



## Erie Indemnity Reports First Quarter 2010 Results

### 1Q 2010 Highlights

#### Indemnity Shareholder Interest

- Net income attributable to Indemnity per share-diluted was \$0.82 per share in the first quarter 2010 compared to net income per share-diluted of \$0.19 per share in the first quarter of 2009.
- Net operating income attributable to Indemnity per share (excluding net realized gains or losses and impairments on investments and related taxes) increased to \$0.77 per share in the first quarter of 2010 from \$0.29 per share for the same period one year ago.
- Gross margins from management operations increased to 21.8 percent in the first quarter of 2010 from 18.9 percent in the first quarter of 2009.
- Indemnity's investment operation pretax income totaled \$14 million for the first quarter of 2010, compared to losses of \$24 million for the first quarter of 2009.

**Erie, Pa., May 6, 2010** - Erie Indemnity Company (NASDAQ: ERIE) adopted the Accounting Standards Codification 810, Consolidation guidance that became effective January 1, 2010. As a result of this new guidance, Erie Indemnity Company is considered to have a controlling financial interest for financial reporting purposes in its affiliated entity, Erie Insurance Exchange ("Exchange") and therefore is required to consolidate the Exchange's financial position and operating results. Furthermore, upon consolidation of the Exchange, 100% of the ownership of Erie Family Life Insurance Company ("EFL") resides within the consolidated entity and consequently EFL's financial results are also consolidated.

Erie Indemnity Company ("Indemnity") is the managing Attorney-in-Fact for the subscribers (policyholders) of the Exchange. The Exchange is a subscriber (policyholder) owned Pennsylvania-domiciled reciprocal insurer that writes property and casualty insurance.

The accompanying consolidated financial statements of Erie Indemnity Company reflect the consolidated results of Indemnity and the Exchange which we refer to collectively as "Erie Insurance Group. The consolidation of the Exchange resulted in no change to Indemnity's net income or equity. The Exchange's net income and equity is identified as the noncontrolling interest net income or equity.

Indemnity or Indemnity shareholder interest refers to the interest in Erie Indemnity Company owned by the Class A and Class B shareholders. Exchange refers to the noncontrolling interest held for the benefit of the subscribers (policyholders) and includes its interest in Flagship City Insurance Company and EFL.

### Results of the Erie Insurance Group's Operations

	Indemnity shareholder interest		Exchange's noncontrolling interest		Eliminate related party transactions		Erie Insurance Group	
	1Q'10	1Q'09	1Q'10	1Q'09	1Q'10	1Q'09	1Q'10	1Q'09
<i>(dollars in millions)</i>								
Management operations	\$53	\$45	\$ -	\$ -	\$(45)	\$(37)	\$ 8	\$ 8
Property and casualty operations	(2)	(6)	(39)	(100)	47	39	6	(67)
Life insurance operations	2	(1)	8	(5)	1	1	11	(5)
Investment operations	14	(24)	192	(249)	(3)	(3)	203	(276)
Provision for income taxes	20	3	46	(92)	-	-	66	(89)
<b>Total net income</b>	<b>\$47</b>	<b>\$11</b>	<b>\$115</b>	<b>\$(262)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$162</b>	<b>\$(251)</b>

The following sections highlight and discuss the results of management operations, property and casualty operations, life insurance operations and investment operations related to the Indemnity shareholder interest.

### Management Operations

	Indemnity shareholder interest		Exchange's noncontrolling interest		Eliminate related party transactions		Erie Insurance Group	
	1Q'10	1Q'09	1Q'10	1Q'09	1Q'10	1Q'09	1Q'10	1Q'09
<i>(dollars in millions)</i>								
Management fee revenue	\$237	\$230	\$ -	\$ -	\$(237)	\$(230)	\$ -	\$ -
Service agreement revenue	8	8	-	-	-	-	8	8
Total revenue from management operations	245	238	-	-	(237)	(230)	8	8
Cost of management operations	192	193	-	-	(192)	(193)	-	-
Income from management operations before taxes	\$ 53	\$ 45	\$ -	\$ -	\$ (45)	\$ (37)	\$8	\$ 8
Gross margin	21.8%	18.9%						

- The management fee rate was 25 percent for both 2010 and 2009. Direct written premiums of the property and casualty operations, upon which the management fee is calculated, increased 3.0 percent in the first quarter of 2010 compared to the first quarter of 2009. Increases in policies in force were offset by reductions in average premium.
- Cost of management operations decreased slightly to \$192 million in the first quarter 2010 from \$193 million in the first quarter of 2009. First quarter 2010 expenses include a decrease in expense of \$5 million due to a favorable ruling relating to an outstanding judgment against Indemnity offset by increased expenses primarily related to contract labor and software costs related to various technology initiatives.

