UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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)

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

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

Class A common stock, stated value $0.0292 per share, listed on the	NASDAQ Stock Market, LLC
(Title of each class)	(Name of each exchange on which registered)

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes X No ___

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ___ No X

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer X   Accelerated Filer ___   Non-Accelerated Filer ___ (Do not check if a smaller reporting company)   Smaller Reporting Company ___

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ___ No X

Aggregate market value of voting and non-voting common stock held by non-affiliates as of the last business day of the registrant's most recently completed second fiscal quarter: $1.9 billion of Class A non-voting common stock as of June 30, 2011. There is no active market for the Class B voting common stock. The Class B common stock is closely held by few shareholders.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:
47,741,429 shares of Class A common stock and 2,545 shares of Class B common stock outstanding on February 17, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Part III of this Form 10-K (Items 10, 11, 12, 13, and 14) are incorporated by reference to the information statement on Form 14(C) to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2011.

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PART I

ITEM 1. BUSINESS

General

Erie Indemnity Company (“Indemnity”) is a publicly held Pennsylvania business corporation that has been the managing attorney-in-fact for the subscribers (policyholders) at the Erie Insurance Exchange (“Exchange”) since 1925. The Exchange is a subscriber owned, Pennsylvania-domiciled reciprocal insurer that writes property and casualty insurance.

Indemnity’s primary function is to perform certain services for the Exchange relating to the sales, underwriting and issuance of policies on behalf of the Exchange. This is done in accordance with a subscriber’s agreement (a limited power of attorney) executed by each subscriber (policyholder), which appoints Indemnity as their common attorney-in-fact to transact business on their behalf and to manage the affairs of the Exchange. Pursuant to the subscriber’s agreement and for its services as attorney-in-fact, Indemnity earns a management fee calculated as a percentage of the direct premiums written by the Exchange and the other members of the Property and Casualty Group (defined below), which are assumed by the Exchange under an intercompany pooling arrangement.

Indemnity has the power to direct the activities of the Exchange that most significantly impact the Exchange’s economic performance by acting as the common attorney-in-fact and decision maker for the subscribers (policyholders) at the Exchange.

Through December 31, 2010, Indemnity also operated as a property and casualty insurer through its wholly owned subsidiaries, Erie Insurance Company (“EIC”), Erie Insurance Company of New York (“ENY”) and Erie Insurance Property and Casualty Company (“EPC”). EIC, ENY and EPC, together with the Exchange and its wholly owned subsidiary, Flagship City Insurance Company (“Flagship”), are collectively referred to as the “Property and Casualty Group”. The Property and Casualty Group operates in 11 Midwestern, Mid-Atlantic and Southeastern states and the District of Columbia and writes primarily private passenger automobile, homeowners, commercial multi-peril, commercial automobile and workers compensation lines of insurance. On December 31, 2010, Indemnity sold all of the outstanding capital stock of its wholly owned property and casualty insurance subsidiaries to the Exchange.

Erie Family Life Insurance Company (“EFL”) is an affiliated life insurance company that underwrites and sells individual and group life insurance policies and fixed annuities. On March 31, 2011, Indemnity sold its 21.6% ownership interest in EFL to the Exchange. There was no gain or loss resulting from this sale as Indemnity is the primary decision maker for the Exchange.

All property and casualty and life insurance operations are owned by the Exchange, and Indemnity functions solely as the management company.

The consolidated financial statements of Erie Indemnity Company reflect the results of Indemnity and its variable interest entity, the Exchange, which we refer to collectively as “Erie Insurance Group” (“we,” “us,” “our”).

“Indemnity shareholder interest” refers to the interest in Erie Indemnity Company owned by the Class A and Class B shareholders. “Noncontrolling interest” refers to the interest in the Erie Insurance Exchange held for the subscribers (policyholders).

Business Segments

We operate our business as four reportable segments – management operations, property and casualty insurance operations, life insurance operations and investment operations. Financial information about these segments is set forth in and referenced to Item 8. "Financial Statements and Supplementary Data - Note 5, Segment Information, of Notes to Consolidated Financial Statements" contained within this report. Further discussion of financial results by operating segment is provided in and referenced to Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained within this report.

Management operations – We generate internal management fee revenue, which accrues to the Indemnity shareholder interest, as Indemnity provides services to the Exchange relating to the sales, underwriting and issuance of policies. The Exchange is the sole customer of our management operations. Indemnity charges the Exchange a management fee, determined by our Board of Directors, not to exceed 25% of all premiums written or assumed by the Exchange for its services as attorney-in-fact. Management fee revenue is eliminated upon consolidation.

Property and casualty insurance operations – The Property and Casualty Group generates revenue by insuring preferred and standard risks, with personal lines comprising 73% of the 2011 direct written premiums and commercial lines comprising the remaining 27%. The principal personal lines products based upon 2011 direct written premiums were private passenger automobile (47%) and homeowners (22%). The principal commercial lines products based upon 2011 direct written premiums were commercial multi-peril (12%), commercial automobile (7%) and workers compensation (7%).

The members of the Property and Casualty Group pool their underwriting results under an intercompany pooling agreement. Under the pooling agreement, the Exchange retains a 94.5% interest in the net underwriting results of the Property and Casualty Group, while EIC retains a 5.0% interest and ENY retains a 0.5% interest. Prior to December 31, 2010, the underwriting results retained by EIC and ENY accrued to the Indemnity shareholder interest. Due to the sale of Indemnity's property and casualty insurance subsidiaries to the Exchange on December 31, 2010, all property and casualty underwriting results accrue to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after December 31, 2010.

Historically, due to policy renewal and sales patterns, the Property and Casualty Group's direct written premiums are greater in the second and third quarters than in the first and fourth quarters of the calendar year. Property and casualty insurance premiums earned accounted for approximately 86% of our total consolidated revenue in 2011, 81% in 2010 and 90% in 2009.

The Property and Casualty Group is represented by over 2,100 independent agencies comprising almost 9,500 licensed property and casualty representatives, which is our sole distribution channel. In addition to their principal role as salespersons, the independent agents play a significant role as underwriting and service providers and are fundamental to the Property and Casualty Group's success.

The Property and Casualty Group writes business in Illinois, Indiana, Maryland, New York, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia, Wisconsin and the District of Columbia. The states of Pennsylvania, Maryland and Virginia made up 63% of the Property and Casualty Group's direct written premium in 2011.

While sales, underwriting and policy issuance services are centralized at our home office, the Property and Casualty Group maintains 24 field offices throughout its operating region to provide claims services to policyholders and marketing support for the independent agencies that represent us.

The Property and Casualty Group ranked as the 12th largest automobile insurer in the United States based upon 2010 direct premiums written and as the 20th largest property and casualty insurer in the United States based upon 2010 total lines net premiums written according to AM Best Company.

Life insurance operations – Our life insurance operations generate revenue from the sale of individual and group life insurance policies and fixed annuities. These products are offered through our property and casualty insurance agency force to provide an opportunity to cross-sell both personal and commercial accounts. EFL writes business in 10 states including Illinois, Indiana, Maryland, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia, and Wisconsin and the District of Columbia. The state of Pennsylvania made up 48% of EFL's 2011 premium and annuity considerations, with Virginia, Maryland and Ohio making up approximately 10% each.

Prior to and through March 31, 2011, Indemnity retained a 21.6% ownership interest in EFL, which accrued to the Indemnity shareholder interest, and the Exchange retained a 78.4% ownership interest in EFL, which accrued to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest. Due to the sale of Indemnity's 21.6% ownership interest in EFL to the Exchange on March 31, 2011, 100% of EFL's life insurance results accrue to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after March 31, 2011.

Investment operations – Our investment operations generate revenue from our fixed maturity, equity security and alternative investment portfolios. The portfolios are managed with the objective of maximizing after-tax returns on a risk-adjusted basis. Revenues and losses included in investment operations consist of net investment income, net realized gains and losses, net impairment losses recognized in earnings for our fixed maturity and preferred equity portfolios, and equity in earnings and losses from our alternative investments, which include private equity, mezzanine debt, and real estate limited partnerships. The volatility inherent in the financial markets has the potential to impact our investment portfolio from time-to-time. Net revenues from our investment operations accounted for approximately 12% of our total consolidated revenue in 2011, 17% in 2010, and 8% in 2009.

Competition

Property and casualty insurers generally compete on the basis of customer service, price, consumer recognition, coverages offered, claims handling, financial stability and geographic coverage. Vigorous competition, particularly in the personal lines automobile and homeowners lines of business, is provided by large, well-capitalized national companies, some of which have broad distribution networks of employed or captive agents, by smaller regional insurers, and by large companies who market and sell personal lines products directly to consumers. In addition, because the insurance products of the Property and

Casualty Group are marketed exclusively through independent insurance agents, the Property and Casualty Group faces competition within its appointed agencies based upon ease of doing business, product, price and service relationships.

Market competition bears directly on the price charged for insurance products and services subject to regulatory limitations. Growth is driven by a company's ability to provide insurance services and competitive prices while maintaining target profit margins. Industry capital levels can also significantly affect prices charged for coverage. Growth is a product of a company's ability to retain existing customers and to attract new customers, as well as movement in the average premium per policy.

The Erie Insurance Group has a strategic focus that we believe will result in long-term underwriting performance. First, we employ an underwriting philosophy and product mix targeted to produce a Property and Casualty Group underwriting profit on a long-term basis through careful risk selection and rational pricing. The careful selection of risk allows for lower claims frequency and loss severity, thereby enabling insurance to be offered at favorable prices. The Property and Casualty Group has continued to refine its risk measurement and price sophistication models used in the underwriting and pricing processes. Second, the Property and Casualty Group focuses on consistently providing superior service to policyholders and agents. Third, the Property and Casualty Group's business model is designed to provide the advantages of localized marketing and claims servicing with the economies of scale and low cost of operations from centralized accounting, administrative, underwriting, investment, information management and other support services.

Finally, we carefully select the independent agencies that represent the Property and Casualty Group. The Property and Casualty Group seeks to be the lead insurer with its agents in order to enhance the agency relationship and the likelihood of receiving the most desirable underwriting opportunities from its agents. We have ongoing, direct communications with our agency force. Agents have access to a number of venues we sponsor designed to promote the sharing of ideas, concerns and suggestions with the senior management of the Property and Casualty Group, with the goal of improving communications and service. We continually evaluate new ways to support our agents' efforts, from marketing programs to identifying potential customer leads, to grow the business of the Property and Casualty Group and sustain our long-term agency relationships. High agency penetration and long-term relationships allow for greater efficiency in providing agency support and training.

EFL, our life insurer, is subject to many of the same structural advantages and environmental challenges as the Property and Casualty Group. Term life business accounts for the majority of policies issued by EFL, and this product line is extremely competitive and increasingly transparent due in part to the proliferation of on-line quoting services. Besides price, ease of application and processing improvements represent areas where companies are finding ways to differentiate themselves among independent producers. EFL continues to progress in these areas using state-of-the-art technology and third-party vendors. Historically, sound underwriting and disciplined approaches to pricing and investing have contributed to favorable operating results. While EFL will be challenged to maintain these trends in the face of intensified competition going forward, we continually shape our strategy and core processes to respond more effectively to the needs of our policyholders and independent agents.

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Employees
We employed approximately 4,300 full-time people at December 31, 2011.

Reserves for Property and Casualty Losses and Loss Expenses
Loss reserves are established to account for the estimated ultimate costs of loss and loss expenses for claims that have been reported but not yet settled and claims that have been incurred but not reported. While we exercise professional diligence to establish reserves at the end of each period that are fully reflective of the ultimate value of all claims incurred, these reserves are, by their nature, only estimates and cannot be established with absolute certainty. The factors which may potentially cause the greatest variation between current reserve estimates and the actual future paid amounts are: unforeseen changes in statutory or case law altering the amounts to be paid on existing claim obligations, new medical procedures and/or drugs with costs significantly different from those seen in the past, and claims patterns on current business that differ significantly from historical claims patterns. A discussion of our property and casualty loss reserve methodology can be found in and is referenced to Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Estimates" contained within this report.

Loss and loss expense reserves are presented on our Consolidated Statements of Financial Position on a gross basis.
The table that follows provides a reconciliation of our loss and loss expense reserve beginning and ending balances established for the Property and Casualty Group for the years ended December 31:

	Property and Casualty Group		
(in millions)	2011	2010	2009
Losses and loss expense reserves at January 1, – Gross	$3,584	$3,598	$3,586
Less: reinsurance recoverable	188	200	187
Losses and loss expense reserves at January 1, – Net	3,396	3,398	3,399
Incurred losses and loss expenses related to:			
Current accident year	3,616	3,053	2,732
Prior accident years	(272)	(244)	(93)
Total incurred losses and loss expenses	3,344	2,809	2,639
Paid losses and loss expenses related to:			
Current accident year	2,360	1,855	1,608
Prior accident years	1,032	956	1,032
Total paid losses and loss expenses	3,392	2,811	2,640
Losses and loss expense reserves at December 31, – Net	3,348	3,396	3,398
Add: reinsurance recoverable	151	188	200
Losses and loss expense reserves at December 31, – Gross	$3,499	$3,584	$3,598

The Property and Casualty Group estimates loss reserves at full expected cost except for workers compensation loss reserves, which are discounted on a nontabular basis as prescribed by the Insurance Department of the Commonwealth of Pennsylvania. An interest rate of 2.5% is used to discount these reserves based upon the Property and Casualty Group's historical workers compensation payout patterns. Loss and loss expense reserves were reduced by $84 million, $127 million and $136 million at December 31, 2011, 2010 and 2009, respectively, as a result of this discounting.

The Property and Casualty Group's reserves for losses and loss expenses are reported net of receivables for salvage and subrogation which totaled $145 million, $141 million and $133 million at December 31, 2011, 2010 and 2009, respectively.

Additional discussions of our property and casualty loss reserve activity can be found in and is referenced to Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations, Property and Casualty Insurance Operations" and "Financial Condition" sections contained within this report.

The following table illustrates the change over time of our loss and loss expense reserve estimates established for the Property and Casualty Group at the end of the last ten calendar years:

Property and Casualty Group
Reserves for Unpaid Losses and Loss Expenses

(in millions)	At December 31,									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Gross liability for unpaid losses and loss expenses (LAE)	$2,940	$3,401	$3,629	$3,779	$3,830	$3,684	$3,586	$3,598	$3,584	$3,499
Gross liability re-estimated as of:										
One year later	2,986	3,360	3,592	3,651	3,559	3,487	3,502	3,336	3,282	
Two years later	3,021	3,423	3,583	3,508	3,467	3,409	3,320	3,068		
Three years later	3,117	3,482	3,558	3,464	3,412	3,307	3,101			
Four years later	3,190	3,497	3,516	3,437	3,358	3,111				
Five years later	3,223	3,466	3,494	3,404	3,174					
Six years later	3,173	3,440	3,485	3,224						
Seven years later	3,186	3,430	3,313							
Eight years later	3,189	3,275								
Nine years later	3,036									
Cumulative (deficiency) redundancy	$ (96)	$ 126	$ 316	$ 555	$ 656	$ 573	$ 485	$ 530	$ 302	N/A
Gross liability for unpaid losses and LAE	$2,940	$3,401	$3,629	$3,779	$3,830	$3,684	$3,586	$3,598	$3,584	$3,499
Reinsurance recoverable on unpaid losses(1)	119	124	133	155	183	190	187	200	188	151
Net liability for unpaid losses and LAE	$2,821	$3,277	$3,496	$3,624	$3,647	$3,494	$3,399	$3,398	$3,396	$3,348
Cumulative amount of gross liability paid through:										
One year later	$ 933	$1,055	$1,066	$1,067	$1,019	$1,042	$1,033	$ 955	$1,042	
Two years later	1,477	1,638	1,699	1,630	1,621	1,573	1,538	1,474		
Three years later	1,819	2,034	2,056	2,016	1,962	1,889	1,862			
Four years later	2,044	2,245	2,294	2,235	2,147	2,079				
Five years later	2,161	2,394	2,431	2,342	2,270					
Six years later	2,256	2,484	2,509	2,427						
Seven years later	2,316	2,541	2,573							
Eight years later	2,357	2,588								
Nine years later	2,397									

(1) Reinsurance recoverable on unpaid losses represents the related ceded amounts.

Government Regulation

Property and casualty insurers are subject to supervision and regulation in the states in which they transact business. The extent of such regulation varies, but generally derives from state statutes that 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 that must be met and maintained by insurers, the licensing to do business of insurers and agents, the nature of the limitations on investments, the approval of premium rates for property and casualty insurance, the provisions that 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. In addition, many states have enacted variations of competitive rate-making laws that allow insurers to set certain premium rates for certain classes of insurance without having to obtain the prior approval of the state insurance department. State insurance departments also conduct periodic examinations of the affairs of insurance companies and require the filing of quarterly and annual reports relating to the financial condition of insurance companies.

The Property and Casualty Group is also required to participate in various involuntary insurance programs for automobile insurance, as well as other property and casualty lines, in states in which these companies operate. These involuntary programs provide various insurance coverages to individuals or other entities that are otherwise unable to purchase such coverages in the voluntary market. 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 generally provides for participation in proportion to voluntary writings of related lines of 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. Although currently the federal government does not directly regulate the insurance industry, federal programs, such as federal terrorism backstop legislation and the Federal Insurance Office established under the Dodd-Frank Act can also impact the insurance industry.

Our life insurer, EFL, is subject to similar state regulations as the Property and Casualty Group, although specific laws and statutes applicable to life insurance and annuity carriers govern its activities. Valuation laws require statutory reserves to be held at conservative levels, which can have a substantial impact on the amount of free surplus that is available for financing new business and other growth opportunities.

Most states have enacted legislation that regulates insurance holding company systems such as the Erie Insurance Group. Each insurance company in the holding company system is required to register with the insurance supervisory authority of its state of domicile and furnish information regarding the operations of companies within the holding company system that may materially affect the operations, management or financial condition of the insurers within the system. Pursuant to these laws, the respective insurance departments may examine Indemnity, as the management company, the Property and Casualty Group and EFL at any time, and may require disclosure and/or prior approval of certain transactions with the insurers and Indemnity, as an insurance holding company.

All transactions within the holding company system affecting the insurers Indemnity manages are filed with the applicable insurance departments and must be fair and reasonable. Approval of the applicable insurance commissioner is required prior to the consummation of transactions affecting the control of an insurer. In some states, the acquisition of 10% or more of the outstanding common stock of an insurer or its holding company is presumed to be a change in control. The sale of Indemnity's wholly owned property and casualty insurance subsidiaries, EIC, ENY and EPC, and the sale of Indemnity's 21.6% ownership interest in EFL have both been approved by the appropriate regulatory agencies. Approval of the applicable insurance commissioner is also required in order to declare extraordinary dividends. See Item 8, "Financial Statements and Supplementary Data – Note 22, Statutory Information, of Notes to Consolidated Financial Statements" contained within this report.

Website Access
Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports are available free of charge on our website at www.erieinsurance.com as soon as reasonably practicable after such material is filed electronically with the Securities Exchange Commission. Additionally, copies of our annual report on Form 10-K are available free of charge, upon written request, by contacting Investor Relations, Erie Indemnity Company, 100 Erie Insurance Place, Erie, PA 16530, or calling 1-800-458-0811.

Our Code of Conduct is also available on our website and in printed form upon request, and our information statement on Form 14(C) is available free of charge on our website at www.erieinsurance.com.

ITEM 1A. RISK FACTORS

Our business involves various risks and uncertainties, including, but not limited to those discussed in this section. The events described in the risk factors below, or any additional risk outside of those discussed below, could have a material adverse effect on our business, financial condition, operating results or liquidity if they were to actually occur. This information should be considered carefully together with the other information contained in this report, including Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8. "Financial Statements and Supplementary Data", which includes the Notes to Consolidated Financial Statements, contained within this report.

Risk Factors Related to the Indemnity Shareholder Interest

If the management fee rate paid by the Exchange is reduced or if there is a significant decrease in the amount of premiums written or assumed by the Exchange, revenues and profitability could be materially adversely affected.

Indemnity is dependent upon management fees paid by the Exchange, which represent its principal source of revenue. Pursuant to the subscriber's agreements with the policyholders at the Exchange, Indemnity may retain up to 25% of all premiums written or assumed by the Exchange. Therefore, management fee revenue from the Exchange is calculated by multiplying the management fee rate by the direct premiums written by the Exchange and the other members of the Property and Casualty Group, which are assumed by the Exchange under an intercompany pooling arrangement. Accordingly, any reduction in direct premiums written by the Property and Casualty Group would have a proportional negative effect on Indemnity's revenues and net income. See "Risk Factors Relating to the Non-Controlling Interest Owned by the Exchange", which includes the Property and Casualty Group and EFL, within this section for a discussion of risks impacting direct written premium.

The management fee rate is determined by our Board of Directors and may not exceed 25% of the premiums written or assumed by the Exchange. The Board of Directors sets the management fee rate each December for the following year. At their discretion, the rate can be changed at any time. The factors considered by the Board of Directors in setting the management fee rate include Indemnity's financial position in relation to the Exchange and the long-term needs of the Exchange for capital and surplus to support its continued growth and competitiveness. If the Exchange's surplus were significantly reduced, the management fee rate could be reduced and Indemnity's revenues and profitability could be materially adversely affected.

If the costs of providing services to the Exchange are not controlled, Indemnity's revenues and profitability could be materially adversely affected.

Pursuant to the subscriber's agreements with the policyholders at the Exchange, Indemnity is appointed to perform certain services, regardless of the cost of providing those services. These services relate to the sales, underwriting and issuance of policies on behalf of the Exchange. Indemnity incurs significant costs related to commissions, employees, and technology in order to provide these services. Inflation could negatively impact many of these costs.

Commissions to independent agents are the largest component of Indemnity's cost of operations. Commissions include scheduled commissions to agents based upon premiums written as well as additional commissions and bonuses to agents, which are earned by achieving certain targeted measures. Changes to commission rates or bonus programs may result in increased future costs and lower profitability.

