adams, partner, Kirkland & Ellis
3. Peter B. Bartlett, director
4. Samuel P. Black III, director
5. J. Ralph Borneman, director
6. Samuel Braver, shareholder, Buchanan Ingersoll, counsel to Mr. Hirt
7. John Brinling, president, Erie Family Life Insurance Co.
8. Dan Burt, Retired Supervisor, Erie corporate fleet
9. Mark Christ, supervisor, Erie claims audit department
10. Sherrie-Jo Christ, Erie data quality analyst
11. Shawn Cummings, Erie district sales manager

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1 The Committee is aware of pending litigation brought by Mrs. Hagen in which additional documents or testimony relevant to this matter may be produced. The Committee will review any such materials for their effect on this Report and its conclusions.

12. Linda Etter, Erie stock transfer clerk

13. Christopher Farrell, shareholder, Buchanan Ingersoll, counsel to Mr. Hirt

14. Edward Finley, Kirkland & Ellis

15. Carl Godleski, Erie agent

16. Patricia A. Goldman, Erie director

17. Susan Hirt Hagen, Erie director

18. Thomas B. Hagen, former director and former Erie CEO

19. Stephen J. Harmelin, Dilworth Paxson LLP, counsel to the Hagens

20. F. William Hirt, chairman of the board

21. Audrey Hirt, wife of Mr. Hirt

22. Laurel Hirt, Erie securities analyst and daughter of Mr. Hirt

23. Jim Lloyd, former General Counsel, US Airways

24. Lawrence McMichael, Dilworth Paxson LLP, counsel to the Hagens

25. Edmund J. Mehl, Erie director

26. Stephen A. Milne, Erie CEO

27. William F. Newlin, shareholder, Buchanan, Ingersoll, counsel to Mr. Hirt

28. John M. Petersen, director

29. Roger Richards, Richards & Associates, P.C., counsel to the Hagens

30. Seth E. Schofield, former director

31. Thomas Sider, former Erie chief financial officer

32. Keith Smith, former Senior Vice Chairman, Mellon Bank

33. Jan R. Van Gorder, Erie general counsel

34. Harry H. Weil, director

35. Douglas F. Ziegler, Erie chief investment officer

2. Documents Reviewed

C&B requested documents from Erie, from many of those interviewed, and from attorneys for various interested parties. Important sources of documents are listed below.

a. Depositions in Trust of Henry Orth Hirt, Settlor, Nos. 100-1998, 101-1998, Court of Common Pleas of Erie County Pennsylvania, Orphan's Court Division

   (1) Peter B. Bartlett

   (2) J. Ralph Borneman

   (3) Linda Etter

   (4) Susan Hirt Hagen

   (5) Thomas B. Hagen (hearing testimony)

   (6) F. William Hirt

   (7) Laurel Hirt

   (8) Seth E. Schofield

   (9) Jan R. Van Gorder

   (10) Harry H. Weil

   (11) Douglas Ziegler

b. All filings in Trust of Henry Orth Hirt, Settlor, Nos. 100-1998, 101-1998, Court of Common Pleas of Erie County, Pennsylvania, Orphans' Court Division

c. Documents Received from Erie

   (1) Board of Directors and Committee Minutes, 1990-1998

   (2) Bylaws and Articles of Incorporation

   (3) Annual Report

   (4) Corporate Personnel Manual, "Conflict of Interest and Outside Employment," and Employee Handbook

   (5) Conflict of Interest Questionnaires completed by all current and former directors, 1995-1998

   (6) Background material re: conflicts policy

   (7) Background material and correspondence re: proposed demutualization legislation

(8) Background material re: indemnification of Thomas Sider

(9) Correspondence re: Thomas Hagen's eligibility to serve on nominating committee

(10) SEC Form 4s and 5s completed by all current and former directors, 1995-1998

(11) April 1, 1998 Proxy Statement

(12) Background material for April 1998 proxy statement disclosures

(13) Chart re: Erie's investments with Brown Brothers Harriman

(14) Team Dispatch Sales Analysis

(15) News articles

(16) Thomas B. Hagen's October 11, 1993 agreement with Erie

(17) Messrs. Van Gorder's and Milne's 1997 employment agreements

(18) Chart re: Hagen Interests in Erie

(19) Undated letter from Laurel Hirt to her father

(20) Letter re: 1997 and 1998 fees paid to Reed Smith Shaw & McClay

(21) List of persons to whom Doug Ziegler has given Erie stock

(22) March 3, 1999 facsimile from Dennis Geib

(23) March 4, 1999 letter from Philip Garcia

(24) March 5, 1999 facsimile from Jan Van Gorder

d. Special Committee's Counsel's Communications with Represented Parties

(1) Mrs. Hagen's Counsel

(a) December 14, 1998 letter from Bruce A. Baird

(b) January 5, 1999 letter from Bruce A. Baird

(c) January 14, 1999 letter from Bruce A. Baird

(d) February 1, 1999 letter from Bruce A. Baird

(2) Mr. Hirt's Counsel

(a) January 21, 1999 letter from Bruce A. Baird

(3) Counsel for Messrs. Milne, Petersen and Van Gorder

(a) January 21, 1999 letter from Bruce A. Baird

(4) Counsel for Erie

(a) January 21, 1999 letter from Bruce A. Baird

e. Documents Received from Persons Interviewed

(1) Various curriculum vitae

(2) Correspondence between and among Susan Hirt Hagen, F. William Hirt and Seth E. Schofield, 1996-1997

(3) April 26, 1994 letter from James Moffat, Mellon Bank, to Susan Hagen and F. William Hirt

(4) February 5, 1996 letter from William Clark to James Glockley

(5) June 6, 1997 letter from Stephen F. Harmelin to James M. Glockley

(6) October 16, 1998 letters from Susan Hagen to Messrs. Milne, Petersen, Schofield and Van Gorder

(7) October 22, 1998 letter from Seth Schofield to F. William Hirt

(8) October 23, 1998 letter from David H. Pittinsky to Stephen J. Harmelin

(9) October 27, 1998 letter from Fred Dreher to F. William Hirt

(10) October 27, 1998 letter from Stephen J. Harmelin to David H. Pittinsky

(11) March 2, 1999 letter from Reed Smith Shaw & McClay

f. Documents Received from F. William Hirt

(1) August 15, 1989 memorandum re: Estate Planning Recommendations

(2) February 19, 1992 and two March 20, 1992 letters re: stock transfers

(3) June 11, 1994 letter from Jonathan Hagen to James Moffat

(4) September 5, 1996 letter to Doug Ziegler, with attached August 19, 1996 memorandum re: Legal consequences of Mr. Hirt giving Erie stock to the employees

(5) Mr. and Mrs. Hirt's gift tax returns, 1992-97

(6) August 5, 1998 letter from Thomas H. Hubbard

(7) August 6, 1998 letter from Irvin H. Kochel

(8) Statement of F. W. Hirt, October 27, 1998

(9) Statement of F. W. Hirt, November 23, 1998

(10) H. O. Hirt trusts, including prior versions and counsel's analysis

(11) F. William Hirt's handwritten lists re: Erie stock gifts, 1994-98

(12) Doug Ziegler's typed lists re: Hirt gifts, 1994-98

(13) Production of documents in Orphans' Court litigation

g. Documents Received from Brown Brothers Harriman

(1) Memoranda and letters re: Peter B. Bartlett's exclusion from fees received from Erie

(2) Letter re: Erie's fees as percentage of firm revenues

(3) March 3, 1999 letter re: total assets under management

h. Documents Received from Samuel Black & Associates, Inc.

(1) Agency Agreement

(2) Summary Sheets re: Black family ownership of Erie stock

(3) Premiums received from Dispatch Printing and Edmund Mehl, 1996-98

i. Documents Received from Body-Borneman & Associates, Inc.