### Property and Casualty Operations

	Indemnity shareholder interest		Exchange's noncontrolling interest		Eliminate related party transactions		Erie Insurance Group	
	1Q'10	1Q'09	1Q'10	1Q'09	1Q'10	1Q'09	1Q'10	1Q'09
<i>(dollars in millions)</i>								
Net premiums earned	\$53	\$52	\$909	\$ 889	\$ -	\$ -	\$962	\$ 941
Losses and loss expenses	40	43	698	739	(1)	(1)	737	781
Policy acquisition and other underwriting expenses	15	15	250	250	(46)	(38)	219	227
Total losses and expenses	55	58	948	989	(47)	(39)	956	1,008
Underwriting (loss) income before taxes	\$ (2)	\$ (6)	\$ (39)	\$ (100)	\$47	\$39	\$ 6	\$ (67)
Combined ratio	104.3%	111.2%	104.3%	111.2%				

- Driving the increase in first quarter 2010 direct written premium was a 3.6 percent increase in policies in force compared to the first quarter 2009.
- Year-over-year average premium per policy decreased 1.3 percent in the first quarter 2010 compared to the first quarter 2009.
- The loss and loss expense ratio related to the current accident year, excluding catastrophe losses, was 70.2 percent in the first quarter of 2010, compared to 71.2 percent in the first quarter of 2009.
- Catastrophe related losses contributed 11.7 points and 7.8 points to the combined ratio in the first quarters of 2010 and 2009, respectively. Catastrophe losses in the first quarter of 2010 included severe ice, snow and wind storms, primarily in the states of Pennsylvania, Maryland and Virginia.
- Favorable development on prior accident years improved the combined ratio 5.2 points in the first quarter of 2010. The favorable development was driven primarily by improved frequency trends in the personal auto bodily injury line. In the first quarter of 2009, adverse development on prior accident years contributed 4.0 points primarily due to one large workers compensation claim combined with increasing loss cost trends on automobile bodily injury and commercial liability claims.

### Life Insurance Operations

	Indemnity shareholder interest		Exchange's noncontrolling interest		Eliminate related party transactions		Erie Insurance Group	
	1Q'10	1Q'09	1Q'10	1Q'09	1Q'10	1Q'09	1Q'10	1Q'09
<i>(dollars in millions)</i>								
Total revenues	\$9	\$ 5	\$34	\$ 17	\$ -	\$ -	\$43	\$22
Benefits and expenses	7	6	26	22	(1)	(1)	32	27
Income (loss) before taxes	\$2	\$(1)	\$ 8	\$(5)	\$ 1	\$ 1	\$11	\$(5)

- The increase in total revenues was driven by improved investment operations, particularly recognized impairments. The Indemnity's share of impairment charges totaled \$3 million in the first quarter of 2009 compared to no impairment charges in the first quarter of 2010.
- Benefits and expenses were impacted by increased amortization of deferred policy acquisition costs in the first quarter of 2010.