Employees are an essential part of the operating costs related to providing services for the Exchange. As a result, Indemnity's profitability is affected by employee costs, including salaries and medical, pension and other benefit costs. Recent regulatory developments, provider relationships, and economic factors that are beyond our control indicate that employee healthcare costs will continue to increase. Although Indemnity actively manages these cost increases, there can be no assurance that future cost increases will not occur and reduce its profitability.

Technological development is necessary to reduce Indemnity's costs, to reduce the Property and Casualty Group's operating costs, and to facilitate agents' and policyholders' ability to do business with the Property and Casualty Group. If we are unable to keep pace with the advancements in technology, our ability to compete with other insurance companies who have advanced technological capabilities will be negatively affected. This could result in additional costs as we invest in new technology and systems.

Our ability to attract, develop and retain talented executives, key managers and employees is critical to our success.

Our future performance is substantially dependent upon our ability to attract, motivate and retain executives and other key management. The loss of the services and leadership of certain key officers and the failure to attract, motivate and develop talented new executives and managers could prevent us from successfully communicating, implementing and executing business strategies, and therefore have a material adverse effect on our financial condition and results of operations.

Our success also depends on our ability to attract, develop and retain a talented employee base. The inability to staff all functions of our business with employees possessing the appropriate technical expertise could have an adverse effect on our business performance. Staffing appropriately skilled employees for the deployment and maintenance of information technology systems, the appropriate handling of claims, and rendering of disciplined underwriting is critical to the success of our business.

If we are unable to keep pace with technological advancements in the insurance industry or are unable to ensure system availability or to secure system information, the ability of the Erie Insurance Group to compete effectively could be impaired.

Indemnity is responsible for providing the technological resources necessary to support the operations of the Erie Insurance Group. Our business is highly dependent upon the effective operations of our technology and information systems. We rely upon these systems to assist in key functions of core business operations including processing claims, applications, and premium payments, providing customer support, performing actuarial and financial analysis, and maintaining key data. We have an established business continuity plan to ensure the continuation of core business operations in the event that normal business operations could not be performed due to a catastrophic event. While we continue to test and assess our business continuity plan to ensure it meets the needs of our core business operations and addresses multiple business interruption events, there is no assurance that core business operations could be performed upon the occurrence of such an event. Our information technology systems interface with and rely upon third-party systems. The failure of our information systems for any reason could result in a material adverse effect on our business, financial condition, or results of operations.

Advancements in technology continue to make it easier to store, share and transport information. While we have tools in place to monitor the flow of information and address identity, threat, vulnerability and trust management, a security breach of our computer systems could interrupt or damage our operations or harm our reputation if confidential company or customer information were to be misappropriated from our systems. Cases where sensitive data is exposed or lost may lead to a loss in competitive advantage or lawsuits.

The performance of Indemnity's investment portfolio is subject to a variety of investment risks, which may in turn have a material adverse effect on its results of operations or financial condition.

Indemnity's investment portfolio is comprised principally of fixed-income maturities and limited partnerships. At December 31, 2011, Indemnity's investment portfolio consisted of approximately 68% fixed income securities, 26% limited partnerships, and 6% equity securities.

All of Indemnity's marketable securities are subject to market volatility. To the extent that future market volatility negatively impacts Indemnity's investments, its financial condition will be negatively impacted. We review the investment portfolio on a continuous basis to evaluate positions that might have incurred other-than-temporary declines in value. The primary factors considered in our review of investment valuation include the extent and duration to which fair value is less than cost, historical operating performance and financial condition of the issuer, short- and long-term prospects of the issuer and its industry, specific events that occurred affecting the issuer, including rating downgrades and, depending on the type of security, our intent to sell or our ability and intent to retain the investment for a period of time sufficient to allow for a recovery in value. As the process for determining impairments is highly subjective, changes in our assessments may have a material effect on Indemnity's operating results and financial condition. See also Item 7A. "Quantitative and Qualitative Disclosures about Market Risk".

If the fixed-income, equity, or limited partnership portfolios were to suffer a substantial decrease in value, Indemnity's financial position could be materially adversely affected through increased unrealized losses or impairments.

Currently, 40% of the fixed-income portfolio is invested in municipal securities. The performance of the fixed-income portfolio is subject to a number of risks including:

- Interest rate risk – the risk of adverse changes in the value of fixed-income securities as a result of increases in market interest rates.
- Investment credit risk – the risk that the value of certain investments may decrease due to the deterioration in financial condition of, or the liquidity available to, one or more issuers of those securities or, in the case of asset-backed securities, due to the deterioration of the loans or other assets that underlie the securities, which, in each case, also includes the risk of permanent loss.
- Concentration risk – the risk that the portfolio may be too heavily concentrated in the securities of one or more issuers, sectors, or industries, which could result in a significant decrease in the value of the portfolio in the event of a deterioration of the financial condition, performance, or outlook of those issuers, sectors, or industries.
- Liquidity risk – the risk that Indemnity will not be able to convert investment securities into cash on favorable terms and on a timely basis, or that Indemnity will not be able to sell them at all, when desired. Disruptions in the financial markets, or a lack of buyers for the specific securities that Indemnity is trying to sell, could prevent it from liquidating securities or cause a reduction in prices to levels that are not acceptable to Indemnity.

In addition to the fixed-income securities, a significant portion of Indemnity's portfolio is invested in limited partnerships. At December 31, 2011, Indemnity had investments in limited partnerships of $208 million, or 17% of total assets. In addition, Indemnity is obligated to invest up to an additional $40 million in limited partnerships, including private equity, mezzanine debt, and real estate partnership investments. Limited partnerships are significantly less liquid and generally involve higher degrees of price risk, the risk of potential loss in estimated fair value resulting from an adverse change in prices, than publicly traded securities. Limited partnerships, like publicly traded securities, have exposure to market volatility; but unlike fixed-income securities, cash flows and return expectations are less predictable. The primary basis for the valuation of limited partnership interests are financial statements prepared by the general partner. Because of the timing of the preparation and delivery of these financial statements, the use of the most recently available financial statements provided by the general partners result in a quarter delay in the inclusion of the limited partnership results in our Consolidated Statements of Operations. Due to this delay, Indemnity's financial statements at December 31, 2011, do not reflect market conditions experienced in the fourth quarter of 2011.

Indemnity's equity securities have exposure to price risk. Indemnity does not hedge its exposure to equity price risk inherent in its equity investments. Equity markets, sectors, industries, and individual securities may also be subject to some of the same risks that affect Indemnity's fixed-income portfolio, as discussed above.

Indemnity is subject to credit risk from the Exchange because the management fees from the Exchange are not paid immediately when premiums are written.

Indemnity recognizes management fees due from the Exchange as income when the premiums are written because at that time Indemnity has performed substantially all of the services it is required to perform, including sales, underwriting and policy issuance activities. However, such fees are not paid to Indemnity by the Exchange until the Exchange collects the premiums from policyholders. As a result, Indemnity holds receivables for management fees since such fees are based upon premiums that have been written and assumed. Indemnity also holds receivables from the Exchange for costs it pays on the Exchange's behalf. The receivable from the Exchange totaled $254 million or 21% of our total assets at December 31, 2011.

Deteriorating capital and credit market conditions may significantly affect Indemnity's ability to meet liquidity needs and access capital.

Sufficient liquidity and capital levels are required to pay operating expenses, income taxes, and to provide the necessary resources to fund future growth opportunities, pay dividends, and repurchase stock. Management estimates the appropriate level of capital necessary based upon current and projected results, which include a factor for potential exposures based upon these Risk Factors. Failure to accurately estimate Indemnity's capital needs may have a material adverse effect on its financial condition until additional sources of capital can be located. Further, a deteriorating financial condition may create a negative perception of Indemnity by third parties, including rating agencies, investors, agents, and customers which could impact Indemnity's ability to access additional capital in the debt or equity markets.

The primary sources of liquidity for Indemnity are management fees and cash flows generated from its investment portfolio. In the event Indemnity's current sources do not satisfy its liquidity needs, Indemnity has the ability to access its $100 million bank revolving line of credit, from which there were no borrowings as of December 31, 2011, or sell assets in its investment portfolio. Volatility in the financial markets could impair Indemnity's ability to sell certain of its fixed income securities or, to a greater extent, its significantly less liquid limited partnership investments, or cause such investments to sell at deep discounts.

In the event these traditional sources of liquidity are not available, Indemnity may have to seek additional financing. Indemnity's access to funds will depend upon a number of factors including current market conditions, the availability of credit to the financial services industry, market liquidity, and credit ratings. In deteriorating market conditions, Indemnity may not be able to obtain additional financing on favorable terms, or at all.

Indemnity is subject to applicable insurance laws and regulations, as well as claims and legal proceedings, which, if determined unfavorably, could have a material adverse effect on Indemnity's business, results of operations or financial condition.

Indemnity faces a significant risk of litigation and regulatory investigations and actions in the ordinary course of operating its businesses including the risk of class action lawsuits. Indemnity's pending legal and regulatory actions include proceedings specific to Indemnity and others generally applicable to business practices in the industries in which it operates. In Indemnity's management operations, we are, have been, or may become subject to class actions and individual suits alleging, among other things, issues relating to sales or underwriting practices, payment of contingent or other sales commissions, product design, product disclosure, policy issuance and administration, additional premium charges for premiums paid on a periodic basis, charging excessive or impermissible fees on products, recommending unsuitable products to customers, and breaching alleged fiduciary or other duties to customers. Indemnity is also subject to litigation arising out of its general business activities such as its contractual and employment relationships. Plaintiffs in class action and other lawsuits against Indemnity may seek very large or indeterminate amounts, including punitive and treble damages, which may remain unknown for substantial periods of time. Indemnity is also subject to various regulatory inquiries, such as information requests, subpoenas and books and record examinations from state and federal regulators and authorities. Changes in the way regulators administer those laws or regulations could adversely impact Indemnity's business, results of operations or financial condition. See "Risk Factors Related to the Non-Controlling Interest Owned by the Exchange, which Includes the Property and Casualty Group and EFL," that follows for additional discussion of litigation risks.

Risk Factors Relating to the Non-Controlling Interest Owned by the Exchange, which Includes the Property and Casualty Group and EFL

Deteriorating general economic conditions may have an adverse effect on the non-controlling interest's operating results and financial condition.

Unfavorable changes in economic conditions, including declining consumer confidence, inflation, high unemployment and the threat of recession, among others, may lead the Property and Casualty Group's customers to modify coverage, not renew policies, or even cancel policies, which could adversely affect the premium revenue of the Property and Casualty Group, and consequently Indemnity's management fee. These conditions could also impair the ability of customers to pay premiums when due, and as a result, the Property and Casualty Group's bad debt write-offs could increase.

In addition, downward economic trends also may have an adverse effect on both Indemnity's and the Property and Casualty Group's investment results by negatively impacting the business conditions and impairing credit for the issuers of securities held in their respective investment portfolios. This could reduce fair values of investments and generate significant unrealized losses or impairment charges which may adversely affect their respective financial results.

The Property and Casualty Group depends on independent insurance agents, which exposes the Property and Casualty Group to risks not applicable to companies with exclusive agents or other forms of distribution.

The Property and Casualty Group markets and sells its insurance products through independent, non-exclusive agencies. These agencies are not obligated to sell only the Property and Casualty Group's insurance products, and generally they also sell competitors' insurance products. As a result, the Property and Casualty Group's business depends in large part on the marketing and sales efforts of these agencies. To the extent these agencies' marketing

efforts cannot be maintained at their current levels of volume or they bind the Property and Casualty Group to unacceptable insurance risks, fail to comply with established underwriting guidelines or otherwise improperly market the Property and Casualty Group's products, the results of operations and business of the Property and Casualty Group could be adversely affected. Also, to the extent these agencies place business with competing insurers due to compensation arrangements, product differences, price differences, ease of doing business or other reasons, the results of operations of the Property and Casualty Group could be adversely affected. If the Property and Casualty Group is unsuccessful in maintaining and/or increasing the number of agencies in its independent agent distribution system, the results of operations of the Property and Casualty Group could be adversely affected. To the extent that consumer preferences cause the insurance industry to migrate to a delivery system other than independent agencies, the business of the Property and Casualty Group could be adversely affected. Also, to the extent the agencies choose to place significant portions or all of their business with competing insurance companies, the results of operations and business of the Property and Casualty Group could be adversely affected.

Our ability to maintain our reputation is a key factor to the Property and Casualty Group's success.

The Property and Casualty Group maintains a brand recognized for customer service. Incidents such as a failure to protect sensitive customer data, errors in processing a claim, long customer wait times, systems failures, agency disputes, unfavorable litigation or inappropriate social media communications, among others, may result in reputational harm to the Property and Casualty Group's brand and the potential for a reduction in business. Further, if an extreme catastrophic event were to occur in a heavily concentrated area of policyholders, and extraordinarily high number of claims could have the potential to strain claims processing and affect our ability to satisfy our customers. The degree of control we have over these events varies significantly based upon the type of event. While we maintain and execute processes to minimize these events, we cannot completely eliminate this risk.

The Property and Casualty Group faces significant competition from other regional and national insurance companies. Failure to keep pace with competitors may result in lower market share and revenues, which may have a material adverse affect on the Property and Casualty Group's financial condition.

The Property and Casualty Group competes with regional and national property and casualty insurers including direct writers of insurance coverage. Many of these competitors are larger and many have greater financial, technical and operating resources. In addition, there is competition within each independent insurance agency that represents other carriers as well as the Property and Casualty Group.

If we are unable to perform at industry best practice levels in terms of quality, cost containment, and speed-to-market due to inferior operating resources and/or problems with external relationships, the Property and Casualty Group's business performance may suffer. As the business environment changes, if we are unable to adapt timely to emerging industry changes, or if our people do not conform to the changes, the Property and Casualty Group's business could be materially impacted.

The property and casualty insurance industry is highly competitive on the basis of product, price and service. If competitors offer property and casualty products with more coverage and/or better service or offer lower rates, and we are unable to implement product or service improvements quickly enough to keep pace, the Property and Casualty Group's ability to grow and renew its business may be adversely impacted.

The internet continues to grow as a method of product distribution, and as a preferred method of product and price comparison. We compete against established 'direct to consumer' insurers as well as insurers that use a combination of agent and online distribution. We expect the competitors in this channel to grow. Failure to position our distribution technology effectively in light of these trends and changing demographics could inhibit the Property and Casualty Group's ability to grow and maintain its customer base. The Property and Casualty Group's growth could also be adversely impacted by an inability to accommodate prospective customers based upon lack of geographic agency presence.

Changes in applicable insurance laws, regulations or changes in the way regulators administer those laws or regulations could adversely change the Property and Casualty Group's operating environment and increase its exposure to loss or put it at a competitive disadvantage.

Property and casualty insurers are subject to extensive supervision in the states in which they do business. This regulatory oversight includes, by way of example, matters relating to licensing examination, rate setting, market conduct, policy forms, limitations on the nature and amount of certain investments, claims practices, mandated

participation in involuntary markets and guaranty funds, reserve adequacy, insurer solvency, restrictions on underwriting standards, and transactions between affiliates. Such regulation and supervision are primarily for the benefit and protection of policyholders and not for the benefit of shareholders. For instance, members of the Property and Casualty Group are subject to involuntary participation in specified markets in various states in which they operate, and the rate levels the Property and Casualty Group is permitted to charge do not always correspond with the underlying costs associated with the coverage issued. Additionally, material transactions and agreements between Indemnity and the Exchange must be approved by the appropriate state insurance department(s). Although currently the federal government does not directly regulate the insurance industry, federal programs, such as federal terrorism backstop legislation and the Federal Insurance Office established under the Dodd-Frank Act can also impact the insurance industry. In addition to specific insurance regulation, the Property and Casualty Group must also comply with other regulatory, legal and ethical requirements relating to the general operation of a business.

Premium rates and reserves must be established for members of the Property and Casualty Group from forecasts of the ultimate costs expected to arise from risks underwritten during the policy period. The Property and Casualty Group's underwriting profitability could be adversely affected to the extent such premium rates or reserves are too low or by the effects of inflation.

One of the distinguishing features of the property and casualty insurance industry in general is that its products are priced before its costs are known, as premium rates are generally determined before losses are reported. Consequently, in establishing premium rates, we attempt to anticipate the potential impact of inflation, including medical cost inflation, construction and auto repair cost inflation and tort issues. Medical costs are a broad element of inflation that impact personal and commercial auto, general liability, workers compensation and commercial multi-peril lines of insurance written by the Property and Casualty Group. Accordingly, premium rates must be established from forecasts of the ultimate costs expected to arise from risks underwritten during the policy period. These premium rates may prove to be inadequate if future inflation is significantly higher than the inflation anticipated in pricing.

Further, property and casualty insurers establish reserves for losses and loss expenses that will not be paid and settled for many years. Numerous factors affect both the current estimates and final settlement value of these losses and loss expenses. It is possible that the ultimate liability for these losses and loss expenses will exceed these reserves because of unanticipated changes in the future development of known losses, the unanticipated emergence of losses that have occurred but are currently unreported, and larger than expected settlements on pending and unreported claims. The process of estimating reserves is inherently judgmental and can be influenced by factors that are subject to variation. If pricing or reserves of the Property and Casualty Group are not sufficient, the Property and Casualty Group's underwriting profitability may be adversely impacted.

The property and casualty insurance industry has historically been cyclical with periods of intense price competition. The Property and Casualty Group seeks an appropriate balance between profitability and premium growth. Periods of intense price competition in the cycle could adversely affect the Property and Casualty Group's financial condition, profitability, or cash flows.

Emerging claims and coverage issues in the insurance industry are unpredictable and could cause an adverse effect on the Property and Casualty Group's results of operations or financial condition.

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect the Property and Casualty Group's business by either extending coverage beyond its underwriting intent or by increasing the number or size of claims. In some instances, these emerging issues may not become apparent for some time after the Property and Casualty Group has issued the affected insurance policies. As a result, the full extent of liability under the Property and Casualty Group's insurance policies may not be known for many years after the policies are issued.

Changes in reserve estimates may adversely affect EFL's operating results.

Reserves for life-contingent contract benefits are computed on the basis of long-term actuarial assumptions of future investment yields, mortality, morbidity, persistency and expenses. We periodically review the adequacy of these reserves on an aggregate basis and, if future experience differs significantly from assumptions, adjustments to reserves and amortization of deferred policy acquisition costs may be required, which could have a material adverse effect on EFL's operating results.

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The financial performance of members of the Property and Casualty Group could be adversely affected by severe weather conditions or other catastrophic losses, including terrorism.

The Property and Casualty Group conducts business in 11 states and the District of Columbia, primarily in the Mid-Atlantic, Midwestern and Southeastern portions of the United States. A substantial portion of this business is private passenger and commercial automobile, homeowners and workers compensation insurance in Ohio, North Carolina, Maryland, Virginia and particularly, Pennsylvania. As a result, a single catastrophic occurrence, destructive weather pattern, change in climate condition, general economic trend, terrorist attack, regulatory development or other condition disproportionately affecting one or more of the states in which the Property and Casualty Group conducts substantial business could adversely affect the results of operations of members of the Property and Casualty Group. Common natural catastrophic events include hurricanes, earthquakes, tornadoes, hail storms and severe winter weather. The frequency and severity of these catastrophes is inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposures in the area affected by the event and the severity of the event.

Terrorist attacks could also cause losses from insurance claims related to the property and casualty insurance operations, as well as a decrease in our equity, net income or revenue. The federal Terrorism Risk Insurance Program Reauthorization and Extension Act of 2007 requires that some coverage for terrorist losses be offered by primary commercial property insurers and provides federal assistance for recovery of claims through 2014. While the Property and Casualty Group is exposed to terrorism losses in commercial lines and workers compensation, these lines are afforded a limited backstop above insurer deductibles for acts of terrorism under this federal program. The Property and Casualty Group has no personal lines terrorist coverage in place. The Property and Casualty Group could incur large net losses if terrorist attacks were to occur.

The Property and Casualty Group maintains several property catastrophe reinsurance treaties that were renewed effective January 1, 2012, with a first treaty providing coverage of up to 90% of a loss of $500 million in excess of the Property and Casualty Group's loss retention of $350 million per occurrence, and a second treaty providing coverage of up to 70% of a loss of $275 million in excess of $850 million. In addition, a third treaty was entered into with a nonaffiliated reinsurer providing coverage of up to 70% of a loss of $25 million in excess of $1.125 billion. These treaties exclude losses from acts of terrorism. Catastrophe reinsurance may prove inadequate if a major catastrophic loss exceeds the reinsurance limit which could adversely affect the Property and Casualty Group's underwriting profitability and financial position.

The inability to acquire reinsurance coverage at reasonable rates or collect amounts due from reinsurers could have an adverse effect on the Property and Casualty Group.

The availability and cost of reinsurance are subject to prevailing market conditions, both in terms of price and available capacity. The availability of reinsurance capacity can be impacted by general economic conditions and conditions in the reinsurance market, such as the occurrence of significant reinsured events. The availability and cost of reinsurance could affect the Property and Casualty Group's business volume and profitability.

Although the reinsurer is liable to the Property and Casualty Group to the extent of the ceded reinsurance, the Property and Casualty Group remains liable as the direct insurer on all risks reinsured. Reinsurance contracts do not relieve the Property and Casualty Group from its primary obligations to policyholders. As a result, ceded reinsurance arrangements do not eliminate the Property and Casualty Group's obligation to pay claims. Accordingly, the Property and Casualty Group is subject to credit risk with respect to its ability to recover amounts due from reinsurers. The Property and Casualty Group's inability to collect a material recovery from a reinsurer could have an adverse effect on its underwriting profitability and financial condition.

The performance of the Exchange's investment portfolio is subject to a variety of investment risks, which may in turn have a material adverse effect on its results of operations or financial condition.

The Exchange's investment portfolio is comprised principally of fixed-income maturities, common stocks, and limited partnerships. At December 31, 2011, the Exchange's investment portfolio consisted of approximately 65% fixed income securities, 20% common stocks, 10% limited partnerships, and 5% preferred equity securities.