(1) Agency Agreement

j. Mrs. Hagen's Counsel

(1) November 4, 1998 letter from Stephen J. Harmelin

(2) November 24, 1998 letter from Stephen J. Harmelin

(3) December 21, 1998 letter from Stephen J. Harmelin

(4) January 4, 1999 letter from Stephen J. Harmelin

(5) January 28, 1999 letter from Stephen J. Harmelin

(6) February 10, 1999 letter from Stephen J. Harmelin

(7) February 17, 1999 letter from Stephen J. Harmelin

(8) February 19, 1999 letter from Pierce E. Buller

k. F. William Hirt's Counsel

(1) February 5, 1999 memorandum from Samuel W. Braver

(2) February 9, 1999 letter from Christopher F. Farrell

(3) February 18, 1999 letter from Christopher F. Farrell

l. Counsel for Messrs. Milne, Petersen and Van Gorder

(1) February 1, 1999 letter from David H. Pittinsky

m. Counsel for Erie

(1) February 17, 1999 letter from John Soroko

IV. Relevant Legal Authorities

In this section we will set forth the legal authorities under which providing something of value to a corporate officer or director could under some circumstances be unlawful or which provide guidance in determining whether a violation has occurred.2 We will also discuss the relevant Erie policy and those of other entities.

A. Criminal Bribery and Gratuity Law

1. Pennsylvania

Under Pennsylvania law, it is a misdemeanor of the second degree, known as commercial bribery, for an employee or fiduciary to accept, without the consent of his employer or principal, a benefit from "another person upon agreement or understanding that such benefit will influence his conduct in relation to the affairs of his employer or principal," or to confer such a benefit.18 Pa. Cons. Stat. Ann. ss. 4108(a) (West 1983). As with the commercial bribery laws of many states, the agreement or understanding "requires a subjective intent on the part of the briber to confer a benefit in return for some illicit gain" such as influencing conduct, but does not require "mutual assent on the parts of both the briber and the bribee to form an agreement." United States v. Traitz, 871 F.2d 368, 385 (3d Cir. 1989) (bribery of public official); United States v. Johns, 742 F. Supp. 196, 220 (E.D. Pa. 1990); see also People v. Tran, 80 NY2d 170, 177-78 (N.Y. 1992) (interpreting "agreement or understanding" under New York statute prohibiting bribery of public official); People v. Schepis, 614 N.Y.S. 2d 719, 721 (N.Y. App. Div. 1994) (interpreting "agreement or understanding" under New York statute prohibiting bribery of a labor official).

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2 This section has been reviewed for accuracy by C&B. In particular, Paul Duke, an active member of the Pennsylvania bar and former general counsel of the Penn Central Railroad, has reviewed this section with regard to Pennsylvania law.

The influence or conduct need not be adverse to the corporation; rather, the direction of influence is as the payor wishes, either favorable or unfavorable to the employer or principal. See United States v. Parise, 159 F.3d 790, 799 (3d Cir. 1998); Commonwealth v. Bellis, 399 A.2d 397, 400 (Pa. 1979). There is also no specific intent requirement. United States v. Parise, 159 F.3d at 803 ("statute does not require that the parties knew that their agreement was wrong or illegal").

2. Federal

a. Bribery

Federal bribery requires that a thing of value be given or promised to a public official or witness in order to influence a particular act, or be received in return for a particular act. 18 U.S.C. ss. 201(b)(1)-(2) (1997). See United States v. Sun-Diamond Growers, 138 F.3d 961, 966 (D.C. Cir. 1998); United States v. Niederberger, 580 F.2d 63, 68 (3d Cir. 1978); Randall E. Ravitz and Nicholas Sanservino, Federal Criminal Conflict of Interest, 35 Am. Crim. L. Rev. 709, 711 (1998). The statute hence does not apply here, but we analyze it for analogous language in the cases concerning intent. As with commercial bribery, there must be evidence that the payor intends to receive some benefit in return for the payments, United States v. Muldoon, 931 F.2d 282, 287 (4th Cir. 1991), or of knowing acceptance of payment in return for violation of duty. United States v. Strand, 574 F.2d 993, 996 (9th Cir. 1978).

b. Illegal Gratuities

For a federal gratuity conviction under another subsection of the same statute, the giver must intend either to reward some past official act, or to enhance the likelihood of some future act. 18 U.S.C. ss. 201(c) (1997); see United States v. Sun-Diamond, 138 F.3d at 966. It is not unlawful to give gifts with the purpose of gaining "generalized sympathy" or "inducing warm feelings" from an official. Id. at 967; see United States v. Brewster, 506 F.2d 62, 81-82 (D.C. Cir. 1974).

While it has been held that there is no requirement of corrupt intent, United States v. Standefer, 610 F.2d 1076 (3d Cir. 1979) (en banc), aff'd on other grounds, 447 U.S. 10 (1980) (gifts motivated solely by recipient's official position may be illegal gratuities), the Supreme Court has granted certiorari on this issue in United States v. Sun-Diamond, 119 S. Ct. 402 (1998).

c. Criminal Unauthorized Compensation

Federal officials may also be charged with acceptance of unauthorized compensation. 18 U.S.C.ss.203 (1997). Under this statute there is no requirement to show an intent to be influenced. Ravitz, supra, at 724.

d. The Friendship Defense

It is a defense to liability under any of these statutes if a gift is given and accepted in friendship rather than as compensation or because of official position. For example, in United States v. Standefer, 610 F.2d at 1080, a corporate officer contended that the gifts (from corporate funds) to an IRS agent who was conducting an audit of the corporation arose from friendship, and had no relationship to official duties. The court rejected this argument, finding that there was no prior or subsequent gift-giving between the two, corporate records did not show that the defendant "was as generous with corporate funds in giving gifts to any non-business related friends," and the defendant had no relationship with the agent other than in their official capacities. Id.; see also United States v. Gaines, Nos. 92-5446, 92-5501, 1993 WL 220206 (4th Cir. June 1993); United States v. Roberto, 801 F.Supp. 946 (D. Conn. 1992) (contacts did not include normal incidents of friendship such as visits, correspondence, and phone calls).

On the other hand, when the giver and recipient have a real friendship, when the giver did not mention the official relationship when the gift was given, and when the giver could point to prior acts of generosity toward other employees, there is no violation. See NLRB v. Dickinson Press, Inc.,153 F.3d 282 (6th Cir. 1998); Roper v. Dynamique Concepts Inc., 447 S.E.2d 218 (S.C. 1994).

B. Civil Liability for Breach of Fiduciary Duty

Directors and officers are fiduciaries of a corporation, 15 Pa. Cons. Stat. Ann. ss. 1712(a) (West 1995), and thus owe a duty of undivided loyalty to the corporation. CST, Inc. v. Mark, 520 A.2d 469, 471 (Pa. Super. Ct. 1987). Directors generally cannot personally profit through the use of corporate assets, so corporate transactions in which directors have personal or financial interests should be approved by disinterested directors. See Seaboard Indus, Inc. v. Monaco, 276 A.2d 305, 308-09 (Pa. 1971); Bailey v. Jacobs, 189 A. 320, 324 (Pa. 1937); Corporate Director's Guidebook 12-13 (ABA 1994).

Commercial bribery represents a clear violation of the duty of loyalty. United States v. Parise, 159 F.3d at 800-01. Under agency principles, an employer may recover commercial bribes from its employee. Sierra Rutile Ltd. v. Katz, No. 90 Civ. 4913, 1996 WL 556963, at * 4 (S.D.N.Y. Oct. 1, 1996). A corporation does not have to show intent to harm the corporation or loss to the corporation, only the fact and amount of the bribe; disgorgement of the amount of the bribe is the appropriate remedy. See United States v. Shaw, 725 F. Supp. 896, 899-900 (S.D. Miss. 1989); County of Cook v. Lynch, 560 F. Supp. 136, 141 (N.D. Ill. 1982); Fidelity Management & Research Co. v. Ostrander, 1 Mass. L. Rptr. 397 (1993), 1993 WL 818684, at * 4 (Mass. Super. Ct. Dec. 9, 1993).

Keystone Guard v. Beaman, 107 A. 835 (Pa. 1919), demonstrates the importance of intent in such cases. In this early case a director accepted $5,000 of the corporation's funds not to stand for re-election. He received payment from those seeking to give control of the corporation to a third party that would fraudulently misappropriate assets. The director was "influenced by a selfish cupidity and, by incautiously concurring in certain steps of others, he assisted in the consummation of the conspiracy." Id. at 836. The court held that "gifts, gratuities or bribes given to a director to influence his official action must be accounted for by him and surrendered to the company." Id. at 837 (emphasis added).

