Erie Indemnity Reports Third Quarter 2001 Earnings

ERIE, Pa. – October 24, 2001 -- Erie Indemnity Company (Nasdaq: ERIE) announced operating income per share for the third quarter of 2001 of $.53 per share, down 1.0 percent from $.54 per share during the third quarter of 2000. As previously announced, net income per share during the quarter was adversely impacted by underwriting losses from the terrorist attacks on the World Trade Center. Operating income per share increased 8.6 percent to $1.65 per share for the first nine months of 2001 from $1.52 per share for the same period in 2000. Net income per share decreased 15.8 percent for the third quarter of 2001 and 2.0 percent for the first nine months of 2001 due primarily to decreased net realized gains on investments.

"The devastating events of September 11th continue to have an extraordinary effect on the American economy," said Stephen A. Milne, president and CEO, Erie Insurance Group. "The insurance industry has experienced unprecedented losses from this catastrophe. The superior financial strength of the Erie Insurance Group has enabled us to effectively absorb the losses without compromising our financial position. Our fundamental operations remain strong and growing."

Net income for the quarter ended September 30, 2001, decreased to $34,430,497 or $.48 per share, from $41,192,193 or $.57 per share earned during the third quarter of 2000. For the nine months ended September 30, 2001, net income decreased to $116,345,198 or $1.63 per share, from $119,895,654 or $1.66 per share recorded in the same period in 2000.

Operating income (net income excluding net realized gain/loss on investments and related federal income taxes) decreased slightly to $37,973,228 in the third quarter of 2001 from $38,628,694 for the same period in 2000. For the nine months ended September 30, 2001, operating income increased 7.5 percent to $118,116,936 from $109,895,527 reported for the same period in 2000.

Direct written premiums, upon which the management fee revenue of the Company is calculated, grew 14.8 percent for the quarter based on continued new policy growth, improved commercial lines pricing and more stable personal lines pricing. Policies in force grew at an annualized rate of 7.8 percent at September 30, 2001. The policy retention rate remained strong at 90.9 percent in 2001 for all lines of business. During the third quarter of 2001 commercial lines premium written grew 24.8 percent while personal lines premium written grew 11.8 percent when compared with the same period in 2000.

"Due to our position in the marketplace -- high-service, competitive-cost insurance -- ERIE continues to outperform our competition as evidenced by our increased growth in our commercial and personal lines business," said Milne. "During this time of uncertainty in our country, ERIE's strength lies in the personal service our agents and employees provide to our policyholders."

Management fee revenue grew 14.8 percent to $167,307,976 in the third quarter of 2001 from $145,719,261 for the same period in 2000. The growth in the management fee revenue was a direct result of the growth in direct written premiums of the Erie Insurance Group to $669,231,901 in 2001, up from $582,877,042 for the quarter ended September 30, 2000.

The cost of management operations increased 10.7 percent from $107,854,662 in the third quarter of 2000 to $119,353,171 for the same period in 2001. Commission costs totaled $84,910,266 for the third quarter of 2001, a 13.3 percent increase over the $74,975,430 reported in the third quarter of 2000. Commission costs grew more slowly than the rate of growth in direct premium written in the third quarter 2001 due to reduced agent contingency incentive expenses. The gross margin from management operations (net revenue divided by total revenue) improved to 31.6 percent in the third quarter of 2001, compared to the gross margin of 29.2 percent reported in the third quarter of 2000.

The Company's insurance underwriting operations recorded underwriting losses of $10,588,452 and $2,742,068 in the third quarters of 2001 and 2000, respectively. Included in the third quarter 2001 underwriting loss are estimated incurred losses of the Erie Insurance Group's reinsurance business stemming from the September 11th attacks on the World Trade Center. Estimated incurred losses recognized by the entire Erie Insurance Group from the events of September 11th were $150 million. The Company shares in these losses through its property/casualty subsidiaries' participation in an intercompany reinsurance pooling agreement. Partially offsetting these losses is an aggregate excess of loss reinsurance agreement between the Erie Insurance Exchange and the Company that reduces the net retention of these losses recorded by the Company. The net losses incurred by the Company related to the World Trade Center attacks amounted to $5.8 million for the quarter ended September 30, 2001. The after-tax effect on the Company amounted to about $.06 per share for the third quarter 2001.

There were no weather-related catastrophe losses on direct business of the Erie Insurance Group for the quarter ended

September 30, 2001. Catastrophe losses were $383,387 for the quarter ended September 30, 2000.

Net revenue from investment operations for the third quarter of 2001 decreased to $6,994,026 from $18,986,285 in the third quarter 2000. Net investment income rose 2.8 percent for the quarter to $12,346,893 from $12,015,616 for the third quarter 2000. The Company realized net losses on investments in the third quarter of 2001 of $5,450,356 compared to realized gains on investments of $3,943,844 in the third quarter 2000. During the third quarter of 2001, the equity markets continued to decline sharply. The decline in the equity markets was further exacerbated by the September 11th terrorist attacks. As a result, the Company took a charge in the third quarter of 2001 to recognize the impairment of certain equity securities during the quarter where the decline in market value was considered to be other than temporary. Realized losses related to the impairment in market value of equity securities totaled $5,736,463 in the quarter.

Net revenue from investment operations for the nine months ended September 30, 2001, declined to $37,921,163 from $59,159,393 for the same period in 2000 as a result of the realized capital losses in the third quarter 2001 as well as a decrease in the equity in earnings of limited partnerships. Private equity and fixed income limited partnerships realized losses of $39,058 for the nine months ended September 30, 2001 compared to earnings of $2,356,169 for the same period of 2000. Real estate limited partnerships reflected earnings of $1,317,645 for the nine months ended September 30, 2001, compared to earnings of $1,783,232 for the same period of 2000.

Erie Indemnity Company is the principal management company for the member companies of the Erie Insurance Group, which includes the Erie Insurance Exchange, Flagship City Insurance Company, Erie Insurance Company, Erie Insurance Property and Casualty Company, Erie Insurance Company of New York and Erie Family Life Insurance Company.

According to A. M. Best Company, Erie Insurance Group, based in Erie, Pennsylvania, is the 18th largest automobile insurer in the United States based on direct premiums written and the 26th 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 more than 3.2 million policies in force and operates in 11 states and the District of Columbia.

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

"Safe Harbor" Statement Under the Private Securities Litigation Reform Act of 1995: Certain forward-looking statements contained herein involve risks and uncertainties. Many factors could cause future results to differ materially from those discussed.

Examples of such factors include variations in catastrophe losses due to changes in weather patterns, other natural causes or terrorist actions; changes in insurance regulations or legislation that disadvantage the members of the Group in the marketplace and recession, economic conditions or stock market changes affecting pricing or demand for insurance products or ability to generate investment income and returns. Growth and profitability have been and will be potentially materially affected by these and other factors.