All of the Exchange's marketable securities are subject to market volatility. To the extent that future market volatility negatively impacts the Exchange's investments, its financial condition will be negatively impacted. We review the

investment portfolio on a continuous basis to evaluate positions that might have incurred other-than-temporary declines in value. The primary factors considered in our review of investment valuation include the extent and duration to which fair value is less than cost, historical operating performance and financial condition of the issuer, short- and long-term prospects of the issuer and its industry, specific events that occurred affecting the issuer including rating downgrades and, depending on the type of security, our intent to sell or our ability and intent to retain the investment for a period of time sufficient to allow for a recovery in value. As the process for determining impairments is highly subjective, changes in our assessments may have a material effect on the Exchange's operating results and financial condition. See also Item 7A. "Quantitative and Qualitative Disclosures about Market Risk".

If the fixed-income, equity, or limited partnership portfolios were to suffer a substantial decrease in value, the Exchange's financial position could be materially adversely affected through increased unrealized losses or impairments. A significant decrease in the Exchange's portfolio could also put it, or its subsidiaries, at risk of failing to satisfy regulatory minimum capital requirements.

Currently, 32% of the Exchange's fixed-income portfolio is invested in financial sector securities and 19% is invested in municipal securities and results may vary depending on the market environment. The performance of the fixed-income portfolio is subject to a number of risks including:

- Interest rate risk – the risk of adverse changes in the value of fixed-income securities as a result of increases in market interest rates.
- Investment credit risk – the risk that the value of certain investments may decrease due to the deterioration in financial condition of, or the liquidity available to, one or more issuers of those securities or, in the case of asset-backed securities, due to the deterioration of the loans or other assets that underlie the securities, which, in each case, also includes the risk of permanent loss.
- Concentration risk – the risk that the portfolio may be too heavily concentrated in the securities of one or more issuers, sectors, or industries, which could result in a significant decrease in the value of the portfolio in the event of a deterioration of the financial condition, performance, or outlook of those issuers, sectors, or industries.
- Liquidity risk – the risk that the Exchange will not be able to convert investment securities into cash on favorable terms and on a timely basis, or that the Exchange will not be able to sell them at all, when desired. Disruptions in the financial markets, or a lack of buyers for the specific securities that the Exchange is trying to sell, could prevent it from liquidating securities or cause a reduction in prices to levels that are not acceptable to the Exchange.

The Exchange's common and preferred equity securities have exposure to price risk, the risk of potential loss in estimated fair value resulting from an adverse change in prices. The Exchange does not hedge its exposure to equity price risk inherent in its equity investments. The Exchange's common and preferred equity securities may also be subject to some of the same risks that affect the Exchange's fixed-income portfolio, as discussed above.

In addition, a portion of the Exchange's portfolio is invested in limited partnerships. At December 31, 2011, the Exchange had investments in limited partnerships of $1.1 billion, or 8% of total assets. In addition, the Exchange is obligated to invest up to an additional $384 million in limited partnerships, including private equity, mezzanine debt, and real estate partnership investments. Limited partnerships are significantly less liquid and generally involve higher degrees of price risk than publicly traded securities. Limited partnerships, like publicly traded securities, have exposure to market volatility; but unlike fixed income securities, cash flows and return expectations are less predictable. The primary basis for the valuation of limited partnership interests are financial statements prepared by the general partner. Because of the timing of the preparation and delivery of these financial statements, the use of the most recently available financial statements provided by the general partners result in a quarter delay in the inclusion of the limited partnership results in our Consolidated Statements of Operations. Due to this delay, the Exchange's financial statements at December 31, 2011, do not reflect market conditions experienced in the fourth quarter of 2011.

Deteriorating capital and credit market conditions may significantly affect the Exchange's ability to meet liquidity needs and access capital.

Sufficient liquidity and capital levels are required to pay claims, claims-related expenses and income taxes as well as to build the Exchange's investment portfolio, provide for additional protection against possible large, unexpected losses and maintain adequate surplus amounts. Management estimates the appropriate level of capital necessary based upon current and projected results, which include a factor for potential exposures based upon these Risk Factors. Failure to accurately estimate the Exchange's capital needs may have a material adverse effect on the Exchange's financial condition until additional sources of capital can be located. Further, a deteriorating financial condition may create a negative perception of the Exchange by third parties, including rating agencies, investors, agents, and customers which could impact the Exchange's ability to access additional capital in the debt or equity markets.

The primary sources of liquidity for the Exchange are insurance premiums and cash flow generated from its investment portfolio. In the event the Exchange's current sources do not satisfy its liquidity needs, the Exchange has the ability to access its $300 million bank revolving line of credit, from which there were no borrowings as of December 31, 2011, or sell assets in its investment portfolio. Volatility in the financial markets could impair the Exchange's ability to sell certain of its fixed income securities or, to a greater extent, its significantly less liquid limited partnership investments, or cause such investments to sell at deep discounts.

In the event these traditional sources of liquidity are not available, the Exchange may have to seek additional financing. The Exchange's access to funds will depend upon a number of factors including current market conditions, the availability of credit to the financial services industry, market liquidity, and credit ratings. In deteriorating market conditions, the Exchange may not be able to obtain additional financing on favorable terms, or at all.

If there were a failure to maintain a commercially acceptable financial strength rating, the Property and Casualty Group's competitive position in the insurance industry would be adversely affected.

Financial strength ratings are an important factor in establishing the competitive position of insurance companies and may be expected to have an effect on an insurance company's sales. Higher ratings generally indicate greater financial stability and a stronger ability to meet ongoing obligations to policyholders. Ratings are assigned by rating agencies to insurers based upon factors that the rating agencies believe are relevant to policyholders. Currently the Property and Casualty Group's pooled AM Best rating is an A+ ("superior"). A significant downgrade in this or other ratings would reduce the competitive position of the Property and Casualty Group making it more difficult to attract profitable business in the highly competitive property and casualty insurance market.

The Property and Casualty Group is subject to claims and legal proceedings, which, if determined unfavorably to the Property and Casualty Group, could have a material adverse effect on our business, results of operations or financial condition.

The Property and Casualty Group faces a significant risk of litigation and regulatory investigations and actions in the ordinary course of operating its businesses including the risk of class action lawsuits. The Property and Casualty Group's pending legal and regulatory actions include proceedings specific to the Property and Casualty Group and others generally applicable to business practices in the industries in which it operates. In the Property and Casualty Group's insurance operations, we are, have been, or may become subject to class actions and individual suits alleging, among other things, issues relating to claims payments and procedures, denial or delay of benefits, charging excessive or impermissible fees on products, and breaching fiduciary or other duties to customers. The Property and Casualty Group is also subject to litigation arising out of its general business activities such as its contractual relationships. Plaintiffs in class action and other lawsuits against the Property and Casualty Group may seek very large or indeterminate amounts, including punitive and treble damages, which may remain unknown for substantial periods of time. The Property and Casualty Group is also subject to various regulatory inquiries, such as information requests, subpoenas and books and record examinations from state and federal regulators and authorities. See "Risk Factors Related to the Indemnity Shareholder Interest," within this section for additional discussion of litigation risks.

The Exchange is dependent upon Indemnity to perform certain services, including sales, underwriting, and the issuance of policies. Failure to perform these services effectively may have a material adverse effect on the financial condition of the Exchange.

Pursuant to the attorney-in-fact agreements with the policyholders at the Exchange, Indemnity is responsible for performing key functions for the Exchange including management and operational services, including the related technology systems. The Exchange has no employees, as Indemnity employs all personnel related to performing operating functions for the Exchange. In addition, the Board of Directors for Indemnity has the responsibility for such Exchange-related activities as setting the management fee paid by the Exchange to Indemnity. As a result, the business and financial condition of the Exchange would be materially adversely affected if Indemnity was not able to provide the necessary operating and management services required by the Exchange.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The companies comprising the Erie Insurance Group share a corporate home office complex in Erie, Pennsylvania, which comprises approximately 520,000 square feet and is owned by the Exchange.

The Erie Insurance Group also operates 24 field offices in 11 states. Of these offices, sixteen provide both agency support and claims services and are referred to as branch offices, while seven provide only claims services and are referred to as claims offices and one provides only agency support and is referred to as a sales office. Eight field offices are owned by the Erie Insurance Group (Indemnity owns three comprising approximately 40,000 square feet, the Exchange owns four comprising approximately 43,000 square feet, and EFL owns one comprising approximately 33,500 square feet), while the remaining 16 field offices are leased from unaffiliated parties, comprising approximately 123,000 square feet.

ITEM 3. LEGAL PROCEEDINGS

Reference is made to Item 8. "Financial Statements and Supplementary Data - Note 20, Commitments and Contingencies, of Notes to Consolidated Financial Statements" contained within this report.

ITEM 4. REMOVED AND RESERVED

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Stock Market Prices and Dividends

Indemnity's Class A, non-voting common stock trades on The NASDAQ Stock Market[SM] LLC under the symbol "ERIE." No established trading market exists for the Class B voting common stock. American Stock Transfer & Trust Company serves as Indemnity's transfer agent and registrar. As of February 17, 2012, there were approximately 841 beneficial shareholders of record for the Class A non-voting common stock and 11 beneficial shareholders of record for the Class B voting common stock.

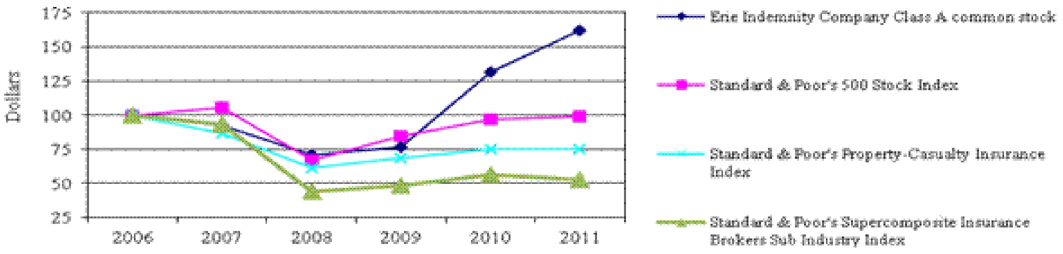
Historically, Indemnity has declared and paid cash dividends on a quarterly basis at the discretion of its Board of Directors. The payment and amount of future dividends on the common stock will be determined by the Board of Directors and will depend upon, among other things, Indemnity's operating results, financial condition, cash requirements and general business conditions at the time such payment is considered.

Indemnity's common stock high and low sales prices and cash dividends declared for each full quarter of the last two years were as follows:

	Indemnity Shareholder Interest							
	2011				2010			
	Sales price		Cash dividend declared		Sales price		Cash dividend declared	
Quarter ended	High	Low	Class A	Class B	High	Low	Class A	Class B
March 31	$71.11	$64.95	$0.5150	$ 77.250	$43.13	$38.03	$0.480	$ 72.00
June 30	72.44	67.14	0.5150	77.250	46.89	42.59	0.480	72.00
September 30	74.73	63.02	0.5150	77.250	56.20	44.38	0.480	72.00
December 31	80.30	69.36	0.5525	82.875	65.47	55.41	0.515	77.25
Total			$2.0975	$314.625			$1.955	$293.25

Stock Performance

The following graph depicts the cumulative total shareholder return (assuming reinvestment of dividends) for the periods indicated for Indemnity's Class A common stock compared to the Standard & Poor's 500 Stock Index, the Standard & Poor's Property-Casualty Insurance Index, and the Standard & Poor's Supercomposite Insurance Brokers Sub Industry Index. The comparison to the Standard & Poor's Supercomposite Insurance Brokers Sub Industry Index was added in 2011 due to the sale of Indemnity's property and casualty insurance subsidiaries to the Exchange, which occurred on December 31, 2010. After December 31, 2010, all property and casualty underwriting results accrue to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest, and Indemnity functions solely as the management company.



	2006	2007	2008	2009	2010	2011
Erie Indemnity Company Class A common stock	$100 (1)	$ 92	$71	$77	$132	$162
Standard & Poor's 500 Stock Index	100 (1)	105	67	84	97	99
Standard & Poor's Property-Casualty Insurance Index	100 (1)	87	62	69	75	75
Standard & Poor's Supercomposite Insurance Broker Sub Industry Index	100 (1)	94	44	49	57	53

(1) Assumes $100 invested at the close of trading, on the last trading day preceding the first day of the fifth preceding fiscal year, in Indemnity's Class A common stock, the Standard & Poor's 500 Stock Index, the Standard & Poor's Property-Casualty Insurance Index, and the Standard & Poor's Supercomposite Insurance Brokers Sub Industry Index.

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Issuer Purchases of Equity Securities

A stock repurchase program was authorized by our Board of Directors on January 1, 2004, allowing the repurchase of up to $250 million of Indemnity's outstanding Class A nonvoting common stock through December 31, 2006. Our Board of Directors approved continuations of this stock repurchase program for an additional $250 million in February 2006, $100 million in September 2007, and $100 million in April 2008. Subsequent continuations were approved for amounts that included and were not in addition to any unspent amounts under the current program of $100 million in May 2009, $100 million in April 2010, $150 million in December 2010, and most recently for $150 million in October 2011, which was authorized with no time limitation. As of February 17, 2012, we have approximately $128 million of repurchase authority remaining under this program.

Indemnity may purchase shares, from time-to-time, in the open market or through privately negotiated transactions, depending upon prevailing market conditions and alternative uses of capital, and at times and in a manner that is deemed appropriate. During 2011, shares repurchased totaled 2.2 million at a total cost of $155 million. See Item 8. "Financial Statements and Supplementary Data – Note 18, Capital Stock, of Notes to Consolidated Financial Statements" contained within this report for discussion of additional shares repurchased outside of this program.

The following table summarizes Indemnity's Class A common stock repurchased each month, based upon trade date, during the quarter ended December 31, 2011:

(dollars in millions, except per share data) Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program
October 1 – 31, 2011	156,465	$74.55	156,465	$149
November 1 – 30, 2011	75,773	74.83	75,773	143
December 1 – 31, 2011	73,467	76.58	73,467	138
Total	305,705		305,705	

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

(dollars in millions, except share data)	ERIE INDEMNITY COMPANY Years Ended December 31, 2011	2010	2009	2008	2007
Operating Data:					
Premiums earned	$ 4,214	$ 3,987	$ 3,869	$ 3,834	$ 3,832
Net investment income	433	433	433	438	451
Realized (losses) gains on investments	(6)	307	286	(1,597)	(5)
Equity in earnings (losses) of limited partnerships	149	128	(369)	(58)	352
Other income	34	35	36	34	31
Total revenues	4,824	4,890	4,255	2,651	4,661
Net income (loss)	268	660	446	(616)	919
Less: Net income (loss) attributable to noncontrolling interest in consolidated entity – Exchange	99	498	338	(685)	706
Net income attributable to Indemnity	169	162	108	69	213
Per Share Data Attributable to Indemnity:					
Net income per Class A share – diluted	$ 3.08	$ 2.85	$ 1.89	$ 1.19	$ 3.43
Book value per share – Class A common and equivalent B shares	14.48	16.24	15.74	13.79	17.68
Dividends declared per Class A share	2.0975	1.955	1.83	1.77	1.64
Dividends declared per Class B share	314.625	293.25	274.50	265.50	246.00
Financial Position Data:					
Total assets	$14,348	$14,344	$13,287	$12,505	$14,104
Total equity	6,293	6,334	5,725 (1)	4,759	6,024
Less: Noncontrolling interest in consolidated entity – Exchange	5,512	5,422	4,823 (1)	3,967	4,973
Total equity attributable to Indemnity	781	912	902 (1)	792 (2)	1,051

(1) On April 1, 2009, we adopted the accounting guidance related to non-credit other-than-temporary impairments for our debt security portfolio. The net impact of the cumulative effect adjustment on April 1, 2009 increased retained earnings and reduced other comprehensive income by $6 million, net of tax, related to the Indemnity shareholder interest and by $95 million, net of tax, related to the Exchange, or noncontrolling interest, resulting in no effect on shareholders' equity.

(2) On January 1, 2008, we adopted the fair value option for our common stock portfolio. The net impact of the cumulative effect adjustment increased retained earnings and reduced other comprehensive income by $11 million, net of tax, related to the Indemnity shareholder interest resulting in no effect on shareholders' equity.

Due to the sale of Indemnity's property and casualty insurance subsidiaries to the Exchange on December 31, 2010, all property and casualty underwriting results and all investment results for these companies accrue to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after December 31, 2010. Prior to and through December 31, 2010, the underwriting results retained by EIC and ENY and the investment results of EIC, ENY and EPC accrued to the Indemnity shareholder interest.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of financial condition and results of operations highlights significant factors influencing the Erie Insurance Group ("we," "us," "our"). This discussion should be read in conjunction with the audited financial statements and related notes and all other items contained within this Annual Report on Form 10-K as they contain important information helpful in evaluating our financial condition and results of operations.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995:
Statements contained herein that are not historical fact are forward-looking statements and, as such, are subject to risks and uncertainties that could cause actual events and results to differ, perhaps materially, from those discussed herein. Forward-looking statements relate to future trends, events or results and 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 forward-looking statements are discussions relating to premium and investment income, expenses, operating results, agency relationships, and compliance with contractual and regulatory requirements. Forward-looking 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, in addition to those set forth in our filings with the Securities and Exchange Commission, that could cause actual results and future events to differ from those set forth or contemplated in the forward-looking statements include the following:

Risk factors related to the Erie Indemnity Company ("Indemnity") shareholder interest:

- dependence upon Indemnity's relationship with the Exchange and the management fee under the agreement with the subscribers at the Exchange;
- costs of providing services to the Exchange under the subscriber's agreement;
- ability to attract and retain talented management and employees;
- ability to maintain uninterrupted business operations, including information technology systems;
- factors affecting the quality and liquidity of Indemnity's investment portfolio;
- credit risk from the Exchange;
- Indemnity's ability to meet liquidity needs and access capital; and
- outcome of pending and potential litigation against Indemnity.

Risk factors related to the non-controlling interest owned by the Erie Insurance Exchange ("Exchange"), which includes the Property and Casualty Group and EFL:

- general business and economic conditions;
- dependence upon the independent agency system;
- ability to maintain our reputation for customer service;
- factors affecting insurance industry competition;
- changes in government regulation of the insurance industry;
- premium rates and reserves must be established from forecasts of ultimate costs;
- emerging claims, coverage issues in the industry, and changes in reserve estimates related to the property and casualty business;
- changes in reserve estimates related to the life business;
- severe weather conditions or other catastrophic losses, including terrorism;
- the Exchange's ability to acquire reinsurance coverage and collectability from reinsurers;
- factors affecting the quality and liquidity of the Exchange's investment portfolio;
- the Exchange's ability to meet liquidity needs and access capital;
- the Exchange's ability to maintain an acceptable financial strength rating;
- outcome of pending and potential litigation against the Exchange; and
- dependency upon the service provided by Indemnity.

A forward-looking statement speaks only as of the date on which it is made and reflects Indemnity's analysis only as of that date. Indemnity 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.

RECENT ACCOUNTING PRONOUNCEMENTS

See Item 8. "Financial Statements and Supplementary Data - Note 2, Significant Accounting Policies, of Notes to Consolidated Financial Statements" contained within this report for a discussion of recently issued accounting pronouncements, none of which are expected to have a material impact on our future financial condition, results of operations or cash flows.

OPERATING OVERVIEW

Overview

The Erie Insurance Group represents the consolidated results of Indemnity and the results of its variable interest entity, the Exchange. The Erie Insurance Group operates predominantly as a property and casualty insurer through its regional insurance carriers that write a broad range of personal and commercial coverages. Our property and casualty insurance companies include the Exchange and its wholly owned subsidiaries, Erie Insurance Company ("EIC"), Erie Insurance Company of New York ("ENY"), Erie Insurance Property and Casualty Company ("EPC") and Flagship City Insurance Company ("Flagship") [(1)]. These entities operate collectively as the "Property and Casualty Group." The Erie Insurance Group also operates as a life insurer through the Exchange's wholly owned subsidiary, Erie Family Life Insurance Company ("EFL"), which underwrites and sells individual and group life insurance policies and fixed annuities [(2)].

The Exchange is a reciprocal insurance exchange, which is an unincorporated association of individuals, partnerships and corporations that agree to insure one another. Each applicant for insurance to the Exchange signs a subscriber's agreement, which contains an appointment of Indemnity as their attorney-in-fact to transact the business of the Exchange on their behalf.

Pursuant to the subscriber's agreement and for its services as attorney-in-fact, Indemnity earns a management fee calculated as a percentage of the direct premiums written by the Exchange and the other members of the Property and Casualty Group, which are assumed by the Exchange under an intercompany pooling arrangement.

The Indemnity shareholder interest includes Indemnity's equity and income, but not the equity or income of the Exchange. The Exchange's equity, which is comprised of its retained earnings and accumulated other comprehensive income, is held for the interest of its subscribers (policyholders) and meets the definition of a noncontrolling interest, which is reflected as such in our consolidated financial statements.

"Indemnity shareholder interest" refers to the interest in Erie Indemnity Company owned by the Class A and Class B shareholders. "Noncontrolling interest" refers to the interest in the Erie Insurance Exchange held for the interest of the subscribers (policyholders).

Indemnity shareholder interest in income generally comprises:

- a management fee of up to 25% of all property and casualty insurance premiums written or assumed by the Exchange, less the costs associated with the sales, underwriting and issuance of these policies;
- a 0% interest in the net underwriting results of the property and casualty insurance operations after December 31, 2010 (the interest was 5.5% prior to December 31, 2010) [(1)];
- a 0% equity interest in the net earnings of EFL after March 31, 2011 (the interest was 21.6% prior to March 31, 2011) [(2)];
- net investment income and results on investments that belong to Indemnity [(1)]; and
- other income and expenses, including income taxes, that are the responsibility of Indemnity.