C. Federal Tax Law

Tax cases addressing the distinction between taxable compensation and nontaxable gifts also provide helpful guidance in distinguishing between the two. Evidence of the giver's intent is the key to determining whether a tax is owed. See Heyen v. United States, 731 F. Supp. 1488 (D. Kan. 1990). In Arnold v. Bingler, 254 F. Supp. 156 (W.D. Pa. 1966), for example, the issue was "whether the transferor of stock had the requisite intent of 'detached and disinterested generosity' or was motivated by a business purpose in making the transfer." Id. at 156, citing Commissioner of the Internal Revenue v. Duberstein, 363 U.S. 278, 285 (1960). The court held that the transfers of stock to two men who handled scientific research at the company were valid gifts, not ordinary income, stating

> It seems quite natural that the founder of such a business, thrown into association with men concerned in the same field of endeavor, would take an interest in their advancement sufficient to motivate the desire to benefit them by a gift of stock in the company, especially when he had no sons or sons-in-law interested in succeeding him in the business.

Id. at 157.

As the court noted in Neville v. Brodrick, 235 F.2d 263 (10th Cir. 1956), "[w]hether an amount received by an employee either in cash or stock constitutes compensation for services or a gift depends upon the intention of the parties, principally that of the payor or the party issuing or causing the issuance of the stock." Id. at 265-66. Further, "[u]pon the conventional transfer of stock, there is an element of economic benefit to the recipient thereof. But if the motivating purpose of the transaction is that of a gift, such economic benefit is incidental and not compensatory. . . . And if the transfer is intended as a gift, it is a gift nonetheless because inspired by a feeling of gratitude for past or anticipated future services." Id. at 266.

In Neville, the court determined that stock given to an executive vice president ("EVP"), his wife and his son from the company's major shareholders were non-taxable gifts. The court highlighted the following points:

1. The EVP was very good friends with a major shareholder who had "unlimited confidence" in the EVP;
2. The major shareholder was of "advanced age" and had two daughters but no sons;
3. The EVP had not requested compensation beyond his salary and bonus;
4. The EVP knew nothing of the plan to issue stock until told; and
5. All involved consistently referred to the transfers as gifts.

Id. at 266-67. If, on the other hand, a major shareholder who has no record of making gifts to employees except as compensation transfers stock to an employee with whom he has no personal relationship, a court may question the claim that the transfer was intended as a gift. Adair v. Comm'r of Internal Revenue, 50 T.C.M. (CCH) 620 (1985).

A final point relevant here is that "long and faithful service may create the atmosphere of goodwill and kindliness toward the recipient which tends to support a finding that a gift rather than additional compensation was intended." Brimm v. Comm'r of Internal Revenue, 27 T.C.M. (CCH) 1148 (1968).

D. Conflict of Interest Policies

1. The Erie Policy

The Erie Conflict of Interest Policy contains two provisions relevant to this case. Exhibit 14. The core policy is straightforward:

> Employees should not permit personal interests to conflict, or appear to conflict with the performance of their duties on behalf of the Erie. A conflict of interest exists when an employee's personal or non-Erie business-related activities adversely affect the Erie's interests or permit that employee or a third-party to obtain improper gain or advantage, adversely affecting the Erie's interests.

The intent of the policy is to ensure that neither its employees nor third parties take advantage of Erie by putting other interests ahead of Erie. The policy also specifically makes reference to the accepting of gifts or other benefits:

> Employees should not solicit or accept any benefits that might influence or appear to influence their independence of judgment or affect their decisions or actions concerning Erie business. Likewise, employees should not offer to give any benefits to other persons that might influence or appear to influence such other persons' conduct in relation to any transaction involving the Erie. Gifts of cash should never be given or accepted, regardless of the amount involved.

> Additionally, gifts, gratuities, favors, discounts, or unusual or expensive entertainment should not be offered, given or accepted beyond those usual and customary nominal courtesies associated with lawful and accepted business practices.

The benefits which should not be accepted are those that might influence or appear to influence decisions concerning Erie business. Thus, the gifts forbidden by the last two sentences should be read, consistent with the general policy quoted above, as gifts from third parties because it is such gifts that might be seen as efforts to influence decisions. We do not read this provision as forbidding gifts among employees made out of friendship.

This interpretation is confirmed by the conflict of interest questionnaire, Exhibit 15, required to be filled out each year by all directors and many Erie employees, which asks

> Have you or any member of your immediate family accepted gifts, gratuities, favors, discounts, benefits, or unusual or expensive entertainment, beyond those usual and customary nominal courtesies associated with lawful and accepted business practices, that might be regarded as placing you under an obligation to a third party dealing or desiring to deal with The ERIE?

We believe Erie's policy read as a whole forbids other than nominal gifts from third parties dealing or desiring to deal with Erie, and forbids other gifts only if they appear intended to influence judgment. Mr. Hirt cannot be construed to be a third party with respect to Erie. His active roles as trustee, an important shareholder, and chairman of the Board make him an integral part of Erie.

This policy has been in place for ten years. Though we discovered no corporate documents bearing on its interpretation, its draftsman, Mr. Van Gorder, interprets the policy as we do. The Erie employees we interviewed typically either believed that the policy did not apply to Mr. Hirt's gifts or believed that if a particular gift was motivated by friendship, the policy would not apply.

2. Other Corporate Policies

We have surveyed conflict and gift policies at other large corporations. Most have a general conflict rule similar to Erie's policy. Gifts from third parties are widely forbidden, but the policies either do not address gifts among employees or make it clear that only gifts to supervisors from those supervised are forbidden, lest the evaluation process be affected.

> For example, the recently adopted Columbia/HCA policy specifically addresses the limits of its gift prohibition: For clarity purposes, please note that these limitations govern activities with those outside of Columbia/HCA. This section does not pertain to actions between the organization and its colleagues nor actions among Columbia/HCA colleagues themselves.

The policy has a different rule for gifts between colleagues

> While we wish to avoid any strict rules, no one should ever feel compelled to give a gift to anyone, and any gifts offered or received should be appropriate to the circumstances. A lavish gift to anyone in a supervisory role would clearly violate organization policy.

Columbia/HCA Healthcare Corporation, www.columbia-hca.com/ethics/fulcode.html.

Another policy specifically addresses commercial bribes:

> Company policy prohibits commercial bribes, kickbacks and other similar payoffs and benefits paid to any suppliers or customers. Employees and agents are also prohibited from receiving, directly or indirectly, anything of a significant value (other than salary, wages or other ordinary compensation from the Company) in connection with a transaction entered into by the Company.

This same company makes clear in its conflicts policy that it is gifts from those dealing with the company that are forbidden:

> Accepts money, gifts of other than nominal value, excessive hospitality, loans or other special treatment from any supplier, customer or competitor of the Company (loans from lending institutions at prevailing interest rates are excluded);

Halliburton at www.halliburton.com/corp/cobc/ethical.html. Accord Ingersoll-Rand at www.ingersoll-rand.com/general/coc4.htm.

Another clear policy on the gift issue is that of Lockheed Martin Corporation:

> Lockheed Martin employees are not permitted to accept funds in any form or amount, or any gift that has a retail or exchange value of $20 or more from individuals, companies, or representatives of companies having or seeking business relationships with Lockheed Martin. If you have any questions about the propriety of a gift, gratuity, or item of value, contact your Ethics Officer or the Corporate Office of Ethics and Business Conduct for guidance.

Lockheed Martin at www.lmco.com/exeth/html/sel.1/ethset.html. Accord Barbara Abrams, How to Start a Compliance Program, 1057 PLI/Corp 591 (PLI 1998); Nortel at www. nortel.com/cool/ethics/decision7.html.

We have found no other corporate conflict or gift policy or principle of corporate governance that would bar Mr. Hirt's gifts if they were made out of friendship rather than to influence corporate decisions.

3. Federal Employee Policies

We also examined federal employee gift policies. These policies are very explicit and entirely consistent with our interpretation of Erie's policy outlined above.