### Investment Operations

<i>(in millions)</i>	Erie Indemnity Company's shareholder interest		Exchange's noncontrolling interest		Eliminate related party transactions		Erie Insurance Group	
	1Q'10	1Q'09	1Q'10	1Q'09	1Q'10	1Q'09	1Q'10	1Q'09
	Net investment income	\$9	\$13	\$75	\$83	\$(3)	\$(3)	\$81
Net realized gains (losses) in investments	5	(4)	115	(149)	-	-	120	(153)
Impairment losses recognized in earnings	0	(5)	(2)	(53)	-	-	(2)	(58)
Equity in earnings (losses) of limited partnerships	0	(28)	4	(130)	-	-	4	(158)
Total investment income (loss) before taxes	<u>\$14</u>	<u>\$(24)</u>	<u>\$192</u>	<u>\$(249)</u>	<u>\$(3)</u>	<u>\$(3)</u>	<u>\$203</u>	<u>\$(276)</u>

- The decrease in net investment income, which includes primarily interest and dividends on bonds and stocks, was driven by lower preferred stock holdings. The first quarter of 2009 also included increased bond amortization.
- Realized gains on investments were recorded in large part due to the valuation increases on the common stock portfolio.
- The reduced levels of impairment losses recognized in the first quarter of 2010 compared to 2009 were due to improved market conditions.
- Equity in earnings of limited partnerships in the first quarter of 2010 were primarily driven by increases in fair value in our private equity and mezzanine debt limited partnerships offset by continued losses in our real estate limited partnerships.

We repurchased 74,967 shares of our outstanding Class A nonvoting common stock in conjunction with our stock repurchase plan at a total cost of \$3 million in the first quarter of 2010. In April 2010, the Board of Directors approved a continuation of the current stock repurchase program through June 30, 2011 for up to \$100 million of outstanding Class A common stock repurchases. This includes and is not in addition to any unspent amounts under the current program.

According to A.M. Best Company, Erie Insurance Group, based in Erie, Pennsylvania, is the 14th largest automobile insurer in the United States based on direct premiums written and the 18th largest property/casualty insurer in the United States based on total lines net premium written. The Group, rated A+ (Superior) by A.M. Best Company, has over 4.1 million policies in force and operates in 11 states and the District of Columbia. Erie Insurance Group ranks 484 on the FORTUNE 500.

Erie Insurance earned [J.D. Power and Associates'](#) award for "Highest in Customer Satisfaction with the Auto Insurance Shopping Experience." This recognition is based on the results of the [2009 Insurance Shopping Study](#), which evaluates the experience of customers purchasing a new auto insurance policy. Erie Insurance has also been recognized on the list of Ward's 50 Group of top performing insurance companies. The Ward's 50 award analyzes the financial performance of 3,000 property and casualty companies and 800 life-health insurance companies and recognizes the top performers for achieving outstanding financial results in safety and consistency over a five-year period (2004-2008).

#### **"Safe Harbor" Statement Under the Private Securities Litigation Reform Act of 1995:**

Certain statements contained herein are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are not in the present or past tense and can generally be identified by the use of words such as "anticipate," "believe," "estimate," "expect," "intend," "likely," "plan," "project," "seek," "should," "target," "will," "may," and other expressions that indicate future trends and events. Forward-looking statements include, without limitation, statements and assumptions on which such statements are based that are related to our plans, strategies, objectives, expectations, intentions and adequacy of resources. Examples of such statements are discussions relating to underwriting, premium and investment income volumes, expenses and agency appointments. Such statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. Among the risks and uncertainties that could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements are the following:

- factors affecting the property and casualty and life insurance industries generally, including price competition, legislative and regulatory developments;
- government regulation of the insurance industry including approval of rate increases;
- the frequency and severity of claims;
- natural disasters;
- exposure to environmental claims;

- fluctuations in interest rates;
- inflation and general business conditions;
- the geographic concentration of our business as a result of being a regional company;
- the accuracy of our pricing and loss reserving methodologies;
- changes in driving habits;
- our ability to maintain our business operations including our information technology system;
- our dependence on the independent agency system;
- the quality and liquidity of our investment portfolio;
- Indemnity's dependence on its relationship with Exchange; and
- the other risks and uncertainties discussed or indicated in all documents filed by the Company with the Securities and Exchange Commission, including those described in Part I, "Item 1A. Risk Factors" of the 2009 Form 10-K, which information is incorporated by reference, updated by Part II, "Item 1A. Risk Factors" of this Form 10-Q.

A forward-looking statement speaks only as of the date on which it is made and reflects the Group's analysis only as of that date. The Group undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, changes in assumptions, or otherwise.

News releases and more information about Erie Insurance Group are available at <http://www.erieinsurance.com>.

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