The Exchange's or the noncontrolling interest in income generally comprises:

- a 100% interest in the net underwriting results of the property and casualty insurance operations after December 31, 2010 (the interest was 94.5% prior to December 31, 2010) [(1)];
- a 100% equity interest in the net earnings of EFL after March 31, 2011 (the interest was 78.4% prior to March 31, 2011) [(2)];
- net investment income and results on investments that belong to the Exchange and its subsidiaries, including EFL [(1)]; and
- other income and expenses, including income taxes, that are the responsibility of the Exchange and its subsidiaries.

(1) Prior to and through December 31, 2010, the underwriting results retained by EIC and ENY and the investment results of EIC, ENY and EPC accrued to the Indemnity shareholder interest. Due to the sale of Indemnity's property and casualty insurance subsidiaries to the Exchange on December 31, 2010, all property and casualty underwriting results and all investment results for these companies accrue to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after December 31, 2010.

(2) Prior to and through March 31, 2011, Indemnity retained a 21.6% ownership interest in EFL, which accrued to the Indemnity shareholder interest, and the Exchange retained a 78.4% ownership interest in EFL, which accrued to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest. Due to the sale of Indemnity's 21.6% ownership interest in EFL to the Exchange on March 31, 2011, 100% of EFL's life insurance results accrue to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after March 31, 2011.

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Results of the Erie Insurance Group's Operations by Interest

The following table represents a breakdown of the composition of the income attributable to Indemnity and the income attributable to the noncontrolling interest (Exchange). For purposes of this discussion, EFL's investments are included in the life insurance operations [(1)].

	Indemnity shareholder interest				Noncontrolling interest (Exchange)				Eliminations of related party transactions			Erie Insurance Group		
		Years ended December 31,				Years ended December 31,			Years ended December 31,			Years ended December 31,		
(in millions)	Percent	2011	2010	2009	Percent	2011	2010	2009	2011	2010	2009	2011	2010	2009
Management operations:														
Management fee revenue, net	100.0%	$1,067	$1,009	$ 965		$ —	$ —	$ —	$(1,067)	$(1,009)	$(965)	$ —	$ —	$ —
Service agreement revenue	100.0%	33	34	35		—	—	—	—	—	—	33	34	35
Total revenue from management operations		1,100	1,043	1,000		—	—	—	(1,067)	(1,009)	(965)	33	34	35
Cost of management operations	100.0%	892	841	813		—	—	—	(892)	(841)	(813)	—	—	—
Income from management operations before taxes		208	202	187		—	—	—	(175)	(168)	(152)	33	34	35
Property and casualty insurance operations: [(2)]														
Net premiums earned	5.5%[(2)]	—	216	209	94.5%[(2)]	4,149	3,709	3,599	—	—	—	4,149	3,925	3,808
Losses and loss expenses	5.5%[(2)]	—	155	145	94.5%[(2)]	3,349	2,660	2,499	(5)	(5)	(5)	3,344	2,810	2,639
Policy acquisition and underwriting expenses	5.5%[(2)]	—	61	63	94.5%[(2)]	1,178	1,052	1,072	(183)	(174)	(158)	995	939	977
Income (loss) from property and casualty insurance operations before taxes		—	0	1		(378)	(3)	28	188	179	163	(190)	176	192
Life insurance operations: [(1)]														

Total revenue	21.6%(3)	10	37	27	78.4%(3)	167	135	100	(2)	(2)	(2)	175	170	125
Total benefits and expenses	21.6%(3)	7	26	25	78.4%(3)	120	96	92	0	(2)	(2)	127	120	115
Income from life insurance operations before taxes		3	11	2		47	39	8	(2)	0	0	48	50	10
Investment operations:														
Net investment income (2)		16	37	42		335	312	311	(11)	(11)	(11)	340	338	342
Net realized gains (losses) on Investments (2)		3	(1)	10		(20)	301	397	—	—	—	(17)	300	407
Net impairment losses recognized in earnings (2)		0	(1)	(12)		(1)	(3)	(91)	—	—	—	(1)	(4)	(103)
Equity in earnings (losses) of limited partnerships		26	21	(76)		119	106	(283)	—	—	—	145	127	(359)
Goodwill Impairment		—	—	—		—	(22)	—	—	—	—	—	(22)	—
Income (loss) from investment operations before taxes (2)		45	56	(36)		433	694	334	(11)	(11)	(11)	467	739	287
Income from operations before income taxes and noncontrolling interest		256	269	154		102	730	370	—	—	—	358	999	524
Provision for income taxes		87	107	46		3	232	32	—	—	—	90	339	78
Net income		$ 169	$ 162	$ 108		$ 99	$ 498	$ 338	$ —	$ —	$ —	$ 268	$ 660	$ 446

(1) Earnings on life insurance related invested assets are integral to the evaluation of the life insurance operations because of the long duration of life products. On that basis, for presentation purposes, the life insurance operations in the table above include life insurance related investment results. However, the life insurance investment results are included in the investment operations segment discussion as part of the Exchange's investment results.

(2) Prior to and through December 31, 2010, the underwriting results retained by EIC and ENY and the investment results of EIC, ENY and EPC accrued to the Indemnity shareholder interest. Due to the sale of Indemnity's property and casualty insurance subsidiaries to the Exchange on December 31, 2010, all property and casualty underwriting results and all investment results for these companies accrue to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after December 31, 2010.

(3) Prior to and through March 31, 2011, Indemnity retained a 21.6% ownership interest in EFL, which accrued to the Indemnity shareholder interest, and the Exchange retained a 78.4% ownership interest in EFL, which accrued to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest. Due to the sale of Indemnity's 21.6% ownership interest in EFL to the Exchange on March 31, 2011, 100% of EFL's life insurance results accrue to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after March 31, 2011.

Net income in 2011 was impacted by adverse results in our property and casualty insurance operations compared to 2010 and 2009, and a decline in income from our investment operations compared to 2010. The Exchange's property and casualty insurance operation's losses were higher due to a significant increase in catastrophe losses. This was offset somewhat by favorable development on prior accident years and a 5.7% increase in earned premium, driven by increases in policies in force and the average premium per policy, which also positively impacted Indemnity's management fee revenue. Our investment operations were impacted primarily by net realized losses on investments, compared to gains in 2010 and 2009, offset somewhat by increased equity in earnings on limited partnerships in 2011 and 2010, compared to losses in 2009. In 2010, our noncontrolling interest incurred a charge of $22 million for the impairment of goodwill relating to its purchase of EFL stock in 2006, and the Indemnity shareholder interest incurred a charge of $18 million for a deferred tax expense related to the sale of its 21.6% ownership interest of EFL to the Exchange, which occurred on March 31, 2011.

Reconciliation of Operating Income to Net Income

We disclose operating income, a non-GAAP financial measure, to enhance our investors' understanding of our performance related to the Indemnity shareholder interest. Our method of calculating this measure may differ from those used by other companies, and therefore comparability may be limited.

Indemnity defines operating income as income generated from management operations, life insurance operations (1), property and casualty insurance underwriting operations (2), net investment income (2), and equity in earnings or losses of limited partnerships, net of related federal income taxes. It does not include realized capital gains and losses, impairment losses and related federal income taxes.

Indemnity uses operating income to evaluate the results of its operations. It reveals trends that may be obscured by the net effects of realized capital gains and losses including impairment losses. Realized capital gains and losses including impairment losses, may vary significantly between periods and are generally driven by business decisions and economic developments such as capital market conditions which are not related to our ongoing operations. We are aware that the price to earnings multiple commonly used by investors as a forward-looking valuation technique uses operating income as the denominator. Operating income should not be considered as a substitute for net income prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and does not reflect Indemnity's overall profitability.

The following table reconciles operating income and net income for the Indemnity shareholder interest for the years ended December 31 (1) (2):

(in millions, except per share data)	Indemnity Shareholder Interest		
	2011	2010	2009
Operating income attributable to Indemnity	$ 167	$ 163	$ 109
Net realized gains (losses) and impairments on investments	3	(2)	(2)
Income tax (expense) benefit	(1)	1	1
Realized gains (losses) and impairments, net of income taxes	2	(1)	(1)
Net income attributable to Indemnity	$ 169	$ 162	$ 108
Per Indemnity Class A common share-diluted:			
Operating income attributable to Indemnity	$3.04	$2.88	$1.91
Net realized gains (losses) and impairments on investments	0.06	(0.04)	(0.03)
Income tax (expense) benefit	(0.02)	0.01	0.01
Realized gains (losses) and impairments, net of income taxes	0.04	(0.03)	(0.02)
Net income attributable to Indemnity	$3.08	$2.85	$1.89

(1) Prior to and through March 31, 2011, Indemnity retained a 21.6% ownership interest in EFL, which accrued to the Indemnity shareholder interest, and the Exchange retained a 78.4% ownership interest in EFL, which accrued to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest. Due to the sale of Indemnity's 21.6% ownership interest in EFL to the Exchange on March 31, 2011, 100% of EFL's life insurance results accrue to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after March 31, 2011.

(2) Prior to and through December 31, 2010, the underwriting results retained by EIC and ENY and the investment results of EIC, ENY and EPC accrued to the Indemnity shareholder interest. Due to the sale of Indemnity's property and casualty insurance subsidiaries to the Exchange on December 31, 2010, all property and casualty underwriting results and all investment results for these companies accrue to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after December 31, 2010.

Summary of Results – Indemnity Shareholder Interest

Net income attributable to Indemnity per share-diluted was $3.08 per share in 2011, compared to $2.85 per share in 2010, and $1.89 per share in 2009. The net income for 2011, 2010 and 2009 includes $0.02, $0.47 and $0.39 per share, respectively, related to operations sold to the Exchange.

Operating income attributable to Indemnity per share-diluted (excluding net realized gains or losses, impairments on investments and related taxes) was $3.04 per share in 2011, compared to $2.88 in 2010, and $1.91 in 2009. The 2011, 2010 and 2009 operating income amounts include $0.02, $0.42 and $0.46 per share, respectively, related to operations sold to the Exchange.

Operating Segments
Our reportable segments include management operations, property and casualty insurance operations, life insurance operations and investment operations.

Management operations
Management operations generate internal management fee revenue, which accrues to the Indemnity shareholder interest, as Indemnity provides services relating to the sales, underwriting and issuance of policies on behalf of the Exchange. Management fee revenue is based upon all premiums written or assumed by the Exchange and the management fee rate, which is not to exceed 25%. Our Board of Directors establishes the management fee rate at least annually, generally in December for the following year, and considers factors such as the relative financial strength of Indemnity and the Exchange and projected revenue streams. The management fee rate was set at 25% for 2011, 2010 and 2009. Our Board of Directors set the 2012 management fee rate again at 25%, its maximum level. Management fee revenue is eliminated upon consolidation.

Property and casualty insurance operations
The property and casualty insurance business is driven by premium growth, the combined ratio and investment returns. The property and casualty insurance industry is cyclical, with periods of rising premium rates and shortages of underwriting capacity followed by periods of substantial price competition and excess capacity. The cyclical nature of the insurance industry has a direct impact on the direct written premiums of the Property and Casualty Group.

The property and casualty operation's premium growth strategy focuses on growth by expansion of existing operations including a careful agency selection process and increased market penetration in existing operating territories. Expanding the size of our existing agency force of over 2,100 independent agencies, with nearly 9,500 licensed property and casualty representatives, will contribute to future growth as new agents build their books of business with the Property and Casualty Group.

The property and casualty insurance operations insure preferred and standard risks while maintaining a disciplined underwriting approach. The Property and Casualty Group's principal personal lines products based upon 2011 direct written premiums were private passenger automobile (47%) and homeowners (22%), and the principal commercial lines products were commercial multi-peril (12%), commercial automobile (7%) and workers compensation (7%). Pennsylvania, Maryland and Virginia made up 63% of the property and casualty lines insurance business direct written premium in 2011.

Members of the Property and Casualty Group pool their underwriting results under an intercompany pooling agreement. Under the pooling agreement, the Exchange retains a 94.5% interest in the net underwriting results of the Property and Casualty Group, while EIC retains a 5.0% interest and ENY retains a 0.5% interest. Prior to and through December 31, 2010, the underwriting results retained by EIC and ENY accrued to the Indemnity shareholder interest. Due to the sale of Indemnity's property and casualty insurance subsidiaries to the Exchange on December 31, 2010, all property and casualty underwriting results accrue to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after December 31, 2010.

The combined ratio, expressed as a percentage, is the key measure of underwriting profitability traditionally used in the property and casualty insurance industry. It is the sum of the ratio of losses and loss expenses to premiums earned (loss ratio) plus the ratio of policy acquisition and other underwriting expenses to premiums earned (expense ratio). When the combined ratio is less than 100%, underwriting results are generally considered profitable; when the combined ratio is greater than 100%, underwriting results are generally considered unprofitable.

Factors affecting loss and loss expenses include the frequency and severity of losses, the nature and severity of catastrophic losses, the quality of risks underwritten and underlying claims and settlement expenses.

Investments held by the Property and Casualty Group are reported in the investment operations segment, separate from the underwriting business.

Life insurance operations
EFL generates revenues through the sale of its individual and group life insurance policies and fixed annuities. These products provide our property and casualty agency force an opportunity to cross-sell both personal and commercial accounts. EFL's profitability depends principally on the ability to develop, price and distribute insurance products, attract and retain deposit funds, generate investment returns and manage expenses. Other drivers include mortality

and morbidity experience, persistency experience to enable the recovery of acquisition costs, maintenance of interest spreads over the amounts credited to deposit funds and the maintenance of strong ratings from rating agencies.

Earnings on life insurance related invested assets are integral to the evaluation of the life insurance operations because of the long duration of life products. On that basis, for presentation purposes in the Management's Discussion and Analysis, the life insurance operations include life insurance related investment results. However, for presentation purposes, in the segment footnote the life insurance investment results are included in the investment operations segment discussion as part of the Exchange's investment results.

Prior to and through March 31, 2011, Indemnity retained a 21.6% ownership interest in EFL, which accrued to the Indemnity shareholder interest, and the Exchange retained a 78.4% ownership interest in EFL, which accrued to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest. Due to the sale of Indemnity's 21.6% ownership interest in EFL to the Exchange on March 31, 2011, 100% of EFL's life insurance results accrue to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after March 31, 2011.

Investment operations
We generate revenues from our fixed maturity, equity security and limited partnership investment portfolios to support our underwriting business. The portfolios are managed with the objective of maximizing after-tax returns on a risk-adjusted basis. Management actively evaluates the portfolios for impairments. We record impairment writedowns on investments in instances where the fair value of the investment is substantially below cost, and we conclude that the decline in fair value is other-than-temporary.

Our investment operations produced positive results despite periods of volatility in the financial markets during 2011. Net investment income of $433 million in 2011 was unchanged from 2010. During 2011, we incurred $2 million of impairment charges compared to $6 million in 2010. Net realized losses were $4 million in 2011, compared to net gains of $313 million in 2010, primarily reflecting the significant valuation gains on our common stock portfolio in 2010. Equity in earnings of limited partnerships was $149 million in 2011, compared to $128 million in 2010, as market conditions for these investments have generally remained favorable. The results from our limited partnerships are based upon financial statements received from our general partners, which are generally received on a quarter lag. As a result, our 2011 partnerships earnings do not reflect the market conditions experienced in the fourth quarter of 2011.

General Conditions and Trends Affecting Our Business
Economic conditions
Unfavorable changes in economic conditions, including declining consumer confidence, inflation, high unemployment and the threat of recession, among others, may lead the Property and Casualty Group's customers to modify coverage, not renew policies, or even cancel policies, which could adversely affect the premium revenue of the Property and Casualty Group, and consequently Indemnity's management fee. These conditions could also impair the ability of customers to pay premiums when due, and as a result, the Property and Casualty Group's bad debt write-offs could increase. Our key challenge is to generate profitable revenue growth in a highly competitive market that continues to experience the effects of uncertain economic conditions.

Financial market volatility
Our portfolio of fixed income, preferred and common stocks and limited partnerships are subject to market volatility especially in periods of instability in the worldwide financial markets. Depending upon market conditions, which are unpredictable and remain uncertain, considerable fluctuation could occur in our reported total investment income, which could have an adverse impact on our financial condition, results of operations and cash flows.

CRITICAL ACCOUNTING ESTIMATES

The consolidated financial statements include amounts based upon estimates and assumptions that have a significant effect on reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period and related disclosures. Management considers an accounting estimate to be critical if (1) it requires assumptions to be made that were uncertain at the time the estimate was made, and (2) different estimates that could have been used, or changes in the estimate that are likely to occur from period-to-period, could have a material impact on our Consolidated Statements of Operations or Financial Position.

The following presents a discussion of those accounting policies surrounding estimates that we believe are the most critical to our reported amounts and require the most subjective and complex judgment. If actual events differ significantly from the underlying assumptions, there could be material adjustments to prior estimates that could potentially adversely affect our results of operations, financial condition and cash flows. The estimates and the estimating methods used are reviewed continually, and any adjustments considered necessary are reflected in current earnings.

Property and Casualty Insurance Loss and Loss Expense Reserves
Property and casualty insurance loss and loss expense reserves are established to provide for the estimated costs of paying claims under insurance policies written by us. These reserves include estimates for both claims that have been reported (case) and those that have been incurred but not reported (IBNR) and include estimates of all future payments associated with processing and settling these claims.

The process of establishing loss reserves is complex and involves a variety of actuarial techniques. The loss reserve estimation process is based largely on the assumption that past development trends are an appropriate indicator of future events. Reserve estimates are based upon our assessment of known facts and circumstances, review of historical settlement patterns, estimates of trends in claims frequency and severity, legal theories of liability and other factors. Variables in the reserve estimation process can be affected by 1) internal factors, including changes in claims handling procedures and changes in the quality of risk selection in the underwriting process, and 2) external events, such as economic inflation and regulatory and legislative changes. Due to the inherent complexity of the assumptions used, final loss settlements may vary significantly from the current estimates, particularly when those settlements may not occur until well into the future.

How reserves are established
Case reserves are established by a claims handler on each individual claim and are adjusted as new information becomes known during the course of handling the claims. IBNR reserves represent the difference between the case reserves for actual reported loss and loss expenses and the estimated ultimate cost of all claims.

Our loss and loss expense reserves include amounts related to short-tail and long-tail lines of business. Tail refers to the time period between the occurrence of a loss and the final settlement of the claim. The longer the time span between the incidence of a loss and the settlement of the claim, the more the ultimate settlement amount can vary. Most of our loss and loss expense reserves relate to long-tail liability lines of business including workers compensation, bodily injury and other liability coverages, such as commercial liability. Short-tail lines of business, which represent a smaller percentage of our loss reserves, include personal auto physical damage and personal property.

Our actuaries review all direct reserve estimates on a quarterly basis for both current and prior accident years using the most current claim data. Reserves for massive injury lifetime medical claims, including auto no-fault and workers compensation claims, are reviewed at a more detailed level semi-annually. These massive injury claim reserves are relatively few in number and are very long-tail liabilities. In intervening quarters, development on massive injury reserves is monitored to confirm that the estimate of ultimate losses should not change. If an unusual development is observed, a detailed review is conducted to determine whether the reserve estimate should change. Significant changes to the factors discussed above, which are either known or reasonably projected through analysis of internal and external data, are quantified in the reserve estimates each quarter.

The quarterly reserve reviews incorporate a variety of actuarial methods and judgments and involve rigorous analysis. A comprehensive review is performed of the various estimation methods and reserve levels produced by each. The various methods generate different estimates of ultimate losses by product line and product coverage combination. Thus, reserves are comprised of a set of point estimates of the ultimate losses developed from the various methods. These multiple reserve point estimates are reviewed by our reserving actuaries and reserve best estimates are selected. The selected reserve estimates are discussed with management.

Numerous factors are considered in setting reserve levels, including, but not limited to, the assessed reliability of key loss trends and assumptions that may significantly influence the current actuarial indications, the maturity of the accident year, pertinent claims frequency and severity trends observed over recent years, the level of volatility within a particular line of business and the improvement or deterioration of actuarial rate indications in the current period as compared to prior periods. Certain methods are considered more credible for each product/coverage combination depending on the maturity of the accident quarter, the mix of business and the particular internal and external influences impacting the claims experience or the method.

The following is a discussion of the most common methods used:

Paid development – Paid loss development patterns are generated from historical data organized by accident quarter and calendar quarter and applied to current paid losses by accident quarter to generate estimated ultimate losses. Paid development techniques do not use information about case reserves and therefore are not affected by changes in case reserving practices. These techniques are generally most useful for short-tailed lines since a high percentage of ultimate losses are paid in early periods of development.

Incurred development – Incurred loss development patterns (reflecting cumulative paid losses plus current case reserves) are generated from historical data organized by accident quarter and calendar quarter. The patterns are applied to current incurred losses by accident quarter to generated estimated ultimate losses. Incurred methods and/or combinations of the paid and incurred methods are used in developing estimated ultimate losses for short-tail coverages, such as personal auto physical damage and personal property claims, and more mature accident quarters of long-tail coverages, such as personal auto liability claims and commercial liability claims, including workers compensation.

Weather event paid and reported development – The historical patterns utilized in paid and reported development methods for weather events are derived from historical data for the same type of weather event. Initial weather event ultimate loss estimates are reviewed with claims management.

Bornhuetter-Ferguson – Bornhuetter-Ferguson is a method of combining the expected-loss-ratio ultimate losses and the paid-or-incurred development ultimate losses. It places more weight on the paid-or-incurred development ultimate losses as an accident quarter matures. The Bornhuetter-Ferguson method is generally used on the first four to eight accident quarters on long-tail coverages because a low percentage of losses are paid in the early period of development. An expected loss ratio is developed through a review of historical loss ratios by accident quarter, adjusted for changes to earned premium, mix of business and other factors that are expected to impact the loss ratio for the accident quarter being evaluated. A preliminary estimate of ultimate losses is calculated by multiplying this expected loss ratio by earned premium.