As to gifts between employees, the only prohibition is against gifts to a supervisor from one who is supervised:

> (1) Employees cannot make a gift to an official superior.
>
> (2) An employee cannot accept a gift from another employee who receives less pay unless the two are not in a subordinate-official superior relationship and there is a personal relationship between the two that would justify the gift.
>
> (3) "Official superior" means any other employee, other than the President and the Vice President, including but not limited to an immediate supervisor, whose official responsibilities include directing or evaluating the performance of the employee's official duties or those of any other official superior of the employee. . . . [A]n employee is considered to be the subordinate of any of his official superiors.

5 C.F.R. ss.ss. 2635.302-304.

Gifts from outside sources are more broadly prohibited:

(1) Employees cannot solicit or accept gifts (1) from prohibited sources or (2) given because of the employee's official position.

(2) "Prohibited sources" includes any person who is seeking official action by the employee's agency, does business or seeks to do business with the agencies, conducts activities regulated by the employee's agency, or has interests that may be substantially affected by the performance or nonperformance of the employee's official duties.

(3) A gift is solicited or accepted because of the employee's official position if it is from a person other than an employee and would not have been solicited, offered or given had the employee not held the status, authority or duties associated with his Federal position.

5 C.F.R. ss.ss. 2635.202, 203. These federal policies would not bar Mr. Hirt's gifts if they were made out of friendship rather than to influence corporate decisions.

E. Disclosure Requirements

1. Securities and Exchange Commission

No disclosure of the gifts was required in any periodic report or other filing under the applicable federal securities laws, except that the shares received by directors and officers were required to be, and appear to have been, reflected in Forms 4 and 5 and in the stock ownership section of the Erie proxy statements.

2. Pennsylvania Insurance Law

Although the Erie Indemnity Company is involved in the insurance business as attorney in fact for the Erie Insurance Exchange and as manager of the Erie group of insurance companies, it is incorporated as a Pennsylvania domestic business corporation. It is not incorporated under the provisions of the Pennsylvania statutes governing insurance companies which require the disclosure of transfers of stock in certain instances.

V. Evidence of Intent

Under the foregoing survey of law and policy, questions could be raised about the propriety of Mr. Hirt's gifts only if his intent in giving the gifts to the directors or theirs in accepting the gifts was to influence their decisions as directors. Mrs. Hagen and her counsel allege that this is the case. They point out that the gifts began at about the same time as Mr. Hagen's termination as CEO. They also point to a series of Board votes in which all or almost all of the directors voted one way and the Hagens voted the other way during the years when the gifts were being given. They believe that those to whom the gifts were given controlled others on the Board. They believe that buying influence is the only reason Mr. Hirt would give gifts to four directors who all had substantial assets. The Committee has asked for any evidence supporting these assertions, and has received none beyond the circumstantial points made above. Mrs. Hagen and her counsel contend that the only conclusion possible is that Mr. Hirt intended with his gifts to influence votes of the Board. Our conclusion, however, is that there is no credible evidence of such an intent, and overwhelming evidence that Mr. Hirt's intent in giving the gifts was disinterested generosity.

A. Interviews

1. Mr. Hirt's Tax Lawyers

The lawyers from whom Mr. Hirt has sought tax advice have substantial recollections of Mr. Hirt's intent in making the gifts that are supported by documents.

When the value of their assets dramatically increased with the value of Erie's stock in the late 1980s, both the Hirts and the Hagens asked the law firm of Schiff Hardin & Waite ("Schiff Hardin") to review their holdings and offer advice. In August 1989, Schiff Hardin prepared a lengthy memorandum addressed both to Mr. Hirt and Mr. Hagen entitled "Estate Planning Recommendations." Exhibit 16. Aside from requesting a joint memorandum, the Hirts and Hagens did not consult or collaborate with each other on estate planning issues. Schiff Hardin met with each of the Hirt and Hagen families separately and recommended which of the techniques described in the memorandum best suited each family's needs and goals.

The Hirts followed many of Schiff Hardin's recommendations. They gifted large amounts of Erie nonvoting stock to immediate family members and charities, formed a family partnership and established trusts to fulfill their desires to provide a secure financial future for their children and grandchildren and to benefit the community as well as to minimize taxation. Schiff Hardin recommended that the Hirts make gifts of Erie stock, rather than another asset, because the Hirts need their cash to pay taxes, their assets primarily consist of Erie stock, and gifts of those assets that are most likely to appreciate secure the greatest benefit to any estate. Despite the size and number of these transfers of the Hirts' wealth, the Hirts' estate continued to escalate in value as Erie's stock similarly became worth more and more.

On a continuing basis, Mr. Hirt consulted with Schiff Hardin to receive their advice on his estate planning. Schiff Hardin suggested to Mr. Hirt that he consider giving "annual exclusion gifts" of Erie stock to a wider group of recipients, such as extended family members and current or former Erie employees, directors or shareholders. Simply put, an exclusion gift is a transfer during one's lifetime of less than $10,000 to any person in any one year that is presumed to be a gift and thus excluded from all federal and state taxes. The Hirts followed this advice.

Records reflect that as early as 1989, Mr. Hirt gave three shares of Erie stock to Doug Ziegler, an Erie employee Mr. Hirt had known for years and who had helped Mr. Hirt with a variety of estate planning matters, and two shares to his wife, Diane Ziegler, for a total value of $15,000. Exhibit 17. In the spring of 1992, after Mr. Hirt's retirement, each of Mr. Milne and Carl Godleski, then Erie agents, as well as Mr. Schofield received Erie stock from the Hirts. Exhibit 18. Mr. Milne and Mr. Godleski were well known, long-time friends of Mr. Hirt. Mr. Schofield had been asked to be a director the year before by Mr. Hagen.

Beginning in 1994 and each year thereafter until 1997, the Hirts gave Christmas gifts of Erie stock to certain directors who were Erie officers as well as other Erie employees, former employees, and numerous friends. Exhibits 19 and 20. According to the Hirts' answer to an interrogatory filed in Erie County, Orphans' Court Division, "as part of annual gifting programs established pursuant to a comprehensive multi-year family estate plan designed by and within the advice of tax specialists," they had given 75 gifts of nonvoting Erie stock since 1993 to the families of past and present Erie directors and officers. The Hirts identified, by year, the various recipients and the amount of Erie stock given. Specifically, the Hirts stated that between 1993 and the present the Milne family received 13 gifts of stock, the Van Gorder family received 8 gifts of stock, the Schofield family received 10 gifts of stock, and the Petersen family received 8 gifts of stock. Exhibit 9. A complete list of gifts to present and former Erie directors and employees is set forth in Section V, B.1, infra.

By 1995, the Hirts had given substantial amounts of Erie stock to their family members, charities, and friends both associated and not associated with Erie. Nonetheless, Mr. Hirt's wealth continued to increase. He told Schiff Hardin that he expected to leave the remainder of his estate to charity. However, when Schiff Hardin analyzed Mr. Hirt's finances, his counsel as well as Mr. Hirt believed that his estate had become too large to leave to charity.

Mr. Hirt next asked Schiff Hardin whether a gift of $10,000 in Erie stock to each of Erie's employees or a large stock gift to Erie directly, which would in turn give $10,000 in Erie stock to each employee, would more effectively reduce the tax consequences to his estate. Mr. Hirt advised Schiff Hardin that he wished for the gifts to be anonymous, if that could be done without adverse tax consequences, because he wanted to enrich the employees' lives without any personal attribution. Discussions regarding Mr. Hirt's intentions culminated in a 1996 letter from Schiff Hardin, in which Schiff Hardin concluded that while even such a large number of sizable transfers of stock would probably be construed as gifts, the transfers might incur increased scrutiny from federal tax authorities. Exhibit 21. After much deliberation, Mr. Hirt elected not to make gifts to every Erie employee because of the tax risk involved for the recipients as well as for him.

2. Mr. Hirt

Mr. Hirt has stated that his gifts of stock to Erie officers and directors were solely motivated by the escalation in the Hirts' wealth and their desire to share a small portion of this wealth with the people who have worked hard on Erie's behalf and whom Mr. Hirt has come to admire and respect. Exhibit 22. Mr. Hirt stated that he was not motivated by a desire to have any officer or director act in opposition to the Hagens and in fact believes that it would be an insult to suggest that any of the particular recipients would vote for anything other than what they believe to be in the best interest of Erie and its shareholders. Mr. Hirt did not even consider whether the gifts should be disclosed under Erie's conflict policy because he knew that H.O. Hirt had made gifts of Erie stock. Exhibit 23.