Survival ratio – This method measures the ratio of the average loss and loss expense amount paid annually to the total reserve for the product line or product coverage. The survival ratio represents the number of years of payments that the current level of reserves will cover. The reserve is established so that a particular ratio, representing the time to closing of all claims, is achieved. This method is also used as a reasonability check of reserve adequacy.

Individual claim – This method estimates the ultimate losses on a claim-by-claim basis. An annual payment assumption is made for each claimant and then projected into the future based upon a particular assumption of the future inflation rate and life expectancy of the claimant. This method is used for unusual, large claims.

Line of business methods

For each product line and product/coverage combination, certain methods are given more influence than other methods. The discussion below gives a general indication of which methods are preferred for each line of business. As circumstances change, the methods that are given greater weight can change.

> *Massive injury lifetime medical claims (such as certain auto no-fault and workers compensation claims)* – These claims develop over a long period of time and are relatively few in number. We utilize the individual claim method to evaluate each claim's ultimate losses.

> *Personal auto physical damage and homeowners* – These lines are fast-developing, and paid and incurred development techniques are used. We rely primarily on incurred development techniques for the most recent accident months.

> *Personal auto liability* (*such as bodily injury and uninsured/underinsured motorist*) – For auto liability, and bodily injury in particular, we review the results of a greater number of techniques than for physical damage. We use the Bornhuetter-Ferguson method for the first four to eight accident quarters and paid and incurred development methods for the older accident periods.

> *Workers compensation and long-tailed liability (such as commercial liability)* – We generally rely upon the expected loss ratio, Bornhuetter-Ferguson and incurred development techniques. These techniques are generally weighted together, relying more heavily on the Bornhuetter-Ferguson method at early ages of development and more on the incurred development method as the accident periods mature.

The methods used for estimating loss expenses are as follows:

Defense and cost containment expenses (D&CC) – D&CC is analyzed using paid development techniques and an analysis of the relationship between D&CC payments and loss payments.

Adjusting and other expenses (A&O) – A&O reserves are projected based upon an expected cost per claim year, the anticipated claim closure pattern, and the ratio of paid A&O to paid loss.

Key assumptions for loss reserving

The accuracy of the various methods used to estimate reserves is a function of the degree to which underlying assumptions are satisfied. The most significant key assumptions are:

Development patterns **–** Historical paid and incurred amounts contain patterns which indicate how unpaid and IBNR amounts will emerge in future periods. Unless reasons or factors are identified that invalidate the extension of historical patterns into the future, these patterns can be used to make projections necessary for estimating loss and loss adjustment expense reserves. This is the most significant assumption and it applies to all methods.

Impact of inflation **–** Property and casualty insurance reserves are established before the extent to which inflation may impact such reserves is known. Consequently, in establishing reserves, we attempt to anticipate the potential impact of inflation, including medical cost inflation, construction and auto repair cost inflation and tort issues. Medical costs are a broad element of inflation that impacts personal and commercial auto, general liability, workers compensation and commercial multi-peril lines of insurance written by the Property and Casualty Group. Inflation assumptions take the form of explicit numerical values in the survival ratio, individual claim, and massive injury lifetime medical reserving methods. Inflation assumptions are implicitly derived through the selection of applicable loss development patterns for all other reserving methods. Occasionally, unusual aberrations in loss development patterns are caused by external and internal factors such as changes in claim reporting and/or settlement patterns, unusually large losses, process changes, legal or regulatory changes, and other influences. In these instances, analyses of alternate development factor selections are performed to evaluate the effect of these factors and actuarial judgment is applied to make appropriate assumptions needed to develop a best estimate of ultimate losses.

Claims with atypical emergence patterns – Characteristics of certain subsets of claims, such as those with high severity, have the potential to distort patterns contained in historical paid loss and reported loss data. When testing indicates this to be the case for a particular subset of claims, our actuaries segregate these claims from the data and analyze them separately.

Future cost increases and claimant mortality – Future cost increase assumptions are derived from a review of historical cost increases and are assumed to persist into the future. Future medical cost increases and claimant mortality assumptions utilized in the reserve estimates for massive injury lifetime medical claims are obtained from industry studies adjusted for our own experience. Reserve levels are sensitive to these assumptions because they represent projections over 30 to 40 years into the future.

Changes in loss ratio trends – Prior loss ratio assumptions utilized in the Bornhuetter-Ferguson method are derived from projections of historical loss ratios based upon actual experience from more mature accident periods adjusted for assumed changes in average premiums, frequency and severity. These assumptions influence only the most recent accident periods, but the majority of reserves originate with the most recent accident periods. Reserve levels are highly sensitive to these assumptions.

Relationship of loss expense to losses – D&CC-to-loss ratio assumptions utilized in the Bornhuetter-Ferguson method are initially derived from historical relationships. These historical ratios are adjusted according to the impact of changing internal and external factors. The A&O-to-loss ratio assumption is similarly derived from historical relationships and adjusted as required for identified internal or external changes.

Reserve estimate variability

The property and casualty reserves with the greatest potential for variation are the massive injury lifetime medical reserves. The automobile no-fault law in Pennsylvania before 1986 and workers compensation policies provide for unlimited medical benefits. The estimate of ultimate liabilities for these claims is subject to significant judgment due to variations in claimant health, mortality over time and health care cost trends. Workers compensation massive injury claims have been segregated from the total population of claims. Ultimate losses for these claims are estimated on a claim-by-claim basis. An annual payment assumption is made for each of the claimants who have sustained massive injuries. We are currently reserving for about 285 claimants requiring lifetime medical care, of which 110 involve massive injuries. The annual payment is projected into the future based upon particular assumptions of the future inflation rate and life expectancy of the claimant. The most significant variable in estimating this liability is medical cost inflation. The life expectancy (mortality rate) assumption underlying the estimate reflects experience to date. Actual experience, however, may emerge in a manner that is different relative to the original assumptions, which could have a significant impact on our reserve estimates.

Loss reserves are set at full expected cost, except for workers compensation loss reserves, which are discounted on a nontabular basis using an interest rate of 2.5% and our historical workers compensation payout patterns. In 2009, we changed our workers compensation discounting method to segregate the workers compensation massive injury claims that have longer payout patterns from the non-massive injury workers compensation claims, and continue to use this methodology in 2011.

Auto no-fault (massive injury lifetime medical claims) – The automobile massive injury reserve carried by the Property and Casualty Group totaled $356 million at December 31, 2011, compared to $440 million at December 31, 2010. The decrease in the pre-1986 automobile massive injury reserves in 2011, compared to 2010, was primarily due to improved annual claims cost expectations and the closing of four massive injury lifetime medical claims. A 100-basis point increase in the medical cost inflation assumption would result in an increase in the Property and Casualty Group's liability of $61 million.

Workers compensation (massive injury lifetime medical claims) – The workers compensation massive injury reserve carried by the Property and Casualty Group totaled $99 million at December 31, 2011, compared to $154 million at December 31, 2010. The decrease in the workers compensation massive injury reserves in 2011, compared to 2010, was primarily due to the closing of seven massive injury lifetime medical claims. The discount on these reserves was $37 million at December 31, 2011. A 100-basis point increase in the medical cost inflation assumption would result in an increase in the Property and Casualty Group's liability of $26 million and an increase in the discount of $19 million at December 31, 2011.

Workers compensation reserves, excluding massive injury lifetime medical claims, are also subject to discounting. The discount on these reserves was $46 million at December 31, 2011. A 100-basis point increase in the discount rate would decrease these reserves by $16 million.

We also perform analyses to evaluate the adequacy of past total reserve levels for the Property and Casualty Group. Using subsequent information, we perform retrospective reserve analyses to test whether previously established estimates for reserves were reasonable. Our 2011 retrospective reserve analysis for the loss reserve balance at December 31, 2010 indicated that direct reserves, including salvage and subrogation recoveries, were over-estimated by approximately $276 million, or 7.7% of the reserve estimate at December 31, 2010. In 2010, our retrospective reserve analysis indicated that direct reserves, including salvage and subrogation recoveries, were over-estimated by approximately $188 million, or 5.2% of the reserve estimate at December 31, 2009; and in 2009, our retrospective reserve analysis indicated that direct reserves, including salvage and subrogation recoveries, were over-estimated by approximately $30 million, or 0.8% of the reserve estimate at December 31, 2008. See an additional discussion of our reserve development in the "Prior year loss reserve development" section.

Due to the sale of Indemnity's property and casualty insurance subsidiaries to the Exchange on December 31, 2010, all property and casualty loss and loss expense reserves accrue to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after December 31, 2010.

Life Insurance and Annuity Policy Reserves

Reserves for traditional life insurance future policy benefits are computed primarily by the net level premium method. Generally, benefits are payable over an extended period of time and related reserves are calculated as the present value of future expected benefits to be paid reduced by the present value of future expected net premiums. Such reserves are established based upon methods and underlying assumptions in accordance with generally accepted accounting principles and applicable actuarial standards. Principal assumptions used in the establishment of policy reserves are

mortality, lapses, expenses and investment yields. Mortality assumptions are based upon tables typically used in the industry, modified to reflect actual experience and to include a provision for the risk of adverse deviation where appropriate. Lapse, expense and investment yield assumptions are based upon actual company experience and may include a provision for the risk of adverse deviation. Assumptions on these policies are locked in at the time of issue and are not subject to change unless a premium deficiency exists. A premium deficiency exists if, based upon revised assumptions, the existing contract liabilities together with the present value of future gross premiums are not sufficient to cover the present value of future expected benefits and maintenance costs and to recover unamortized acquisition costs. Historically, our reserves plus expected gross premiums have been demonstrated to be sufficient. There were no premium deficiencies in 2011, 2010 or 2009.

Reserves for income-paying annuity future policy benefits are computed as the present value of future expected benefits. Principal assumptions used in the establishment of policy reserves are mortality and investment yields. Interest rates used to discount future expected benefits are set at the policy level and range from 2.25% to 9.0%. The equivalent aggregate interest rate is 5.65%. If the aggregate interest rate was reduced by 100 basis points, the present value of future expected benefits would increase by $19 million at December 31, 2011.

Reserves for universal life and deferred annuity plans are based upon the contract account balance without reduction for surrender charges.

Investment Valuation

We make estimates concerning the valuation of all investments. Valuation techniques are used to derive the fair value of the available-for-sale and trading securities we hold. Fair value is the price that would be received to sell an asset in an orderly transaction between willing market participants at the measurement date.

Fair value measurements are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our view of market assumptions in the absence of observable market information. We utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

For purposes of determining whether the market is active or inactive, the classification of a financial instrument was based upon the following definitions:

- An active market is one in which transactions for the assets being valued occur with sufficient frequency and volume to provide reliable pricing information.
- An inactive (illiquid) market is one in which there are few and infrequent transactions, where the prices are not current, price quotations vary substantially, and/or there is little information publicly available for the asset being valued.

We continually assess whether or not an active market exists for all of our investments and as of each reporting date re-evaluate the classification in the fair value hierarchy. All assets carried at fair value are classified and disclosed in one of the following three categories:

- Level 1 – Quoted prices for identical instruments in active markets not subject to adjustments or discounts.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
- Level 3 – Instruments whose significant value drivers are unobservable and reflect management's estimate of fair value based upon assumptions used by market participants in an orderly transaction as of the valuation date.

Level 1 primarily consists of publicly traded common stock, nonredeemable preferred stock and Treasury securities and reflects market data obtained from independent sources, such as prices obtained from an exchange or a nationally recognized pricing service for identical instruments in active markets.

Level 2 includes those financial instruments that are valued using industry-standard models that consider various inputs, such as the interest rate and credit spread for the underlying financial instruments. All significant inputs are observable, or derived from observable information in the marketplace, or are supported by observable levels at which transactions are executed in the marketplace. Financial instruments in this category primarily include municipal securities, asset backed securities, collateralized-mortgage obligations, foreign and domestic corporate bonds and redeemable preferred stock and certain nonredeemable preferred stock.

Level 3 securities are valued based upon unobservable inputs, reflecting our estimates of value based upon assumptions used by market participants. Securities are assigned to Level 3 in cases where non-binding broker quotes are significant to the valuation and there is a lack of transparency as to whether these quotes are based upon information that is observable in the marketplace. Fair value estimates for securities valued using unobservable inputs require significant judgment due to the illiquid nature of the market for these securities and represent the best estimate of the fair value that would occur in an orderly transaction between willing market participants at the measurement date under current market conditions. Fair value for these securities are generally determined using comparable securities or non-binding broker quotes received from outside broker dealers based upon security type and market conditions. Remaining un-priced securities are valued using an estimate of fair value based upon indicative market prices that include significant unobservable inputs not based upon, nor corroborated by, market information, including the utilization of discounted cash flow analyses which have been risk-adjusted to take into account illiquidity and other market factors. This category primarily consists of certain private preferred stock and bond securities as well as collateralized debt and loan obligations.

As of each reporting period, financial instruments recorded at fair value are classified based upon the lowest level of input that is significant to the fair value measurement. The presence of at least one unobservable input would result in classification as a Level 3 instrument. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and considers factors specific to the asset, such as the relative impact on the fair value as a result of including a particular input and market conditions. We did not make any other significant judgments except as described above.

Estimates of fair values for our investment portfolio are obtained primarily from a nationally recognized pricing service. Our Level 1 category includes those securities valued using an exchange traded price provided by the pricing service. The methodologies used by the pricing service that support a Level 2 classification of a financial instrument include multiple verifiable, observable inputs including benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. Pricing service valuations for Level 3 securities are based upon proprietary models and are used when observable inputs are not available in illiquid markets. In limited circumstances we adjust the price received from the pricing service when in our judgment a better reflection of fair value is available based upon corroborating information and our knowledge and monitoring of market conditions such as a disparity in price of comparable securities and/or non-binding broker quotes.

We perform continuous reviews of the prices obtained from the pricing service. This includes evaluating the methodology and inputs used by the pricing service to ensure we determine the proper classification level of the financial instrument. Price variances, including large periodic changes, are investigated and corroborated by market data. We have reviewed the pricing methodologies of our pricing service as well as other observable inputs, such as benchmark yields, reported trades, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and transaction volumes and believe that their prices adequately consider market activity in determining fair value. Our review process continues to evolve based upon accounting guidance and requirements.

In cases in which a price from the pricing service is not available, values are determined by obtaining non-binding broker quotes and/or market comparables. When available, we obtain multiple quotes for the same security. The ultimate value for these securities is determined based upon our best estimate of fair value using corroborating market information. Our evaluation includes the consideration of benchmark yields, reported trades, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data.

Investments are evaluated monthly for other-than-temporary impairment loss. Some factors considered in evaluating whether or not a decline in fair value is other-than-temporary include:

- the extent and duration for which fair value is less than cost;
- historical operating performance and financial condition of the issuer;
- short- and long-term prospects of the issuer and its industry based upon analysts' recommendations;
- specific events that occurred affecting the issuer, including rating downgrades;
- our intent to sell or more likely than not be required to sell (debt securities); and
- our ability and intent to retain the investment for a period of time sufficient to allow for a recovery in value (equity securities).

For debt securities in which we do not expect full recovery of amortized cost, the security is deemed to be credit-impaired. Credit-related impairments and impairments on securities we intend to sell or more likely than not will be required to sell are recorded in the Consolidated Statements of Operations. It is our intention to sell all debt securities

with credit impairments. For available-for-sale equity securities, a charge is recorded in the Consolidated Statements of Operations for positions that have experienced other-than-temporary impairments due to credit quality or other factors.

The primary basis for the valuation of limited partnership interests is financial statements prepared by the general partner. Because of the timing of the preparation and delivery of these financial statements, the use of the most recently available financial statements provided by the general partners generally result in a quarter delay in the inclusion of the limited partnership results in our Consolidated Statements of Operations. Due to this delay, these financial statements do not reflect the market conditions experienced in the fourth quarter of 2011. Nearly all of the underlying investments in our limited partnerships are valued using a source other than quoted prices in active markets. Our limited partnership holdings are considered investment companies where the general partners record assets at fair value. Several factors are to be considered in determining whether an entity is an investment company. Among these factors are a large number of investors, low level of individual ownership and passive ownership that indicate the entity is an investment company.

We have three types of limited partnership investments: private equity, mezzanine debt, and real estate. Our private equity and mezzanine debt partnerships are diversified among numerous industries and geographies to minimize potential loss exposure. The fair value amounts for our private equity and mezzanine debt partnerships are based upon the financial statements prepared by the general partners, who use various methods to estimate fair value including the market approach, income approach and the cost approach. The market approach uses prices and other pertinent information from market-generated transactions involving identical or comparable assets or liabilities. Such valuation techniques often use market multiples derived from a set of comparables. The income approach uses valuation techniques to convert future cash flows or earnings to a single discounted present value amount. The measurement is based upon the value indicated by current market expectations about those future amounts. The cost approach is derived from the amount that is currently required to replace the service capacity of an asset. If information becomes available that would impair the cost of investments owned by the partnerships, then the general partner would generally adjust to the net realizable value.

Real estate limited partnerships are recorded by the general partner at fair value based upon independent appraisals and/or internal valuations. Real estate projects under development are generally valued at cost and impairment tested by the general partner. We minimize the risk of market decline by avoiding concentration in a particular geographic area and are diversified across residential, commercial, industrial and retail real estate investments.

We perform various procedures in review of the general partners' valuations, and while we rely on the general partners' financial statements as the best available information to record our share of the partnership unrealized gains and losses resulting from valuation changes, we adjust our financial statements for impairments of the partnership investments where appropriate. As there is a limited market for these investments, they have the greatest potential for variability. We survey each of the general partners quarterly about expected significant changes (plus or minus 10% compared to previous quarter) to valuations prior to the release of the fund's quarterly and annual financial statements. Based upon that information from the general partner, we consider whether additional disclosure is warranted.

Deferred Acquisition Costs Related to Life Insurance and Investment-Type Contracts
Deferred acquisition costs (DAC) on life insurance and investment-type contracts are amortized in proportion to gross premiums, gross margins or gross profits, depending on the type of contract. DAC related to traditional life insurance products is amortized in proportion to premium revenues over the premium-paying period of related policies using assumptions consistent with those used in computing policy liability reserves. These assumptions are not revised after policy issuance unless the DAC balance is deemed to be unrecoverable from future expected profits. In any period where the actual policy terminations are higher (lower) than anticipated policy terminations, DAC amortization will be accelerated (decelerated) in that period.

DAC related to universal life products and deferred annuities is amortized over the estimated lives of the contracts in proportion to actual and expected future gross profits, which include investment, mortality and expense margins and surrender charges. Both historical and anticipated investment returns, including realized gains and losses, are considered in determining the amortization of DAC. When the actual gross profits change from previously estimated gross profits, the cumulative DAC amortization is re-estimated and adjusted by a cumulative charge or credit to current operations. When actual gross profits exceed those previously estimated, DAC amortization will increase, resulting in a current period charge to earnings. The opposite result occurs when the actual gross profits are below the previously estimated gross profits. DAC is also adjusted for the impact of unrealized gains or losses on investments as if these gains or losses had been realized, with corresponding credits or charges, net of income taxes, included in EFL's accumulated other comprehensive income, which is presented in the "Noncontrolling interest in consolidated entity – Exchange," amount in the Consolidated Statements of Financial Position.

As a result of new accounting guidance issued in 2011, the types of costs incurred by insurance entities that can be capitalized in the acquisition of new and renewal insurance contracts will change for 2012 and thereafter. These costs will be limited to incremental direct costs that result directly from successful contract transactions and would not have been incurred by the insurance entity had the contract transactions not occurred. These costs must be directly related to underwriting, policy issuance and processing, medical and inspection reports and sales force contract selling. Advertising costs should only be included as deferred acquisition costs if direct-response advertising criteria are met. We have elected to prospectively adopt this guidance, the impact of which is immaterial to our consolidated financial statements as this guidance has no impact on the Indemnity shareholder interest.

The actuarial assumptions used to determine investment, mortality and expense margins and surrender charges are reviewed periodically, are based upon best estimates and do not include any provision for the risk of adverse deviation. If actuarial analysis indicates that expectations have changed, the actuarial assumptions are updated and the investment, mortality and expense margins and surrender charges are unlocked. If this unlocking results in a decrease in the present value of future expected gross profits, DAC amortization for the period will increase. If this unlocking results in an increase in the present value of future expected gross profits, DAC amortization for the current period will decrease.

DAC is periodically reviewed for recoverability. For traditional life products, if the benefit reserves plus anticipated future premiums and interest earnings for a line of business are less than the current estimate of future benefits and expenses (including any unamortized DAC), a charge to income is recorded for additional DAC amortization or for increased benefit reserves. For universal life products and deferred annuities, if the current present value of future expected gross profits is less than the unamortized DAC, a charge to income is recorded for additional DAC amortization. There were no impairments to DAC in 2011, 2010 or 2009.

Deferred Taxes
Deferred tax assets represent the tax benefit of future deductible temporary differences and operating loss and tax credit carry-forwards. Deferred tax assets are measured using the enacted tax rates expected to be in effect when such benefits are realized. We perform an analysis of our deferred tax assets to determine recoverability on a quarterly basis for each legal entity, by character of the income (ordinary or capital). Deferred tax assets are reduced by a valuation allowance, if based upon the weight of available evidence, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. In determining the need for a valuation allowance, we consider carry-back capacity, reversal of existing temporary differences, future taxable income and tax planning strategies. The determination of the valuation allowance for our deferred tax assets requires management to make certain judgments and assumptions regarding future operations that are based upon our historical experience and our expectations of future performance. Our judgments and assumptions are subject to change given the inherent uncertainty in predicting future performance, which is impacted by such things as financial market conditions, policyholder behavior, competitor pricing, new product introductions, and specific industry and economic conditions.

Indemnity had a net deferred tax asset of $19 million at December 31, 2011, compared to a net deferred tax liability of $26 million at December 31, 2010. There was no valuation allowance recorded on Indemnity at December 31, 2011 or 2010. In the fourth quarter of 2010, Indemnity recorded a deferred tax provision of $18 million related to its equity interest in EFL. This deferred tax charge was required due to Indemnity's decision to sell its 21.6% ownership interest in EFL, which occurred on March 31, 2011, rather than receiving its share of EFL's earnings in the form of future dividends, which would have been eligible for an 80% dividends received deduction.

The Exchange had net deferred tax liability of $147 million and $257 million at December 31, 2011 and 2010, respectively. There was no valuation allowance recorded on the Exchange at December 31, 2011 or 2010.

Retirement Benefit Plans

Our pension plan for employees is the largest and only funded benefit plan we offer. Our pension and other retirement benefit obligations are developed from actuarial estimates. Several statistical and other factors, which attempt to anticipate future events, are used in calculating the expense and liability related to the plans. Key factors include assumptions about the discount rates and expected rates of return on plan assets. We review these assumptions annually and modify them considering historical experience, current market conditions, including changes in investment returns and interest rates, and expected future trends.

Accumulated and projected benefit obligations are expressed as the present value of future cash payments. We discount those cash payments based upon a yield curve developed from corporate bond yield information with maturities that correspond to the payment of benefits. Lower discount rates increase present values and subsequent year pension expense; higher discount rates decrease present values and subsequent year pension expense. The discount rate

assumption used to determine the benefit obligation for 2011 was determined based upon a yield curve developed from corporate bond yield information. The construction of these yield curves is based upon yields of corporate bonds rated Aa quality. Target yields are developed from bonds at various maturity points and a curve is fitted to those targets. Spot rates (zero coupon bond yields) are developed from the yield curve and used to discount benefit payment amounts associated with each future year. The present value of plan benefits is calculated by applying the spot/discount rates to projected benefit cash flows. A single discount rate is then developed to produce the same present value. This represents the suggested discount rate. The cash flows from the yield curve were matched against our projected benefit payments in the pension plan, which have a duration of about 18 years. This yield curve supported the selection of a 4.99% discount rate for the projected benefit obligation at December 31, 2011 and for the 2012 pension expense. The same methodology was used to develop the 5.69% discount rate used to determine the projected benefit obligation for 2010 and for the 2011 pension expense. A change of 25 basis points in the discount rate assumption, with other assumptions held constant, would have an estimated $2 million impact on net pension and other retirement benefit costs in 2012.

The discount rate assumption used to determine the benefit obligation for 2009 was based upon a bond-matching study that compared projected pension plan benefit flows to the cash flows from a comparable portfolio of non-callable bonds rated AA- or higher. These bonds had maturities primarily between zero and 26 years. For years beyond year 27, there were no appropriate bonds maturing. In these instances, the study estimated the appropriate bond by assuming that there would be bonds available with the same characteristics as the available bond maturing in the immediately preceding year. Outlier bonds were excluded from the study.

Unrecognized actuarial gains and losses are being recognized over a 14-year period, which represents the expected remaining service period of the employee group. Unrecognized actuarial gains and losses arise from several factors, including experience and assumption changes in the obligations and from the difference between expected returns and actual returns on plan assets. These unrecognized gains and losses are recorded in the pension plan obligation on the Consolidated Statements of Financial Position and Accumulated Other Comprehensive Income. These amounts are systematically recognized to net periodic pension expense in future periods, with gains decreasing and losses increasing future pension expense.

The expected long-term rate of return for the pension plan represents the average rate of return to be earned on plan assets over the period the benefits included in the benefit obligation are to be paid. The expected long-term rate of return is less susceptible to annual revisions, as there are typically no significant changes in the asset mix. The long-term rate of return is derived from expected future returns for each asset category based upon applicable indices and their historical relationships under various market conditions. These expected future returns are then weighted based upon our target asset allocation percentages for each asset category to produce a best estimate range of asset return results within which our long-term rate of return assumption falls. A reasonably possible change of 25 basis points in the expected long-term rate of return assumption, with other assumptions held constant, would have an estimated $1 million impact on net pension benefit cost.

We use a four year averaging method to determine the market-related value of plan assets, which is used to determine the expected return component of pension expense. Under this methodology, asset gains or losses that result from returns that differ from our long-term rate of return assumption are recognized in the market-related value of assets on a level basis over a four year period. The component of the net actuarial loss generated during 2011 that related to the actual investment return being different from that assumed during the prior year was a loss of $15 million. Recognition of this loss will be deferred over a four year period, consistent with the market-related asset value methodology. Once factored into the market-related asset value, these experience gains and losses will be amortized over a period of 14 years, which is the remaining service period of the employee group.

Estimates of fair values of the pension plan assets are obtained primarily from our trustee and custodian of our pension plan. Our Level 1 category includes a money market fund that is a mutual fund for which the fair value is determined using an exchange traded price provided by the trustee and custodian. Our Level 2 category includes commingled pools. Estimates of fair values for securities held by our commingled pools are obtained primarily from the trustee and custodian. The methodologies used by the trustee and custodian that support a Level 2 classification of a financial instrument include multiple verifiable, observable inputs including benchmark yields, reported trades, broker/dealer quotes, issuers spreads, two-sided markets, benchmark securities, bids, offers and reference data. There were no Level 3 investments during 2011.

The actuarial assumptions we used in determining our pension and retirement benefits may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates, or longer or shorter life spans of participants. While we believe that the assumptions used are appropriate, differences in actual experience or changes in assumptions may materially affect our financial position, results of operations or cash flows.

RESULTS OF OPERATIONS

The information that follows is presented on a segment basis prior to eliminations.

Management Operations

Management fee revenue is earned by Indemnity from services relating to the sales, underwriting and issuance of policies on behalf of the Exchange as a result of its attorney-in-fact relationship, and is eliminated upon consolidation. A summary of the results of our management operations is as follows:

(dollars in millions)	Indemnity Shareholder Interest Years ended December 31, 2011	% Change	2010	% Change	2009
Management fee revenue	$1,067	5.7 %	$1,009	4.6 %	$ 965
Service agreement revenue	33	(3.6)	34	(1.8)	35
Total revenue from management operations	1,100	5.4	1,043	4.3	1,000
Cost of management operations	892	6.1	841	3.4	813
Income from management operations – Indemnity (1)	$ 208	2.7%	$ 202	8.5 %	$ 187
Gross margin	18.9%	(0.5)pts.	19.4%	0.7 pts.	18.7%

(1) Indemnity retains 100% of the income from management operations.

Management fee revenue

Management fee revenue is based upon all premiums written or assumed by the Exchange and the management fee rate, which is determined by our Board of Directors at least annually. Management fee revenue is calculated by multiplying the management fee rate by the direct premiums written by the Exchange and the other members of the Property and Casualty Group, which are assumed by the Exchange under an intercompany pooling agreement. The following table presents the calculation of management fee revenue:

(dollars in millions)	Indemnity Shareholder Interest Years ended December 31, 2011	% Change	2010	% Change	2009
Property and Casualty Group direct written premiums	$4,271	5.9 %	$4,035	4.5 %	$3,861
Management fee rate	25%		25%		25%
Management fee revenue, gross	1,068	5.9 %	1,009	4.5 %	965
Change in allowance for management fee returned on cancelled policies (1)	(1)	NM	0	NM	0
Management fee revenue, net of allowance	$1,067	5.7 %	$1,009	4.5 %	$ 965

NM = not meaningful

(1) Management fees are returned to the Exchange when policies are cancelled mid-term and unearned premiums are refunded. We record an estimated allowance for management fees returned on mid-term policy cancellations.

Direct written premiums of the Property and Casualty Group increased 5.9% in 2011, compared to 2010, due to a 2.5% increase in policies in force and a 3.3% increase in the year-over-year average premium per policy for all lines of business. The policy retention ratio was 90.7% at December 31, 2011 and 2010 and 90.6% at December 31, 2009. See the “Property and Casualty Insurance Operations” segment that follows for a complete discussion of property and casualty direct written premiums, which have a direct bearing on Indemnity’s management fee.

The management fee rate was set at 25%, the maximum rate, for 2011, 2010 and 2009. The management fee rate for 2012 has again been set at the maximum rate of 25% by our Board of Directors. Changes in the management fee rate can affect the segment’s revenue and net income significantly. See also, the “Transactions/Agreements between Indemnity and Noncontrolling Interest (Exchange), Board Oversight” section within this report.

Service agreement revenue

Service agreement revenue includes service charges Indemnity collects from policyholders for providing extended payment terms on policies written by the Property and Casualty Group and late payment and policy reinstatement fees. The service charges are fixed dollar amounts per billed installment. Service agreement revenue totaled $33 million, $34 million and $35 million in 2011, 2010 and 2009, respectively. The decrease in service agreement revenue in 2011 and 2010 resulted from a slight decline in late payment and policy reinstatement fees and a continued shift in policies to the monthly direct debit payment plan, which does not incur service charges, and the no-fee single payment plan, which offers a premium discount. The shift to these plans is driven by the consumers’ desire to avoid paying services charges and to take advantage of the discount in pricing offered for paid-in-full policies.

Cost of management operations

(in millions)	Indemnity Shareholder Interest Years ended December 31, 2011	% Change	2010	% Change	2009
Commissions	$586	3.9 %	$564	2.1 %	$552
Non-commission expense	306	10.6	277	6.0	261
Total cost of management operations	$892	6.1 %	$841	3.4 %	$813

Commissions – Commissions increased $22 million in 2011 compared 2010, and increased $12 million in 2010 compared to 2009, primarily as a result of the 5.9% and 4.5% increase, respectively, in direct written premiums of the Property and Casualty Group. Included in these increases in both years were decreases in agent bonuses, due to a reduction in the profitability component of the bonus as a result of factoring in the most recent year’s underwriting data.

Non-commission expense – Non-commission expense increased $29 million in 2011, compared to 2010. Personnel costs, the second largest component in the cost of management operations, increased $8 million primarily as a result of increases in salaries and benefits. Professional fees and software costs each increased $7 million related to our technology initiatives, sales and policy issuance costs increased $2 million, while the 2010 expenses included a $5 million reduction for a favorable court ruling.

In 2010, non-commission expense increased $16 million, compared to 2009. Personnel costs increased $12 million, primarily as a result of increases in salaries and benefits, while all other operating costs increased $9 million related primarily to our technology initiatives, offset by a $5 million reduction for a favorable court ruling.

The gross margin of 19.4% in 2010 was positively impacted by a $5 million reduction for a favorable court ruling. Excluding this adjustment, the gross margin would have been 18.9% in 2010, compared to 18.9% in 2011 and 18.7% in 2009. The improved gross margin in 2010, compared to 2009, resulted from revenue growth slightly outpacing expense growth.

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Property and Casualty Insurance Operations
The Property and Casualty Group operates in 11 Midwestern, Mid-Atlantic and Southeastern states and the District of Columbia and primarily writes personal auto, homeowners, commercial multi-peril, commercial automobile, and workers compensation lines of insurance. A summary of the results of our property and casualty insurance operations is as follows:

	Property and Casualty Group				
	Years ended December 31,				
(dollars in millions)	2011	% Change	2010	% Change	2009
Direct written premium	$4,271	5.9 %	$4,035	4.5 %	$3,861
Reinsurance – assumed and ceded	(16)	(6.0)	(16)	NM	0
Net written premium	4,255	5.9	4,019	4.1	3,861
Change in unearned premium	106	12.2	94	78.1	53
Net premiums earned	4,149	5.7	3,925	3.1	3,808
Losses and loss expenses	3,349	19.0	2,815	6.4	2,644
Policy acquisition and other underwriting expenses	1,178	5.8	1,113	(1.7)	1,135
Total losses and expenses	4,527	15.2	3,928	4.0	3,779
Underwriting (loss) income – Erie Insurance Group	$ (378)	NM	$ (3)	NM	$ 29
Underwriting income – Indemnity (1)	$ –		$ 0		$ 1
Underwriting (loss) income – Exchange (1)	$ (378)		$ (3)		$ 28
Loss and loss expense ratio	80.7%	9.0 pts.	71.7%	2.3 pts.	69.4%
Policy acquisition and other underwriting expense ratio	28.4	0.0	28.4	(1.4)	29.8
Combined ratio	109.1%	9.0 pts.	100.1%	0.9 pts.	99.2%

NM = not meaningful

(1) Prior to and through December 31, 2010, the underwriting results retained by EIC and ENY accrued to the Indemnity shareholder interest. Due to the sale of Indemnity's property and casualty insurance subsidiaries to the Exchange on December 31, 2010, all property and casualty underwriting results accrue to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after December 31, 2010.

We measure profit or loss for our property and casualty insurance segment based upon underwriting results, which represents net premiums earned less losses and loss expenses and policy acquisition and other underwriting expenses on a pre-tax basis. Loss and combined ratios are key performance indicators that we use to assess business trends and to make comparisons to industry results. The investment results related to our property and casualty operations are included in our investment operations segment.

Direct written premiums
Direct written premiums of the Property and Casualty Group increased 5.9% to $4.3 billion in 2011, from $4.0 billion in 2010, driven by an increase in policies in force and increases in average premium per policy. Year-over-year policies in force for all lines of business increased by 2.5% in 2011 as the result of continuing strong policyholder retention, compared to an increase of 3.3% in 2010. The year-over-year average premium per policy for all lines of business increased 3.3% at December 31, 2011, compared to 1.1% at December 31, 2010. The combined impact of these increases was seen primarily in our renewal business premiums.

Premiums generated from new business increased 1.9% to $465 million in 2011, compared to 5.2%, or $456 million, in 2010. Underlying the trend in new business premiums was a decrease in new business policies in force of 3.9% in 2011, compared to an increase of 1.3% in 2010, while the year-over-year average premium per policy on new business increased 5.9% at December 31, 2011, compared to 3.8% at December 31, 2010.

Premiums generated from renewal business increased 6.4% to $3.8 billion in 2011, compared to 4.4%, or $3.6 billion, in 2010. Underlying the trend in renewal business premiums was an increase in renewal business policies in force of 3.4% in 2011, compared to 3.6% in 2010, and an increase in the renewal business year-over-year average premium per policy of 2.9% at December 31, 2011, compared to 0.8% at December 31, 2010. The Property and Casualty Group's year-over-year policy retention ratio was 90.7% at December 31, 2011 and 2010, and 90.6% at December 31, 2009.

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The Property and Casualty Group implemented rate increases in 2011, 2010 and 2009 in order to meet loss cost expectations. Our rate increases in 2010 and 2009 were offset by the Property and Casualty Group's economically sensitive lines, predominantly workers compensation and commercial auto, which, as a result of unfavorable economic conditions, experienced reduced exposures and changes in the mix of business that reduced the average premium per policy for these lines. In 2009, these reductions resulted in a slight decrease to the all lines of business average premium per policy.

The Property and Casualty Group primarily writes only one-year policies. Consequently, rate actions take 12 months to be fully recognized in written premium and 24 months to be recognized fully in earned premiums. Since rate changes are realized at renewal, it takes 12 months to implement a rate change to all policyholders and another 12 months to earn the decreased or increased premiums in full. As a result, certain rate actions approved in 2010 were reflected in 2011, and recent rate actions in 2011 will be reflected in 2012.

Personal lines – Total personal lines premiums written increased 4.9% to $3.1 billion in 2011, from $3.0 billion in 2010, driven by an increase of 2.3% in total personal lines policies in force and an increase of 2.5% in the total personal lines year-over-year average premium per policy.

New business premiums written on personal lines decreased 0.7% in 2011, compared to an increase of 2.1% in 2010. Personal lines new business policies in force decreased 4.8% in 2011, compared to 0.1% in 2010, while the year-over-year average premium per policy on personal lines new business increased 4.2% at December 31, 2011, compared to 2.2% at December 31, 2010.

- Private passenger auto new business premiums written decreased 1.4% in 2011, compared to an increase of 1.8% in 2010. New business policies in force for private passenger auto decreased 3.3% in 2011, compared to 0.9% in 2010, while the new business year-over-year average premium per policy for private passenger auto increased 2.0% at December 31, 2011, compared to an increase of 2.7% at December 31, 2010.

- Homeowners new business premiums written decreased 0.9% in 2011, compared to an increase of 1.9% in 2010. New business policies in force for homeowners decreased 7.0% in 2011, compared to 0.1% in 2010. The new business year-over-year average premium per policy for homeowners increased 6.5% at December 31, 2011, compared to 2.0% at December 31, 2010.

Renewal premiums written on personal lines increased 5.5% in 2011, compared to 6.1% in 2010, driven by an increase in average premium per policy and steady policy retention trends. The year-over-year average premium per policy on personal lines renewal business increased 2.2% at December 31, 2011, compared to 2.4% at December 31, 2010. The personal lines year-over-year policy retention ratio was 91.5% at December 31, 2011, 2010 and 2009.

- Private passenger auto renewal premiums written increased 2.8% in 2011, compared to 5.0% in 2010. The year-over-year average premium per policy on private passenger auto renewal business increased 0.7% at December 31, 2011, compared to 2.2% at December 31, 2010. The private passenger auto year-over-year policy retention ratio was 91.6% at December 31, 2011, 91.8% at December 31, 2010 and 91.9% at December 31, 2009.

- Homeowners renewal premiums written increased 11.1% in 2011, compared to 8.4% in 2010. The year-over-year average premium per policy on homeowners renewal business increased 7.7% at December 31, 2011, compared to 4.5% in 2010. The homeowners year-over-year policyholder retention ratio was 91.2% at December 31, 2011, 2010 and 2009.

Commercial lines – Total commercial lines premiums written increased 8.5%, to $1.2 billion in 2011, from $1.1 billion in 2010, driven by a 3.5% increase in total commercial lines policies in force and a 4.9% increase in the total commercial lines year-over-year average premium per policy.

New business premiums written on commercial lines increased 6.7% in 2011, compared to 11.6% in 2010. Commercial lines new business policies in force remained flat in 2011, compared to an increase of 7.8% in 2010, while the year-over-year average premium per policy on commercial lines new business increased 6.7% at December 31, 2011, compared to 3.5% at December 31, 2010.

Renewal premiums for commercial lines increased 8.8% in 2011, compared to a decrease of 0.2% in 2010. The improvement seen in the commercial lines renewal premiums was driven by increases in the average premium per policy combined with steady policy retention trends, the combined impact of which was seen primarily in the commercial multi-peril and workers compensation lines of business. The year-over-year average premium per policy on commercial lines renewal business increased 4.4% in 2011, compared to a decrease of 3.3% in 2010. The commercial multi-peril and

workers compensation year-over-year average premium per policy on renewal business increased 4.7% and 9.5%, respectively, at December 31, 2011, compared to decreases of 0.7% and 9.2%, respectively, at December 31, 2010. Contributing to the lower average premium per policy in 2010 were shifts in the mix of our book of business and lower exposures for the commercial multi-peril and workers compensation lines of business, but to a lesser extent than in 2009. The year-over-year policy retention ratio for commercial lines was 85.5% at December 31, 2011, 85.3% at December 31, 2010 and 84.9% at December 31, 2009.

Future trends—premium revenue – We plan to continue our efforts to grow Property and Casualty Group premiums and improve our competitive position in the marketplace. Expanding the size of our agency force through a careful agency selection process and increased market penetration in our existing operating territories will contribute to future growth as existing and new agents build their book of business with the Property and Casualty Group. At December 31, 2011, we had over 2,100 agencies with nearly 9,500 licensed property and casualty representatives.

Changes in premium levels attributable to growth in policies in force directly affect the profitability of the Property and Casualty Group and have a direct bearing on Indemnity's management fee. Our continued focus on underwriting discipline and the maturing of our pricing sophistication models has contributed to the Property and Casualty Group's growth in new policies in force and steady policy retention ratios. The continued growth of our policy base is dependent upon the Property and Casualty Group's ability to retain existing policyholders and attract new policyholders. A lack of new policy growth or the inability to retain existing customers could have an adverse effect on the Property and Casualty Group's premium level growth, and consequently Indemnity's management fee.

Changes in premium levels attributable to rate changes also directly affect the profitability of the Property and Casualty Group and have a direct bearing on Indemnity's management fee. Pricing actions contemplated or taken by the Property and Casualty Group are subject to various regulatory requirements of the states in which our insurers operate. The pricing actions already implemented, or to be implemented, have an effect on the market competitiveness of our insurance products. Such pricing actions, and those of competitors, could affect the ability of our agents to retain and attract new business. We expect the Property and Casualty Group's pricing actions to result in a net increase in direct written premium in 2012, however, exposure reductions and/or changes in our mix of business as a result of economic conditions could impact the average premium written by the Property and Casualty Group, as customers may reduce coverages.

Current year losses and loss expenses
The current accident year loss and loss expense ratio, excluding catastrophe losses, was 68.6% in 2011, compared to 70.6% in 2010 and 68.4% in 2009.

The personal lines loss and loss expense ratio related to the current accident year, excluding catastrophe losses, was 69.4% in 2011, compared to 70.4% in 2010 and 69.1% in 2009. Excluding catastrophe losses, the current accident year loss and loss expense ratio for personal auto increased to 73.7% in 2011 from 73.4% in 2010, while the homeowners loss and loss expense ratio decreased to 62.6% from 64.5% for the same periods, respectively.

The commercial lines loss and loss expense ratio related to the current accident year, excluding catastrophe losses, was 66.6% in 2011, compared to 71.3% in 2010 and 66.9% in 2009. Excluding catastrophe losses, the current accident year loss and loss expense ratios for 2011 and 2010, respectively, were 73.3% and 82.9% for the workers compensation line of business, 63.5% and 71.0% for the commercial multi-peril line of business, and 72.1% and 68.7% for the commercial auto line of business. The workers compensation and commercial multi-peril lines of business experienced a decrease in severity in 2011, compared to 2010.