3. Board Member Gift Recipients

a. Mr. Hirt's Intent

Directors who received gifts of Erie stock from Mr. Hirt recalled Mr. Hirt stating that his intention in making the gifts was to share his unanticipated financial fortune and none recall a word spoken about Board issues in connection with these gifts:

(1) Mr. Milne: Mr. Hirt stated that he made the gifts because he has been blessed, almost to the point of being embarrassed, by his wealth.

(2) Mr. Petersen: Mr. Hirt told Mr.Petersen that he had so much money and simply wanted to share it rather than see it go to the government. Mr. Hirt said nothing about giving the stock with any intent to influence Mr. Petersen.

(3) Mr. Schofield: At an earlier time, Mr. Hirt had asked Mr. Schofield if then-CEO Mr. Hagen had arranged for Mr. Schofield to acquire any Erie stock. When Mr. Schofield told Mr. Hirt that Mr. Hagen had not, Mr. Hirt had said that he would do so. Mr. Schofield also knew that at one point. Pennsylvania law required directors of insurance companies to own stock. Mr. Hirt never in any way suggested that the gifts were to influence Mr. Schofield to vote Board issues in a particular way.

(4) Mr. Van Gorder: Mr. Hirt told Mr. Van Gorder that he was embarrassed by his wealth, that he had too much money to give away in his lifetime, that he had already taken care of his family, and that he was determine to give the remainder of his estate to charity so that there would be no estate tax due upon his death. Mr. Van Gorder told Mr. Hirt that he would probably give the stock away. Mr. Hirt stated that Mr. Van Gorder should do whatever he chose with the stock. Mr. Hirt never stated that the gifts of stock were to ensure Mr. Van Gorder's loyalty against anyone or anything remotely along those lines. Such a statement would be completely against Mr. Hirt's character.

b. Gift Recipients' Intent

The Directors also believed that the gifts did not violate Erie's conflict of interest policy.

(1) Mr. Milne: He looked very carefully at Erie's conflict of interest forms, reading them with particular care to see if they applied to the gifts. He concluded that the questions pertained only to gifts from third parties. Rather than pose a conflict, Mr. Milne see Mr. Hirt's gifts as being in the best interest of the company in motivating its employees. Thus, Mr. Hirt's gifts are of benefit to large shareholders, such as the Hagens.

(2) Mr. Petersen: It "never crossed [his] mind" that the stock he received from Mr. Hirt might be a potential violation of company policy. Erie's policy applies to vendors, customers and brokers from whom Mr. Petersen never even accepted lunch. Moreover, none of Mr. Hirt's gifts were designed to influence or had the effect of influencing him or anyone else. Mr. Petersen noted that he owns well over two million Erie shares and thus "can't be influenced by a few hundred" from Mr. Hirt. Mr. Petersen added that he had twice received $2,000 in cash from H.O. Hirt and had given some Erie stock to Ms. Etter, his secretary while he was chief financial officer, and that he did not see any of these gifts as violating the Erie policy.

(3) Mr. Schofield: The Erie conflict of interest policy does not pertain to Mr. Hirt's gifts because it has the "standard" language that Mr. Schofield has seen at so many companies and that concerns third parties. In this regard, Mr. Schofield noted that he had fired the director of purchasing at US Airways because he had accepted gifts from vendors. Even if Mr. Hirt could be considered a third party under the policy, the gifts had no capacity or intent to influence Mr. Schofield, who did not even think about the reasons for the gifts, and whose net worth, in excess of $10 million, was too high for him to be influenced by the gifts.

(4) Mr. Van Gorder: In completing his Erie conflict of interest questionnaires, Mr. Van Gorder never even contemplated that the form addressed Mr. Hirt's gifts of stock. The questions pertain to whether an employee or director has received anything of value from a third party and whether the employee or director has steered any business to the third party. Mr. Van Gorder noted that Mr. Hagen, when CEO, had given him the opportunity to buy Erie stock at a time when the stock was otherwise unavailable, a very valuable gift at the time.

4. Other Gift Recipients

a. Mr. Hirt's Intent

Other gift recipients who are not directors but are present or former Erie employees have recollections similar to those of the gift recipients about Mr. Hirt's motives and their own intent.

(1) Mr. Ziegler: Mr. Hirt explained to Mr. Ziegler that he has been very fortunate and could never spend all the money he has amassed. Mr. Hirt said that he would rather give the money to charities and friends than have any of it go to the IRS upon his death.

(2) Mr. Brinling: Mr. Hirt said that he had taken good care of his family and various charities and had decided that because Erie had been so good to them that they wanted to share their wealth with their friends. In no way did Mr. Hirt suggest that he expected Mr. Brinling to do anything for Mr. Hirt because of the gifts.

(3) Mr. Burt: Mr. Hirt said that Mr. Burt should not do anything in return for the gift. Mr. Hirt explained that he had so much money that he did not know what to do with it and so was giving it away. Mr. Hirt explained that he could give up to $10,000 to one individual without paying a gift tax. He told Mr. Burt that he would like to make larger gifts to his friends but that he would then face a 50 percent tax rate.

(4) Mr. Sider: Mr. Hirt told him that he could keep, sell or gift the stock, whatever he chose.

(5) The Christs: Mr. Hirt told them that the gift of stock was simply because of their friendship. He did not say anything about estate planning or any motivation on his part, and the Christs saw the gift of stock simply as reflective of the Hirts' generosity.

(6) The Cummings: Mr. Hirt told them that the $10,000 in Erie stock to each of them was purely a gift and that he wanted nothing in return because he has everything he needs. Mr. Hirt also said that the stock was the Cummings' to do with as they pleased.

(7) Mr. Godleski: Mr. Godleski said that Mr. Hirt told him that a Chicago law firm had given him estate planning advice. Mr. Hirt stated that his wealth had grown so much that he could not even spend the dividend income on his Erie holdings.

b. Gift Recipients' Intent

These other gift recipients also did not think about the conflicts policy, in part because the motive they saw for the gifts was so obviously generosity. Mr. Ziegler and Mr. Sider have also given Erie stock to their subordinates.

(1) Mr. Ziegler: He never considered that Mr. Hirt's gifts of stock might violate company policy or that Mr. Hirt was trying to buy anyone's loyalty. Mr. Ziegler believes that all of the Erie officers that received gifts work long hours and are extremely devoted to Erie so their loyalty is not in question. Mr. Ziegler has also given Erie stock to his subordinates in an effort to emulate Mr. Hirt's generosity, and does not believe that his own gifts violate any policies. Exhibit 24.

(2) Mr. Brinling: He never thought that Erie's conflicts policy might apply to Mr. Hirt's gifts. He reads the conflicts form each year and interpreted it to cover gifts that could influence decisions that he might make on behalf of Erie. Mr. Hirt's gifts could not influence him because they could not affect his behavior or his opinion of Mr. Hirt.

(3) Mr. Burt: He would not have thought that these gifts would violate Erie's policy because they arose from his long-term friendship with Mr. Hirt.

(4) Mr. Sider: It never crossed Mr. Sider's mind that the gifts might violate Erie policy. He had 150,000 shares of Erie stock at the time and does not see how less than 400 could influence him. Mr. Sider twice gave 100 shares of Erie stock to his secretary.

(5) Ms. Etter: She is a non-exempt employee so she has not paid any attention to the corporate personnel manual. She never thought accepting the gifts from Mr. Hirt was in any way improper.

(6) The Christs: They never thought of any conflict that the gifts of stock might pose, because of their friendship with the Hirts and because they do not believe that they occupy positions of influence or power with respect to decisions to be made on behalf of Erie.

(7) Mr. Cummings: He did not think that there was anything wrong with his receiving the gifts, but believes he asked Laurel Hirt whether the gifts posed a conflict and she said that they did not. Mr. Cummings stated that he cannot see Mr. Hirt trying to influence anyone through his gifts; Mr. Hirt is simply "overly generous."