Catastrophe losses
Catastrophic events, destructive weather patterns, or changes in climate conditions are an inherent risk of the property and casualty insurance business and can have a material impact on our property and casualty insurance underwriting results. The Property and Casualty Group conducts business primarily in the Mid-Atlantic, Midwestern and Southeastern portions of the United States. A substantial portion of our business is in the personal and commercial automobile, homeowners and workers compensation insurance lines in the states of Ohio, Maryland, Virginia and, predominantly, in Pennsylvania. Common catastrophic events include severe winter storms, hurricanes, earthquakes, tornadoes, and wind and hail storms, among others. In addressing this risk, we employ what we believe are reasonable underwriting standards and monitor our exposure by geographic region.

The Property and Casualty Group's definition of catastrophes includes those weather-related or other loss events that we consider significant to our geographic footprint which, individually or in the aggregate, may not reach the level of a national catastrophe as defined by the Property Claim Service (PCS). The Property and Casualty Group maintains

property catastrophe reinsurance coverage from unaffiliated reinsurers to mitigate future potential catastrophe loss exposures and no longer participates in the voluntary assumed reinsurance business, which lowers the variability of the Property and Casualty Group's underwriting results. The property catastrophe reinsurance coverage for 2011 included a first property catastrophe reinsurance treaty that provided coverage of up to 90% of a loss of $500 million in excess of the Property and Casualty Group's loss retention of $350 million per occurrence, and a second treaty that provided coverage of up to 90% of a loss of $25 million in excess of $850 million. These treaties were renewed effective January 1, 2012, with the first property catastrophe reinsurance treaty providing coverage of up to 90% of a loss of $500 million in excess of the Property and Casualty Group's loss retention of $350 million per occurrence, and the second treaty providing coverage of up to 70% of a loss of $275 million in excess of $850 million. In addition, a third property catastrophe reinsurance treaty was entered into with a nonaffiliated reinsurer providing coverage of up to 70% of a loss of $25 million in excess of $1.125 billion. The treaties exclude losses from acts of terrorism.

While the Property and Casualty Group is exposed to terrorism losses in commercial lines, including workers compensation, these lines are afforded a limited backstop above insurer deductibles for foreign acts of terrorism under the federal Terrorism Risk Insurance Program Reauthorization and Extension Act of 2007 that continues through December 31, 2014. The Property and Casualty Group has no personal lines terrorism coverage in place. Although current models suggest the most likely occurrences would not have a material impact on the Property and Casualty Group, there is a chance that if future terrorism attacks occur, the Property and Casualty Group could incur large losses.

Catastrophe losses, as defined by the Property and Casualty Group, totaled $773 million in 2011, $288 million in 2010 and $129 million in 2009, and contributed 18.6 points, 7.3 points and 3.4 points to the respective loss ratios. Catastrophe losses in 2011 were impacted by flooding, hurricane, tornado, hail and wind storms primarily in the states of Pennsylvania, North Carolina, Tennessee and Ohio. In 2010, catastrophe losses were impacted by ice, snow, wind, flooding, hail and tornadoes primarily in the states of Pennsylvania, Maryland and Ohio, where 2009 catastrophe losses resulted primarily from flooding, hail, tornado and wind storms primarily in Pennsylvania, Ohio and Indiana.

Prior year loss reserve development
The following table provides a breakout of our property and casualty insurance operation's prior year loss reserve development by type of business:

	Property and Casualty Group		
(in millions)	Years ended December 31,		
	2011	2010	2009
Direct business including salvage and subrogation	$(276)	$(188)	$(30)
Assumed reinsurance business	(22)	(51)	(38)
Ceded reinsurance business	26	(5)	(25)
Total prior year loss development	$(272)	$(244)	$(93)

Negative amounts represent a redundancy (decrease in reserves), while positive amounts represent a deficiency (increase in reserves).

Direct business including salvage and subrogation – The following table presents the overall prior year loss development of direct reserves, including the effects of salvage and subrogation recoveries, for our personal and commercial lines operations by accident year:

	Property and Casualty Group		
(in millions)	Years ended December 31,		
	2011	2010	2009
2010	$ (26)	$ –	$ –
2009	(31)	(60)	–
2008	(14)	(47)	4

2007	(7)	(39)	(11)
2006	(8)	(17)	(18)
2005	(5)	(17)	(4)
2004	(11)	0	10
2003	(4)	(9)	(60)
2002	(14)	15	16
2001 and prior	(156)	(14)	33
Total	$(276)	$(188)	$(30)

Negative amounts represent a redundancy (decrease in reserves), while positive amounts represent a deficiency (increase in reserves).

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The 2011 direct business favorable development, including salvage and subrogation recoveries, totaled $276 million, improved the combined ratio by 6.7 points and represented 7.7% of the net loss reserves at December 31, 2010. The most significant factors contributing to the 2011 favorable development were:

- Favorable development of $125 million related to the personal auto line of business, primarily resulting from better than expected severity trends on automobile bodily injury and uninsured/underinsured motorist bodily injury improved annual claims cost expectations, which impacted the more recent accident years, and the closing of four pre-1986 automobile massive injury lifetime medical claims.
- Favorable development of $95 million related to the workers compensation line of business primarily resulting from the closing of seven massive injury lifetime medical claims and better than expected severity trends, which primarily impacted accident years related to 2001 and prior.
- Favorable development of $24 million related to the commercial multi-peril line of business primarily resulting from better than expected severity trends, which impacted the 2009 and 2010 accident years.
- Favorable development of $12 million related to the homeowners line of business primarily resulting from better than expected severity trends, which impacted the more recent accident years.

The 2010 direct business favorable development, including salvage and subrogation recoveries, totaled $188 million, improved the combined ratio by 4.8 points and represented 5.2% of the net loss reserves at December 31, 2009. The most significant factors contributing to the 2010 favorable development were:

- Favorable development of $64 million related to the commercial multi-peril line of business and resulted primarily from improvements in severity trends on both property and liability lines, which impacted various recent accident years.
- Favorable development of $60 million related to the personal auto line of business and primarily resulted from better than expected severity trends on automobile bodily injury and uninsured/underinsured motorist bodily injury, which impacted the more recent accident years. An additional $8 million of favorable development stems from the settlement of three pre-1986 automobile massive injury lifetime medical claims.
- Favorable development of $45 million related to the workers compensation line of business and resulted primarily from improvements in severity trends and the settlement of four workers compensation massive injury lifetime medical claims, which impacted the more recent accident years.
- Adverse development of $39 million was experienced in 2010 as a result of reserve strengthening on commercial liability claims that impacted the 2002 accident year. Of this amount, $9 million related to the commercial multi-peril line of business and $30 million related to other commercial lines.

The 2009 direct business favorable development, including salvage and subrogation recoveries, totaled $30 million, improved the combined ratio by 0.8 points and represented 0.8% of the net loss reserves at December 31, 2008. The most significant factors contributing to the 2009 favorable development were:

- Favorable development of $138 million related to the workers compensation line of business. This favorable development was a function of 1) the settlement of several massive injury lifetime medical workers compensation claims of $56 million, 2) changes to mortality assumptions of $14 million and 3) a change in the payout patterns used in the calculation to discount workers compensation reserves of $45 million. The settlement of the massive injury workers compensation claims impacted several accident years. The changes in assumptions and the discount calculation impacted all accident years.
- Adverse development of $77 million related to the personal auto line of business, primarily in the pre-1986 automobile massive injury lifetime medical claims. The mortality assumptions used for these claims were changed to a 100% weighting of the disabled pensioner mortality table and gender specific mortality tables were used, resulting in an increase in reserves of $44 million. The remaining adverse development resulted primarily from personal auto bodily injury claims as greater than expected frequency and severity trends were experienced related to accident years 2007 and 2008.
- Adverse development of $67 million related to the commercial multi-peril lines of business which impacted various accident years. The majority of the adverse development stems from liability claims on accident years 2007 and 2008 as greater than expected severity trends were experienced. Adverse development on accident years prior to 2007 resulted mainly from the outcome of certain court decisions.

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Additional information on direct loss reserve development is provided in Item 1. “Business, Reserves for losses and loss expenses.” The variability in reserve development over the ten year period illustrates the uncertainty of the loss reserving process. Conditions and trends that have affected reserve development in the past will not necessarily recur in the future. It is not appropriate to extrapolate future favorable or unfavorable reserve development based upon amounts experienced in prior years.

Assumed reinsurance – The Property and Casualty Group experienced favorable development of prior accident year loss reserves on its assumed reinsurance business totaling $22 million in 2011, compared to $51 million in 2010 and $38 million in 2009. The favorable development in 2011 and 2010 was due to less than anticipated growth in involuntary reinsurance. In 2009, the favorable development was due to less than anticipated growth in involuntary reinsurance and, to a lesser extent, reductions in reserve levels related to World Trade Center losses.

Ceded reinsurance – During 2011, ceded reinsurance reserves decreased $26 million for the Property and Casualty Group, which is reflected as adverse development of reserves, compared to an increase of $5 million in 2010 and $25 million in 2009, which is reflected as favorable development of reserves. Ceded reinsurance reserves primarily relate to the pre-1986 automobile massive injury claims. The adverse development in 2011 was primarily the result of the closing of four massive injury lifetime medical claims. The favorable development in 2010 was primarily the result of a $9 million increase related to the business catastrophe liability line, offset by a $4 million reduction in ceded recoveries related to the pre-1986 automobile massive injury reserves. In 2009, the favorable development was primarily due to assumption changes and frequency trends in the pre-1986 automobile massive injury direct business, which drove the corresponding increase in the receivable from the ceded reinsurer.

Policy acquisition and other underwriting expenses

Our policy acquisition and other underwriting expense ratio remained flat at 28.4% in 2011 compared to 2010, and decreased 1.4 points in 2010 from 29.8% in 2009. The management fee rate was 25% in 2011, 2010 and 2009. The year ended December 31, 2009 included a charge of $62 million related to the write-off of assumed involuntary reinsurance premium related to the North Carolina Beach and Coastal Plans deemed uncollectible as a result of state legislation, which contributed 1.6 points to the 2009 policy acquisition and other underwriting expense ratio.

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Life Insurance Operations

EFL is a Pennsylvania-domiciled life insurance company which underwrites and sells individual and group life insurance policies and fixed annuities and operates in 10 states and the District of Columbia. A summary of the results of our life insurance operations is as follows:

	Erie Family Life Insurance Company				
	Years ended December 31,				
(in millions)	2011	% Change	2010	% Change	2009
Individual life premiums	$ 64	5.1 %	$ 61	1.5 %	$ 60
Group life and other premiums	3	2.2	3	(3.2)	3
Other revenue	1	(4.8)	1	(3.0)	1
Total net policy revenue	68	4.8	65	1.3	64
Net investment income	93	(1.1)	94	1.6	93
Net realized gains on investments	13	(7.7)	14	NM	3
Impairment losses recognized in earnings	(1)	57.9	(2)	91.6	(23)
Equity in earnings (losses) of limited partnerships	4	NM	1	NM	(10)
Total revenues	177	3.3	172	35.0	127
Benefits and other changes in policy reserves	100	10.7	90	1.4	89
Amortization of deferred policy acquisition costs	12	(30.3)	17	33.3	13
Other operating expenses	15	3.4	15	(2.4)	15
Total benefits and expenses	127	4.1	122	4.3	117
Income before income taxes	50	1.2 %	50	NM	10
Income before taxes – Indemnity [(1)]	$ 3	(73.6)%	$ 11	NM	$ 2
Income before taxes – Exchange [(1)]	$ 47	21.8 %	$ 39	NM	$ 8

NM = not meaningful

(1) *Prior to and through March 31, 2011, Indemnity retained a 21.6% ownership interest in EFL, which accrued to the Indemnity shareholder interest, and the Exchange retained a 78.4% ownership interest in EFL, which accrued to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest. Due to the sale of Indemnity's 21.6% ownership interest in EFL to the Exchange on March 31, 2011, 100% of EFL's life insurance results accrue to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after March 31, 2011.*

Premiums

Gross policy revenues increased 4.2% to $110 million in 2011, compared to $106 million in 2010, and $102 million in 2009. EFL reinsures a large portion of its traditional products in order to reduce claims volatility. With the introduction of its new life products, effective June 1, 2011, EFL reinsures new individual life business amounts in excess of its $1 million per life retention limit. Previously, EFL reinsured 75% of its risk on new term business. Ceded reinsurance premiums totaled $43 million in 2011, $42 million in 2010, and $39 million in 2009.

Premiums received on annuity and universal life products totaled $84 million, $113 million, and $181 million in 2011, 2010 and 2009, respectively. Of this amount, annuity and universal life premiums, which are recorded as deposits, and therefore not reflected in revenue on the Consolidated Statements of Operations, totaled $68 million, $97 million, and $164 million in 2011, 2010 and 2009, respectively.

Investments

EFL experienced an increase in equity in earnings of limited partnerships compared to 2010, and continued to experience an elevated level of realized gains on investments and low levels of impairments in 2011, consistent with 2010. In 2010, EFL experienced low levels of impairments, an increase in net realized gains on investments and an increase in equity in earnings of limited partnerships, compared to losses in 2009, due to improvements in market conditions. See the discussion of investments in the "Investment Operations" segment that follows for further information.

Benefits and expenses

EFL's 2011 benefits and other changes in policy reserves were primarily impacted by increases in interest on annuity deposits, death benefits and future life policy benefits, while the amortization of deferred policy acquisition costs decreased as a result of declines in the earned and credited interest rates, compared to 2010. Total benefits and expenses in 2010 were primarily impacted by an increase in the amortization of deferred policy acquisition costs due to a significant reduction in impairments and experiencing a greater level of realized gains as a result of the improvements in market conditions, compared to 2009.

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Investment Operations

The investment results related to our life insurance operations are included in the investment operations segment discussion below as part of the Exchange's investment results. A summary of the results of our investment operations is as follows:

	Erie Insurance Group				
	Years ended December 31,				
(in millions)	2011	% Change	2010	% Change	2009
Indemnity					
Net investment income [(1)]	$ 16	(56.8)%	$ 37	(11.9)%	$ 42
Net realized gains (losses) on investments [(1)]	3	NM	(1)	NM	10
Net impairment losses recognized in earnings [(1)]	0	NM	(1)	NM	(12)
Equity in earnings (losses) of limited partnerships	26	21.3	21	NM	(76)
Net revenue (loss) from investment operations – Indemnity [(1)]	$ 45	NM	$ 56	NM	$ (36)
Exchange					
Net investment income [(1)]	$428	1.6 %	$407	1.2 %	$402
Net realized (losses) gains on investments [(1)]	(7)	NM	314	NM	402
Net impairment losses recognized in earnings [(1)]	(2)	(52.8)	(5)	NM	(114)
Equity in earnings (losses) of limited partnerships	123	14.9	107	NM	(293)
Goodwill impairment	–	NM	(22)	NM	–
Net revenue from investment operations – Exchange[(1) (2)]	$542	NM	$801	NM	$397

NM = not meaningful

(1) *As a result of the sale of Indemnity's property and casualty insurance subsidiaries, EIC, ENY and EPC, to the Exchange on December 31, 2010, investment revenue and losses generated from these entities will no longer accrue to the Indemnity shareholder interest after this date. Investment revenue from these entities totaled $28 million in 2011, $29 million in 2010, and $21 million in 2009. These components of investment income now accrue to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest, in 2011 and thereafter.*

(2) *The Exchange's investment results include net investment revenues from EFL's operations of $109 million in 2011, $107 million in 2010, and $63 million in 2009.*

Net investment income

Net investment income primarily includes interest and dividends on our fixed maturity and equity security portfolios. Indemnity's net investment income decreased by $21 million in 2011, compared to 2010, and by $5 million in 2010, compared to 2009, while net investment income for the Exchange increased by $21 million and $5 million during the same respective periods. The fluctuations in 2011 for both Indemnity and the Exchange were primarily caused by the sale of EIC, ENY and EPC from Indemnity to the Exchange on December 31, 2010. These entities generated net investment income of $25 million and $27 million in 2010 and 2009, respectively. In 2010, net investment income for Indemnity decreased compared to 2009, primarily due to lower investment yields, while net investment income for the Exchange increased during the same period as larger invested balances more than offset lower yields.

Net realized gains (losses) on investments

Indemnity generated net realized gains of $3 million in 2011, compared to losses of $1 million in 2010 and gains of $10 million in 2009. The Exchange generated net realized losses of $7 million in 2011, compared to gains of $314 million in 2010 and $402 million in 2009. In 2011, Indemnity recorded $6 million of realized gains on the sale of securities which was offset by $3 million in valuation losses on its common stock portfolio. The Exchange recorded $240 million of realized gains on the sale of securities which was offset by $247 million in valuation losses on its common stock portfolio in 2011. Realized gains on investments decreased in both Indemnity and the Exchange in 2010, compared to 2009, primarily due to realized losses generated on the sale of limited partnership holdings. In 2010, Indemnity recognized losses of $12 million and the Exchange recognized losses of $46 million on sales of limited partnerships. These partnerships were sold to recapture tax paid on previous period capital gains that were due to expire. The Exchange recorded unrealized gains on its common stock portfolio of $254 million and $464 million in 2010 and 2009, respectively. These securities are classified as trading securities and therefore any change in the fair value is recorded through income. Additionally, EIC, ENY and EPC generated net realized gains of $5 million and $1 million in 2010 and 2009, respectively.

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Net impairment losses recognized in earnings

Net impairment losses recognized in earnings for Indemnity decreased by $1 million in 2011, compared to 2010, and by $11 million in 2010, compared to 2009, while impairment losses for the Exchange decreased by $3 million and $109 million during the same respective periods. Lower levels of impairment losses are due to improved market conditions for fixed maturity and preferred stock securities in 2011 and 2010, compared to 2009. EIC, ENY and EPC generated net impairment losses of $1 million and $7 million in 2010 and 2009, respectively.

Equity in earnings (losses) of limited partnerships

Indemnity's equity in earnings of limited partnerships totaled $26 million and $21 million in 2011 and 2010, respectively, compared to losses of $76 million in 2009. The Exchange's equity in earnings of limited partnerships totaled $123 million and $107 million in 2011 and 2010, respectively, compared to losses of $293 million in 2009. The results in 2011 and 2010 reflect the improved market conditions across all limited partnership sectors compared to 2009.

Goodwill impairment

Goodwill is reviewed for impairment at least annually or more frequently if events occur or circumstances change that would indicate that a triggering event has occurred. Goodwill impairment testing follows a two step process. In the first step, the fair value of a reporting unit is compared to its carrying value. If the carrying value of a reporting unit exceeds its fair value, the second step of the impairment test is performed for purposes of measuring the impairment.

Prior to December 31, 2010, the Exchange had $22 million of goodwill attributable to its purchase of EFL stock in 2006. In the fourth quarter of 2010, the Exchange entered into an agreement to purchase Indemnity's 21.6% ownership interest in EFL, and a valuation of EFL was performed by an external independent third party in preparation for the sale, which occurred on March 31, 2011. The valuation resulted in a purchase price determination of 95% of book value. In response to the valuation and sale price, management concluded that the possibility for impairment existed and step two of the goodwill impairment test was completed to determine the impairment amount. Step two of the impairment test compared the value of new business for EFL to the current goodwill balance. The analysis determined that the value of EFL's new business did not support the $22 million goodwill, and an impairment entry was made to write down the entire balance at December 31, 2010. The charge of $22 million decreased the net income attributable to the Exchange in 2010.

The breakdown of our net realized gains (losses) on investments is as follows:

(in millions)	Erie Insurance Group Years ended December 31, 2011	2010	2009
Indemnity			
Securities sold:			
Fixed maturities	$ 2	$ 5	$ 1
Preferred stock equity securities	3	1	1
Common stock equity securities	1	5	(3)
Common stock valuation adjustments	(3)	0	11
Limited partnerships	0	(12)	0
Total net realized gains (losses) – Indemnity (1)	$ 3	$ (1)	$ 10
Exchange			
Securities sold:			
Fixed maturities	$ 48	$ 25	$ (15)
Preferred stock equity securities	27	11	13
Common stock equity securities	165	70	(60)
Common stock valuation adjustments	(247)	254	464
Limited partnerships	0	(46)	0
Total net realized (losses) gains– Exchange (1) (2)	$ (7)	$314	$402

(1) See Item 8. "Financial Statements and Supplementary Data – Note 7, Investments, of Notes to Consolidated Financial Statements" contained within this report for additional disclosures regarding net realized gains (losses) on investments.

(2) The Exchange's results include net realized gains from EFL's operations of $13 million in 2011, $14 million in 2010, and $3 million in 2009.

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No impairment charges were incurred by the Indemnity in 2011. Exchange impairment charges of $2 million in 2011 were attributable to preferred stock holdings. Overall, impairment charges declined in 2011 and 2010, compared to 2009, as market conditions have improved.

The components of equity in earnings (losses) of limited partnerships are as follows:

(in millions)	Erie Insurance Group Years ended December 31, 2011	2010	2009
Indemnity			
Private equity	$ 10	$ 14	$ (12)
Mezzanine debt	7	7	(6)
Real estate	9	0	(58)
Total equity in earnings (losses) of limited partnerships – Indemnity	$ 26	$ 21	$ (76)
Exchange			
Private equity	$ 54	$ 77	$ (34)
Mezzanine debt	24	27	(2)
Real estate	45	3	(257)
Total equity in earnings (losses) of limited partnerships – Exchange (1)	$123	$107	$(293)

(1) The Exchange's results include equity in earnings of limited partnerships from EFL's operations of $4 million in 2011, $0.5 million in 2010, and losses of $10 million in 2009.

Limited partnership earnings pertain to investments in U.S. and foreign private equity, mezzanine debt, and real estate partnerships. Valuation adjustments are recorded to reflect the fair value of limited partnerships. These adjustments are recorded as a component of equity in earnings of limited partnerships in the Consolidated Statements of Operations.

We experienced an increase in earnings as a result of asset value increases recognized in 2011 due to generally favorable market conditions. Limited partnership earnings tend to be cyclical based upon market conditions, the age of the partnership and the nature of the investments. Generally, limited partnership earnings are recorded on a quarter lag from financial statements we receive from our general partners. As a consequence, earnings from limited partnerships reported at December 31, 2011 reflect investment valuation changes resulting from the financial markets and the economy through September 30, 2011.