(8) Mr. Godleski: Mr. Hirt told Mr. Godleski not even to say thank you or send a note, that he expected nothing in return. There was absolutely no suggestion of an intent to influence.

5. Family Members

Mrs. Hirt and Laurel Hirt agree that Mr. Hirt expressed great friendship and admiration for all four of the directors who received gifts. Mrs. Hagen and Laurel Hirt, however, cannot understand how Mr. Hirt could have given them such gifts without an ulterior motive.

a. Laurel Hirt: Ms. Hirt, Mr. and Mrs. Hirt's daughter, is a securities analyst at Erie, and stated that her father is a generous man. Ms. Hirt knew of the 1992 gifts to Messrs. Milne, Schofield and Godleski. She does not know if they or the subsequent gifts were part of her father's estate plan but believes this mischaracterizes them. Mr. Hirt speaks highly of Mr. Milne and is "unusually" loyal to him. Mr. Hirt believes Mr. Van Gorder is a "sharp attorney." Mr. Petersen is like family and has done a tremendous job managing Erie's portfolio. Mr. Hirt speaks highly of Mr. Schofield, a man he considers to be of the highest integrity. The other recipients are also long-time business acquaintances of her father's.

b. Audrey Hirt: Mrs. Hirt stated that shortly before the 1994 gifts were made, Mr. Hirt told her that Schiff Hardin had discussed the Hirts' option of making gifts of Erie stock of less than $10,000 per person. These gifts, Mr. Hirt told her, would not be taxable either to the Hirts or the recipients. Mrs. Hirt annually composed her own list of the persons to whom she wished to give, Mr. Hirt did the same, and Mr. Hirt merged the lists into one to give to Mr. Ziegler. With respect to the recipients of Mr. Hirt's gifts, including the four directors, Mrs. Hirt stated that Mr. Hirt had fond feelings for each and had known most for many years. Mr. Hirt never said that he was making these gifts to influence anyone or to try and encourage someone to act in a particular manner.

c. Mrs. Hagen: Mrs. Hagen does not see any connection between the millions of dollars of gifts of stock Mr. Hirt also gave to friends, charities and other Erie employees who are not officers and the gifts to the four directors. Her counsel stated that no matter how many times someone does something right, he may still do something wrong on another occasion. Mrs. Hagen's counsel explained that all the directors were aware of the "business disagreements" between Mr. Hirt and Mrs. Hagen, that Mr. Hirt made large gifts to certain directors, and Mrs. Hagen lost all the votes.

B. Documents

We reviewed estate planning documents, records of Board conflicts, and records of the gifts themselves. The circumstantial evidence provided by the documents strengthens the case for generosity as Mr. Hirt's motive.

1. The Gifts

Set out below is a complete record of the relevant Hirt gifts.

					Amount 3					
Recepient's Name	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Directors										
Stephen A. Milne	$ 0	$ 0	$ 0	$ 9,600	$ 0	$ 0	$ 19,988	$ 19,952	$ 20,622.50	$ 19,755.62
Joy Milne	0	0	0	0	0	0	19,600	19,952	20,622.50	19,755.62
Lucas Milne	0	0	0	0	0	0	19,600	19,952	20,622.50	19,765.25
Holly Milne	0	0	0	0	0	19,998	19,600	19,952	20,622.50	19,765.25
John Petersen	0	0	0	0	0	19,988	22,326	0	0	0
Gertrude Petersen	0	0	0	0	0	19,988	22,326	0	0	0
Marissa Rickloff	0	0	0	0	0	0	0	22,050	20,355	0
Matthew Rickloff	0	0	0	0	0	0	0	22,050	20,355	0
Seth Schofield	0	0	0	9,600	0	0	19,988	22,326	22,050	20,355
Diane Scholfield	0	0	0	0	0	0	19,988	22,326	22,050	20,355
Jan Van Gorder	0	0	0	0	0	9,994	11,163	11,025	10,177.50	0
Linda Van Gorder	0	0	0	0	0	9,994	11,163	11,025	10,177.50	0

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3 The amounts stated are those provided on Mr. Hirt's original lists, Exhibit 19, that were given to Doug Ziegler to assist with the transfers. All were intended to be annual exclusion gifts, i.e. under $10,000 per donor and the amounts stated may reflect fluctuations in the stock price between the dates on which the Hirts first composed the lists and the dates on which the stock was actually transferred.

4 In 1995, Mr. Milne received his gift in January and the rest of his family received their gifts in July. In 1996, 1997 and 1998, Mr. Milne and his family received their gifts in January. All other recipients received their gifts at Christmas time of the year listed.

Recepient's Name	1989	1990	1991	1992	Amount 3 1993	1994	1995	1996	1997	1998
Erie Employees										
John Brinling 5	$ 0	$ 0	$ 0	$ 0	$ 0	$ 9,994	$ 11,163	$ 11,025	$ 10,177.50	$ 0
Elaine Brinling	0	0	0	0	0	9,994	11,163	11,025	10,177.50	0
Doug Ziegler	9,000	0	0	0	0	9,994	11,163	11,025	20,355	0
Diane Ziegler	6,000	0	0	0	0	9,994	11,163	11,025	20,355	0
Alexander Ziegler	0	0	0	0	0	0	0	0	20,355	0
Tom Sider	0	0	0	0	0	0	0	22,050	0	0
Mark Christ	0	0	0	0	0	9,994	11,163	11,025	10,177.50	0
Sherrie-Jo Christ	0	0	0	0	0	9,994	11,163	11,025	10,177.50	0
Shawn Cummings	0	0	0	0	0	0	0	11,025	10,177.50	0
Jennifer Cummings	0	0	0	0	0	0	0	11,025	10,177.50	0
Linda Etter	0	0	0	0	0	0	0	22,050	20,355	0

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5 President, Erie Family Life Company

Recepient's Name	1989	1990	1991	1992	Amount 3 1993	1994	1995	1996	1997	1998
Former Employees										
Peter Cipriani 6	$ 0	$ 0	$ 0	$ 0	$ 0	$ 9,994	$ 11,163	$ 11,025	$ 20,355	$ 0
Antonette Cipriani	0	0	0	0	0	9,994	11,163	11,025	20,355	0
James Nuber 7	0	0	0	0	0	0	0	11,025	10,177.50	0
Katherine Nuber	0	0	0	0	0	0	0	11,025	10,177.50	0
Frank Yarian 8	0	0	0	0	0	19,988	0	0	0	0
Agnes Yarian	0	0	0	0	0	19,988	0	0	0	0
Dan Burt 9	0	0	0	0	0	0	0	11,025	10,177.50	0
Frances Burt	0	0	0	0	0	0	0	11,025	10,177.50	0

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6 Former Senior Vice President, automobile underwriting
7 Non-officer employee
8 Former Director
9 Former Supervisor, automobile fleet

					Amount 3					
Recepient's Name	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Agents										
Raymond Sitter 10	$ 0	$ 0	$ 0	$ 0	$ 0	$ 9,994	$ 11,163	$ 0	$ 20,355	$ 0
Jo Ellen Sitter	0	0	0	0	0	9,994	11,163	0	20,355	0
Robert Rutkowski 11	0	0	0	0	0	9,994	11,163	11,025	20,355	0
Olivia Rutkowski	0	0	0	0	0	9,994	11,163	11,025	20,355	0
Carl Godleski 12	0	0	0	0	9,600	9,994	0	11,025	10,177.50	0
Nancy Godleski	0	0	0	0	9,600	9,994	0	11,025	10,177.50	0

10 Former agent, Mrs. Hirt's brother
11 Former agent
12 Agent

2. The Board Votes

An examination of all Board minutes since 1990 reveals voting to be typically unanimous until Mr. Hagen's termination in September 1993. Since then, there have been a number of issues on which the Hagens have taken a different position from the rest of the Board. On some of these issues, said by the Hagens to be examples of Mr. Hirt's influence, the Board outvoted the Hagens. The first of these votes, in May 1994, was well after Mr. Hirt's 1992 gifts and before any of his 1994 gifts. On other issues, unremarked by the Hagens, the Board deferred to them.

a. The "Influenced" Votes

The following votes are said by the Hagens to have been influenced by Mr. Hirt's gifts. Exhibits 25A-G. We find no evidence in the Board minutes or in our investigation to believe that those in the majority voted for any reason other than the merits of the issues.

(1) The May 26, 1994 vote in favor of a $5 million payout limit per shareholder from the Redemption Fund.

Mr. Hirt initiated discussion of this item at an executive committee meeting, which adopted the limit and the Board later ratified the executive committee's action. Previously, the fund comprised a set percentage of retained earnings. With the change, the death of a major shareholder would not have as large a financial impact on Erie. Major shareholders Hirt, Petersen and Black, as well as the other directors supported the change. The Hagens dissented, on the ground that the Board's concerns about the fund arose from erroneous data. Exhibit 25A.

(2) The April 25, 1995 vote in favor of indemnifying Mr. Sider, Erie's chief financial officer, in an insider trading lawsuit.

The law firm of Duane Morris & Heckscher seconded Erie's in-house counsel's view that Mr. Sider was entitled as a matter of law to be indemnified and that the Board did not need officially to approve the indemnification. Exhibit 27. The Hagens dissented, on the ground that in their view Mr. Sider should not be indemnified in a "personal" lawsuit. Exhibit 25B.

(3) The December 13, 1994 and September 21, 1995 votes in favor of increasing Mr. Sider's pay.

Prior to the December 1994 meeting, the Board's executive compensation committee received extensive background material from Erie as well as reports on executive compensation issues from two objective outside consultants. Messrs. Van Gorder and Petersen did not participate in the votes, and Mr. Milne was not yet a director. The Hagens dissented on both votes, on the ground that they did not think a raise was in order for someone who should be terminated, and Ms. Goldman dissented on the first vote. Exhibits 25C and 25D.

(4) The December 13, 1994 vote in favor of granting Mr. Petersen a large retroactive pay increase.

The executive compensation committee received extensive background material from Erie as well as reports on compensation from two objective outside consultants. Managers responsible for investing portfolios the size of Erie's typically made many times Mr. Petersen's salary. Messrs. Petersen and Van Gorder did not participate in the vote, and Mr. Milne was not yet a director. The Hagens and Mr. Weil dissented. Exhibit 25C.

(5) The December 13, 1994 and September 21, 1995 votes in favor of increasing Mr. Milne's compensation package.

Prior to the December 1994 meeting, the Board's executive compensation committee received extensive background material from Erie as well as reports on executive compensation issues from two objective outside consultants. Messrs. Petersen and Van Gorder did not participate in the votes, and Mr. Milne was not yet a director. The Hagens dissented on the ground that the raise exceeded the Erie employees' two or three percent raise to such an extent as to be against the Erie culture. Exhibits 25C and 25D.

(6) The April 25, 1995 and December 16, 1997 votes in favor of entering into and continuing employment contracts with certain senior officers.

Before the April 1995 meeting, the executive compensation committee received information and suggestions from various directors and the committee reported to the Board on the topic. The December 1997 vote was to extend Messrs. Milne's and Van Gorder's contracts, which were set to expire in November 1998. Mr. Milne, who was not a director at the time of the first vote, and Mr. Van Gorder did not participate in either vote. The Hagens dissented, on the ground that that they viewed these contracts as giving the executives "golden parachutes" that were not necessary. Exhibits 25B, 25F and 28.

(7) The March 19, 1998 vote for a slate of directors that did not include Mr. Hagen.

The nominating committee received advice from Duane Morris & Heckscher before making its unanimous decision and issued a report. The Board stated its belief that Mr. Hagen was a disruptive influence. The Hagens dissented. It is notable that the Hagens do not assert that influence played a role in the 1993 vote terminating Mr. Hagen as CEO. Exhibit 25E.

(8) The December 16, 1998 vote to implement a stock repurchase plan.

Mr. Ziegler presented the Board with information, provided by outside investment advisers, that stock repurchases are a common and well-regarded course of action when the stock price is low enough to make it an attractive investment. Mrs. Hagen, joined by Mr. Weil and Ms. Goldman, dissented because management had provided little background before the meeting and the plan as voted on was somewhat different than originally proposed. Exhibit 25G.

b. Other Disputed Issues

An examination of other disputed Board issues reveals that the Board often deferred to the Hagens on such issues.

(1) Delaware Holding Company

The majority of the Board favored establishing a Delaware holding company; the Hagens did not. Tax advantages for Erie would accompany the change. CEO Petersen reviewed this issue at the December 16, 1993 meeting. Exhibit 26A. The Board discussed this issue at its June 22, 1995 meeting. Exhibit 26B. In a February 5, 1996 letter from William Clark, Esq. to James Glockley, Mellon Bank, Mr. Clark proposed that further action on this issue be deferred. Exhibit 7. At the March 26, 1996 Board meeting, Mr. Van Gorder reported on the previous day's meeting with attorneys for each of Mr. Hirt, Mrs. Hagen and Mellon Bank about this issue. Exhibit 26C. On June 17, 1996, the Board voted unanimously to table the issue. Exhibit 26F.

(2) Secondary Stock Offering

Messrs. Van Gorder, Petersen and Milne, as well as Messrs. Hirt and Schofield, have favored considering a secondary stock offering. Exhibit 25D. This would increase the number of shareholders and therefore create a broader market for the stock. The Hagens have opposed this proposal and the matter has been tabled.

(3) Demutualization Legislation

The majority of the Board, including Mr. Hirt, shared Mr. Van Gorder's position that if a proposed state bill allowing the demutualization of insurance companies were to be passed, it should contain a similar proposal for reciprocal insurance companies like Erie. The Hagens viewed Mr. Van Gorder's actions as an effort to change control of Erie, and hired a personal lobbyist to oppose the legislative change. In the February 5, 1996 letter to which we have previously referred, Mr. Clark proposed that further action on the bill be deferred until, among other things, Messrs. Van Gorder and Sider were replaced. At the March 26, 1996 Board meeting, Mrs. Hagen questioned the need for the legislation and asked that her counsel be contacted about the matter. Exhibit 26C. At the May 1, 1996 Board meeting, Mr. Milne asked the Board to table its support for the legislation. Exhibit 26D. On May 7, 1996, Mr. Van Gorder wrote to the Insurance Federation of Pennsylvania, stating that Erie would prefer that the bill not be enacted. Exhibit 26E.

(4) Erie's Management Fee

Another issue has been the management fee issue, which is the percentage of earned premiums paid by the Erie Insurance Exchange to its "attorney-in-fact," Erie. Other things being equal, the higher the percentage of premiums paid, the higher Erie's earnings. The Hagens favor keeping the rate at or near the maximum 25 percent allowed by law. At the September 29, 1994 Board meeting, then CEO Petersen stated that he would prefer to see the rate reduced below its then level of 25 percent because Erie's earnings that year were already so strong. Exhibit 26G. The Board deferred consideration of the issue. On March 2, 1995, Mr. and Mrs. Hagen dissented from an otherwise unanimous vote in favor of reducing the attorney-in-fact compensation to 24.5 percent. Exhibit 26H. All subsequent votes have been unanimous.

c. Conclusions

Our examination of the above Board votes, and other non-unanimous votes not raised by the Hagens, reveals no evidence of influence. As participants in those votes, we believe the issues were resolved on the merits, and that appropriate deference, but no more than that, was given to the views of both the Hagens and Mr. Hirt.

C. Mr. Hirt's Intent

The individuals we interviewed, from many backgrounds and perspectives, overwhelmingly portrayed Mr. Hirt as a generous man embarrassed by his wealth, too modest to live opulently himself, and eager to give a large part of his money to family and charity and a relatively small part to people who were special to him for various reasons. Neither our interviews nor the documents we reviewed provide any support for the thesis that Mr. Hirt was trying to influence Board votes.

Mrs. Hagen points to two circumstantial facts that she suggests mandate a contrary conclusion: the gifts started at the time Mr. Hagen was terminated and Mr. and Mrs. Hagen were outvoted on a number of subsequent Board votes. First, the gifts started earlier and became large only a year later, at Christmas 1994. When Mr. Hirt gave his 1992 gifts to Messrs. Milne and Schofield, Mr. Hagen was CEO, there was no conflict on the Board, and Mr. Milne was not even an Erie employee. Mr. Milne also received gifts in 1994 and 1995, by which time he was an Erie employee, but not yet a member of the Board. The much more salient fact about the timing of the gifts was the great increase in Mr. Hirt's wealth caused by the increase at this same time in the value of Erie stock and the advice he sought from Schiff Hardin about how to diminish that wealth without adverse tax consequences. In 1994 he began taking their advice to broaden his giving and made many more gifts to directors and nondirectors alike.

Second, if Mr. Hirt wished to secure votes on Board issues, logically he would have given gifts to more directors. He certainly had no financial constraints. What separated those to whom he gifted from those to whom he did not was that for various reasons he felt a special kinship with these four. Mr. Petersen and Mr. Van Gorder were long-time close colleagues to whom Mr. Hirt felt close. Mr. Milne was a protege in whose career Mr. Hirt had taken a special interest, and Mr. Schofield was someone of whom Mr. Hirt quickly grew especially fond for personality reasons. Mrs. Hagen believes that the gift recipients were dominant directors who led others, but this is not the personal experience of the members of this Committee and is not borne out by our examination of Board votes highlighted by Mrs. Hagen. To take only one example, half of the disputed votes said by the Hagens to have been tainted by Mr. Hirt's influence related to senior management compensation on which some or all of Messrs. Petersen, Milne and Van Gorder did not vote. If these votes were important to Mr. Hirt, he influenced the wrong directors.

Third, Mr. Hirt's gifts of stock to other Erie employees are strong support for the conclusion that his motive was generosity. These gifts, given at the same time as the gifts to directors, and in similar amounts, could have no motive but friendship and generosity. The authorities we have discussed above highlight the existence of a record of generous actions as important circumstantial evidence of intent.

D. The Gift Recipients' Intent

1. Mr. Schofield

Mr. Schofield had long experience on corporate boards. He believes many corporations have a practice of giving directors stock or matching stock or the opportunity to buy stock at an attractive price. Mr. Hirt gave him his first gift only after asking him whether Mr. Hagen, then chairman and CEO, had already done so. This was at a time when there were no Board disputes and no conflict between Mr. Hirt and the Hagens. After that, according to the two men themselves and numerous other witnesses, Mr. Schofield and Mr. Hirt became good friends. They seemed to relate to each other particularly well and Mr. Hirt often expressed his respect and admiration for Mr. Schofield. Mr. Schofield also informed us that his net worth is in excess of $10 million and that Mr. Hirt's gifts had no capacity to influence him.

2. Mr. Petersen

Mr. Petersen is a long-time dedicated associate credited by Mr. Hirt and others with a large part of Erie's success. Laurel Hirt told us that giving a gift to Mr. Petersen was like giving to a member of the family.

Because of his control over Erie's investments, Mr. Petersen is particularly wary of acting in any way that could cause his decisions to be influenced and is known for this within Erie. He is constantly importuned by New York investment banks eager to entertain him and obtain Erie's business. He has made a point of accepting nothing, even lunch, from those with whom he was considering doing business.

Mr. Petersen is such a large Erie stockholder that he can be presumed to want what is best for Erie, making him unlikely to be influenced in a way adverse to corporate interests. ALI Principles ss. 1.34, Comment b; In re The Walt Disney Co. Deriv. Litig., No. 15452, 1998 WL 731587, at * 6 (Del. Ch. 1998). Moreover his net worth is near $100 million, making the gifts very small in comparison. Indeed, Mr. Petersen resisted Mr. Hirt's gifts, saying that they only made his own estate planning harder, and finally persuaded Mr. Hirt to give to Mr. Petersen's grandchildren instead.

Mr. Petersen has made gifts of Erie stock himself to his secretary, and received at least one substantial cash gift from H. O. Hirt. He therefore never imagined that a gift from Mr. Hirt could be considered improper.

3. Mr. Milne

Mr. Milne did look at Erie's conflicts policy to satisfy himself that Mr. Hirt's gift was proper, and concluded that the policy only applied to third parties. He never considered that Mr. Hirt might try to buy his support because the 1992 gift was made when Mr. Milne was still an agent in Maryland, and the 1994 and 1995 gifts were made before he became a member of the Board.

Moreover, Mr. Hirt and Mr. Milne first worked together 25 years ago and their close, almost father-son, relationship is remarked on by all. Conversely, Mr. Milne long disliked Mr. Hagen and originally left Erie because of that conflict. If there is anyone on the Board that Mr. Hirt does not need to try to influence with respect to the Hagens, it is Mr. Milne.

4. Mr. Van Gorder

Mr. Van Gorder, who joined the company in 1981, is another long-time associate of Mr. Hirt as well as Mr. Hagen. Based on his conversations with Mr. Hirt and the work they had done together, Mr. Van Gorder believed Mr. Hirt's reason for giving him the gifts was purely friendship. Moreover, as the draftsman of Erie's conflicts policy it never occurred to him that it might apply to a gift from Mr. Hirt made out of friendship.

In addition, as with Mr. Milne, Mr. Hirt has no need to buy Mr. Van Gorder's support. Since the 1993 termination of Mr. Hagen, the Hagens have sought to have Mr. Van Gorder fired and removed from the Board. Mr. Van Gorder is certainly not otherwise sympathetic to the Hagens' point of view on the compensation and senior officer tenure issues that Mrs. Hagen points to as the key votes showing Mr. Hirt's influence. Moreover, those whose compensation is being considered, like Messrs. Van Gorder and Milne, cannot take part in Board consideration of these matters. Finally, Mr. Van Gorder, too, has substantial Erie stock and substantial resources. He has given Erie stock to charities each year in amounts exceeding the amount of Erie stock given to him by Mr. Hirt.

VI. Conclusions and Recommendations

A. Conclusions

After reviewing the law and facts set forth above, the Committee reaches the following conclusions with respect to Mr. Hirt's gifts:

1. With the advice of counsel, the Committee concludes that it is disinterested and capable of objective judgment under Pennsylvania law with respect to the conclusions reached in this report. Counsel's letter to the Committee on that issue is attached as Exhibit 29.

2. No violation of criminal law has occurred.

3. No director has breached his fiduciary duty.

4. No Erie policy or principle of corporate governance has been violated.

5. Mr. Hirt's intent in giving the gifts was generosity toward particular friends. We find no evidence that influencing directors on any Board issue or vote was any part of his intent.

6. The intent of the directors who received gifts was entirely to accept a gift they believed to be appropriate. We find no evidence that their votes on any issue were affected by the gifts.

7. We find no evidence to cast doubt on the integrity or good faith of the directors who accepted gifts. The evidence is that at all times they believed their actions were in the best interests of Erie and its shareholders.

B. Recommendations

We believe that the current discord on the Board is destructive. Actions that are entirely innocent may appear otherwise in such an atmosphere. Moreover, we believe that the Board should maintain control over compensation for directors and senior management. There is potential for very large stockholders to affect that compensation in a company like Erie. We therefore recommend that the following bylaw be adopted by the Board

> The Board of Directors has the responsibility and authority to determine the compensation of directors and officers elected by the Board of Directors in connection with their service to the corporation. The acceptance of gifts of significant value from persons associated with the corporation may impair the ability of the Board of Directors to establish appropriate levels of compensation and incentives for directors and officers elected by the Board of Directors that the Board considers appropriate. For these reasons, a director or an officer elected by the Board of Directors may not accept, or arrange for any member of his or her immediate family to receive, gifts or gratuities of other than nominal or insignificant value from any of the following persons or members of their immediate families: a director or officer elected by the Board of Directors, an employee of the corporation, or any person elected by the Board of Directors who is known to be a beneficial owner of more than 5 percent of the outstanding capital stock of any class of the corporation. If a gift or gratuity of more than nominal or insignificant value is received from any such persons, the gift or gratuity must be returned and the Board of Directors notified. Gifts or gratuities from any person to any member of the immediate family of such person are not prohibited by this bylaw.

Respectfully submitted,

Harry H. Weil, Chairman
Peter B. Bartlett
Samuel P. Black, III
J. Ralph Borneman
Patricia A. Goldman
Edmund J. Mehl

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