FINANCIAL CONDITION

Investments

Prior to and through December 31, 2010, the investment results from EIC, ENY and EPC accrued to the Indemnity shareholder interest. Due to the sale of Indemnity's property and casualty insurance subsidiaries to the Exchange on December 31, 2010, the investment results for these companies accrue to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after December 31, 2010.

Our 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. Our investment strategy also provides for liquidity to meet our short- and long-term commitments.

Distribution of investments

	Erie Insurance Group			
	Carrying value at December 31,			
(in millions)	2011	% to total	2010	% to total
Indemnity				
Fixed maturities	$ 548	68%	$ 264	50%
Equity securities:				
Preferred stock	25	3	24	4
Common stock	27	4	28	5
Limited partnerships:				
Private equity	82	10	86	16
Mezzanine debt	35	4	47	9
Real estate	91	11	83	16
Real estate mortgage loans	1	0	1	0
Total investments – Indemnity	$ 809	100%	$ 533	100%
Exchange				
Fixed maturities	$ 7,292	65%	$ 7,279	65%
Equity securities:				
Preferred stock	564	5	570	5
Common stock	2,308	21	2,306	20
Limited partnerships:				
Private equity	495	4	555	5
Mezzanine debt	201	2	214	2
Real estate	386	3	339	3
Life policy loans	15	0	15	0
Real estate mortgage loans	4	0	4	0
Total investments – Exchange	$11,265	100%	$11,282	100%
Total investments – Erie Insurance Group	$12,074		$11,815	

We continually review our investment portfolio to evaluate positions that might incur other-than-temporary declines in value. For all investment holdings, general economic conditions and/or conditions specifically affecting the underlying issuer or its industry, including downgrades by the major rating agencies, are considered in evaluating impairment in value. In addition to specific factors, other factors considered in our review of investment valuation are the length of time the fair value is below cost and the amount the fair value is below cost.

We individually analyze all positions with emphasis on those that have, in management's opinion, declined significantly below cost. In compliance with impairment guidance for debt securities, we perform further analysis to determine if a credit-related impairment has occurred. Some of the factors considered in determining whether a debt security is credit impaired include potential for the default of interest and/or principal, level of subordination, collateral of the issue, compliance with financial covenants, credit ratings and industry conditions. We have the intent to sell all credit-impaired debt securities, therefore the entire amount of the impairment charges are included in earnings and no credit impairments are recorded in other comprehensive income. Prior to the second quarter of 2009, there was no differentiation between

impairments related to credit loss and those related to other factors and declines in fair value of debt securities were deemed other-than-temporary if we did not have the intent and ability to hold a security to recovery. For available-for-sale equity securities, a charge is recorded in the Consolidated Statements of Operations for positions that have experienced other-than-temporary impairments due to credit quality or other factors. (See the "Investment Operations" section herein for further information.) Management believes its investment valuation philosophy and accounting practices result in appropriate and timely measurement of value and recognition of impairment.

Fixed maturities

Under our investment strategy, we maintain a fixed maturity portfolio that is of high quality and well diversified within each market sector. This investment strategy also achieves a balanced maturity schedule. Our fixed maturity portfolio is managed with the goal of achieving reasonable returns while limiting exposure to risk. Our municipal bond portfolio accounts for $221 million, or 40%, of the total fixed maturity portfolio for Indemnity and $1.4 billion, or 19%, of the fixed maturity portfolio for the Exchange at December 31, 2011. The overall credit rating of the municipal portfolio without consideration of the underlying insurance is AA. Although some of our municipal holdings are insured, the underlying insurance does not improve the overall credit rating.

Fixed maturities classified as available-for-sale are carried at fair value with unrealized gains and losses, net of deferred taxes, included in shareholders' equity. Indemnity's net unrealized gains on fixed maturities, net of deferred taxes, amounted to $8 million at December 31, 2011, compared to $5 million at December 31, 2010. At December 31, 2011, the Exchange had net unrealized gains on fixed maturities of $301 million, compared to $270 million at December 31, 2010.

The following table presents a breakdown of the fair value of our fixed maturity portfolio by sector and rating for Indemnity and the Exchange, respectively, as of December 31, 2011:

(in millions)	Erie Insurance Group (1) At December 31, 2011					
Indemnity Industry Sector	AAA	AA	A	BBB	Non-investment grade	Fair value
Communications	$ 0	$ 0	$ 23	$ 7	$0	$ 30
Consumer	0	0	8	20	0	28
Energy	0	0	11	18	0	29
Financial	0	43	58	36	0	137
Government-municipal	95	95	22	9	0	221
Industrial	0	4	7	5	0	16
Structured securities (2)	20	0	0	4	0	24
Technology	0	0	8	15	0	23
Utilities	0	0	0	40	0	40
Total – Indemnity	$115	$142	$137	$154	$0	$548

(1) Ratings are supplied by S&P, Moody's, and Fitch. The table is based upon the lowest rating for each security.

(2) Structured securities include asset-backed securities, collateral, lease and debt obligations, commercial mortgage-backed securities and residential mortgage-backed securities.

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(in millions)	Erie Insurance Group (1) At December 31, 2011					
Exchange Industry Sector	AAA	AA	A	BBB	Non-investment grade	Fair value
Basic materials	$ 0	$ 0	$ 58	$ 179	$ 6	$ 243
Communications	0	0	215	294	12	521
Consumer	0	31	243	403	69	746
Diversified	0	0	22	0	0	22
Energy	16	12	116	373	37	554
Financial	7	304	1,098	810	136	2,355
Foreign government	0	0	15	0	0	15
Funds	0	0	0	6	0	6
Government-municipal	408	775	165	30	1	1,379
Government sponsored entity	0	9	2	0	0	11
Industrial	0	6	80	195	26	307
Structured securities (2)	66	266	24	23	2	381
Technology	0	0	38	105	0	143
U.S. Treasury	0	6	0	0	0	6
Utilities	0	0	101	460	42	603
Total – Exchange	$497	$1,409	$2,177	$2,878	$331	$7,292

(1) Ratings are supplied by S&P, Moody's, and Fitch. The table is based upon the lowest rating for each security.

(2) Structured securities include asset-backed securities, collateral, lease and debt obligations, commercial mortgage-backed securities and residential mortgage-backed securities.

Equity securities

Our equity securities consist of common stock and non-redeemable preferred stock. Investment characteristics of common stock and non-redeemable preferred stock differ substantially from one another. Our non-redeemable preferred stock portfolio provides a source of current income that is competitive with investment-grade bonds.

The following table presents an analysis of the fair value of our preferred and common stock securities by sector for Indemnity and the Exchange, respectively:

(in millions)	Erie Insurance Group Fair value at			
	December 31, 2011		December 31, 2010	
Indemnity Industry sector	Preferred stock	Common stock	Preferred stock	Common stock
Communications	$ 1	$ 2	$ 1	$ 2
Consumer	0	15	0	14
Diversified	0	1	0	0
Energy	0	1	0	2
Financial	11	4	11	6
Industrial	0	3	2	3
Technology	3	1	3	1
Utilities	10	0	7	0

Total – Indemnity	$25	$27	$24	$28

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(in millions)	Erie Insurance Group Fair value at			
	December 31, 2011		December 31, 2010	
Exchange Industry sector	Preferred stock	Common stock	Preferred stock	Common stock
Basic materials	$ 0	$ 72	$ 0	$ 124
Communications	9	168	9	174
Consumer	5	763	5	564
Diversified	0	18	0	12
Energy	0	203	0	185
Financial	408	340	428	292
Funds	0	105	0	309
Government	0	0	0	0
Industrial	0	350	5	324
Technology	15	246	14	295
Utilities	127	43	109	27
Total – Exchange	$564	$2,308	$570	$2,306

Our preferred stock equity securities are classified as available-for-sale and are carried at fair value on the Consolidated Statements of Financial Position with all changes in unrealized gains and losses reflected in other comprehensive income. At December 31, 2011, the unrealized gain on preferred stock classified as available-for-sale securities, net of deferred taxes amounted to $1 million for Indemnity and $21 million for the Exchange, compared to an unrealized gain, net of deferred taxes, of $3 million for Indemnity and $44 million for the Exchange at December 31, 2010.

Our common stock portfolio is classified as a trading portfolio and is measured at fair value with all changes in unrealized gains and losses reflected in our Consolidated Statements of Operations.

Limited partnerships

In 2011, investments in limited partnerships decreased modestly from the investment levels at December 31, 2010 primarily due to net distributions from the partnerships. Changes in partnership values are a function of contributions and distributions, adjusted for market value changes in the underlying investments. Due to favorable market conditions during 2011, limited partnership market values and earnings were generally positive.

The components of limited partnership investments are as follows:

(in millions)	Erie Insurance Group At December 31,	
	2011	2010
Indemnity		
Private equity	$ 82	$ 86
Mezzanine debt	35	47
Real estate	91	83
Total limited partnerships – Indemnity	$ 208	$ 216
Exchange		
Private equity	$ 495	$ 555
Mezzanine debt	201	214
Real estate	386	339
Total limited partnerships – Exchange	$1,082	$1,108

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Liabilities

Property and casualty loss and loss expense reserves

Loss reserves are established to account for the estimated ultimate costs of loss and loss expenses for claims that have been reported but not yet settled and claims that have been incurred but not reported. While we exercise professional diligence to establish reserves at the end of each period that are fully reflective of the ultimate value of all claims incurred, these reserves are, by their nature, only estimates and cannot be established with absolute certainty.

The factors which may potentially cause the greatest variation between current reserve estimates and the actual future paid amounts are: unforeseen changes in statutory or case law altering the amounts to be paid on existing claim obligations, new medical procedures and/or drugs with costs significantly different from those seen in the past, and claims patterns on current business that differ significantly from historical claims patterns.

Loss and loss expense reserves are presented on our Consolidated Statements of Financial Position on a gross basis. The following table represents the direct and assumed loss and loss expense reserves by major line of business for our property and casualty insurance operations. The reinsurance recoverable amount represents the related ceded amounts which results in the net liability attributable to the Property and Casualty Group.

(in millions)	Property and Casualty Group At December 31, 2011	2010
Gross reserve liability [(1)]:		
Personal auto	$1,093	$1,105
Automobile massive injury	356	440
Homeowners	313	240
Workers compensation	461	481
Workers compensation massive injury	99	154
Commercial auto	303	286
Commercial multi-peril	565	566
All other lines of business	309	312
Total	3,499	3,584
Less: reinsurance recoverable	151	188
Net reserve liability	$3,348	$3,396

(1) Loss reserves are set at full expected cost, except for workers compensation loss reserves which have been discounted using an interest rate of 2.5%. This discounting reduced unpaid losses and loss expenses by $84 million and $127 million at December 31, 2011 and 2010, respectively.

The reserves that have the greatest potential for variation are the massive injury lifetime medical claim reserves. The Property and Casualty Group is currently reserving for about 285 claimants requiring lifetime medical care, of which 110 involve massive injuries. The reserve carried by the Property and Casualty Group for the massive injury claimants, which includes automobile and workers compensation massive injury reserves, totaled $315 million at December 31, 2011, which is net of $140 million of anticipated reinsurance recoverables, compared to $428 million at December 31, 2010, which was net of $166 million of anticipated reinsurance recoverables. The decrease in the pre-1986 automobile massive injury gross reserves at December 31, 2011, compared to December 31, 2010, was primarily due to improved annual claims cost expectations and the closing of four massive injury lifetime medical claims, while the decrease in the workers compensation massive injury reserves at December 31, 2011, compared to December 31, 2010, was primarily due to the closing of seven massive injury lifetime medical claims.

The estimation of ultimate liabilities for these claims is subject to significant judgment due to variations in medical cost inflation, claimant health and mortality over time. It is anticipated that these massive injury lifetime medical claims will require payments over the next 30 to 40 years. Actual experience, however, may emerge in a manner that is different relative to the original assumptions, which could have a significant impact on our reserve estimates. A 100-basis point change in the medical cost inflation assumption would result in a change in the combined automobile and workers compensation massive injury reserves of $81 million. Massive injury claims payments totaled $15 million, $21 million, and $16 million in 2011, 2010 and 2009, respectively.

Life insurance reserves

EFL's primary commitment is its obligation to pay future policy benefits under the terms of its life insurance and annuity contracts. To meet these future obligations, EFL establishes life insurance reserves based upon the type of policy, the

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age, gender and risk class of the insured and the number of years the policy has been in force. EFL also establishes annuity and universal life reserves based upon the amount of policyholder deposits (less applicable insurance and expense charges) plus interest earned on those deposits. Life insurance and annuity reserves are supported primarily by EFL's long-term, fixed income investments, as the underlying policy reserves are generally also of a long-term nature.

Shareholders' Equity

Pension plan

The funded status of our postretirement benefit plans is recognized in the statement of financial position, with a corresponding adjustment to accumulated other comprehensive income, net of tax. At December 31, 2011, shareholders' equity decreased by $41 million, net of tax, of which $5 million represents amortization of the prior service cost and net actuarial loss and $46 million represents the current period actuarial loss. The 2011 actuarial loss was primarily due to the change in the discount rate assumption used to measure the future benefit obligations to 4.99% in 2011, from 5.69% in 2010. At December 31, 2010, shareholders' equity decreased by $4 million, net of tax, of which $3 million represents amortization of the prior service cost and net actuarial loss and $7 million represents the current period actuarial loss. The 2010 actuarial loss was primarily due to the change in the discount rate assumption used to measure the future benefit obligations to 5.69% in 2010, from 6.11% in 2009. Although Indemnity is the sponsor of these postretirement plans and records the funded status of these plans, generally the Exchange and EFL reimburse Indemnity for approximately 57% of the annual benefit expense of these plans.

IMPACT OF INFLATION

Property and casualty insurance premiums are established before losses occur and before loss expenses are incurred, and therefore, before the extent to which inflation may impact such costs is known. Consequently, in establishing premium rates, we attempt to anticipate the potential impact of inflation, including medical cost inflation, construction and auto repair cost inflation and tort issues. Medical costs are a broad element of inflation that impacts personal and commercial auto, general liability, workers compensation and commercial multi-peril lines of insurance written by the Property and Casualty Group. Inflation assumptions take the form of explicit numerical values in the survival ratio, individual claim, and massive injury lifetime medical reserving methods. Inflation assumptions are implicitly derived through the selection of applicable loss development patterns for all other reserving methods. Occasionally, unusual aberrations in loss development patterns are caused by external and internal factors such as changes in claim reporting, settlement patterns, unusually large losses, process changes, legal or regulatory changes, and other influences. In these instances, analyses of alternate development factor selections are performed to evaluate the effect of these factors and actuarial judgment is applied to make appropriate assumptions needed to develop a best estimate of ultimate losses.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

Liquidity is a measure of a company's ability to generate sufficient cash flows to meet the short- and long-term cash requirements of its business operations and growth needs. Our liquidity requirements have been met primarily by funds generated from premiums collected and income from investments. The insurance operations provide liquidity in that premiums are collected in advance of paying losses under the policies purchased with those premiums. Cash outflows for the property and casualty insurance business are generally variable since settlement dates for liabilities for unpaid losses and the potential for large losses, whether individual or in the aggregate, cannot be predicted with absolute certainty. Accordingly, after satisfying our operating cash requirements, excess cash flows are used to build our investment portfolio in order to increase future investment income, which then may be used as a source of liquidity if cash from our insurance operations would not be sufficient to meet our obligations. Cash provided from these sources is used primarily to fund losses and policyholder benefits, fund the costs of operations including commissions, salaries and wages, pension plans, share repurchases, dividends to shareholders and the purchase and development of information technology. We expect that our operating cash needs will be met by funds generated from operations.

Volatility in the financial markets presents challenges to us as we do occasionally access our investment portfolio as a source of cash. Some of our fixed income investments, despite being publicly traded, are illiquid. Volatility in these markets could impair our ability to sell certain of our fixed income securities or cause such securities to sell at deep discounts. Additionally, our limited partnership investments are significantly less liquid. We believe we have sufficient liquidity to meet our needs from other sources even if market volatility persists throughout 2012.

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Cash flow activities – Erie Insurance Group

The following table provides condensed consolidated cash flow information for the years ended December 31:

(in millions)	Erie Insurance Group		
	2011	2010	2009
Net cash provided by operating activities	$ 360	$ 721	$ 889
Net cash used in investing activities	(375)	(405)	(890)
Net cash used in financing activities	(230)	(120)	(42)
Net (decrease) increase in cash	$(245)	$ 196	$ (43)

Net cash provided by operating activities totaled $360 million in 2011, $721 million in 2010, and $889 million in 2009. Decreased cash from operating activities in 2011 was primarily driven by increased losses paid to policyholders related to catastrophic events and commissions paid to agents as compared to 2010. Offsetting this decrease in 2011 were increases in premiums collected by the Exchange and limited partnership distributions received as compared to 2010. The decrease in 2010, compared to 2009, was primarily driven by the payment of federal income taxes of $69 million, compared to the recovery of federal income taxes of $121 million in 2009.

At December 31, 2011, we recorded a net deferred tax asset of $19 million related to Indemnity and a net deferred tax liability of $147 million related to the Exchange. There was no valuation allowance at December 31, 2011. In the fourth quarter of 2011 we received a tax refund of $8 million related to the carry-back of 2010 capital losses and a refund of $1 million related to the 2010 return.

Net cash used in investing activities totaled $375 million in 2011, $405 million in 2010, and $890 million in 2009. In 2011, cash used in investing activities decreased compared to 2010 as we generated more proceeds from the sale of certain common stocks offset somewhat by an increase in cash used to purchase other common stock investments. At December 31, 2011, we had contractual commitments to invest up to $424 million related to our limited partnership investments to be funded as required by the partnerships' agreements. Of this amount, the total remaining commitment to fund limited partnerships that invest in private equity securities was $179 million, mezzanine debt securities was $129 million, and real estate activities was $116 million. In 2010, cash used in investing activities decreased compared to 2009 as we generated more proceeds from limited partnerships and certain fixed maturities while using less cash for the purchase of other fixed maturities.

For a discussion of net cash used in financing activities, see the following "Cash flow activities – Indemnity," for the primary drivers of financing cash flows related to Indemnity.

Cash flow activities – Indemnity

The following table is a summary of cash flows for Indemnity for the years ended December 31:

(in millions)	Indemnity Shareholder Interest		
	2011	2010	2009
Net cash provided by operating activities	$ 169	$ 193	$180
Net cash (used in) provided by investing activities	(211)	196	(69)
Net cash used in financing activities	(257)	(155)	(96)
Net (decrease) increase in cash	$(299)	$ 234	$ 15

See Item 8. "Financial Statements and Supplementary Data - Note 23, Indemnity Supplemental Information, of Notes to Consolidated Financial Statements" contained within this report for more detail on Indemnity's cash flows.

Net cash provided by Indemnity's operating activities decreased to $169 million in 2011, compared to $193 million in 2010, and $180 million in 2009. Decreased cash from operating activities in 2011 was primarily due to increases in commissions paid to agents, salaries and benefits paid to employees and income taxes paid, combined with less net investment income received. This decrease was offset somewhat by an increase in management fee revenue received as compared to 2010. Management fee revenues were higher reflecting the increase in premiums written or assumed by the Exchange. Cash paid for agent commissions and bonuses increased to $583 million in 2011, compared to $532 million in 2010, as a result of the increase in premiums collected by the Exchange. Indemnity made a contribution to its pension plan of $15 million in 2011, compared to $13 million in 2010. Additionally, Indemnity made a contribution to its pension plan for $16 million in January 2012. Indemnity's policy for funding its pension plan is generally to contribute an amount equal to the greater of the IRS minimum required contribution or the target normal cost for the year plus interest to the date the contribution is made. Indemnity is generally reimbursed about 57% of the net periodic benefit cost of the pension plan from its affiliates. In 2010, increased cash from operating activities, compared to 2009, was primarily due to an increase in management fee revenues received offset by a decrease in reimbursements collected from affiliates.

At December 31, 2011, Indemnity recorded a net deferred tax asset of $19 million. There was no valuation allowance at December 31, 2011. Indemnity's capital gain and loss strategies take into consideration its ability to offset gains and losses in future periods, carry-back of capital loss opportunities to the three preceding years, and capital loss carry-forward opportunities to apply against future capital gains over the next five years.

Net cash used in Indemnity's investing activities totaled $211 million in 2011, compared to cash provided of $196 million in 2010, and cash used of $69 million in 2009. In the first quarter of 2011, Indemnity received cash consideration from the Exchange of $82 million as a result of the sale of Indemnity's 21.6% ownership interest in EFL to the Exchange on March 31, 2011, which was based upon an estimated purchase price. Final settlement of this transaction was made on April 25, 2011 for a final purchase price of $82 million. Net after-tax cash proceeds to Indemnity from this sale were $58 million. Also in the first quarter of 2011, on March 18, Indemnity paid $8 million to the Exchange as final settlement of the sale of Indemnity's wholly owned property and casualty insurance subsidiaries, EIC, ENY and EPC, to the Exchange on December 31, 2010, which was based upon the final purchase price. In the fourth quarter of 2010, Indemnity received cash consideration from the Exchange of $281 million, net of $12 million cash disposed, as a result of the sale of EIC, ENY and EPC, to the Exchange on December 31, 2010, which was based upon an estimated purchase price. At this time, Indemnity recorded an $8 million liability to the Exchange for the difference between the GAAP book value and the deferred tax asset, which was payable to the Exchange by March 31, 2011. Net after-tax cash proceeds to Indemnity from this sale were $285 million.

Indemnity's 2011 investing activities also included increased cash used to purchase certain fixed maturities, offset somewhat by increased cash from the sale of other fixed maturities and common stocks as compared to 2010. Also impacting Indemnity future investing activities are limited partnership commitments, which totaled $40 million at December 31, 2011, and will be funded as required by the partnerships' agreements. Of this amount, the total remaining commitment to fund limited partnerships that invest in private equity securities was $17 million, mezzanine debt securities was $11 million, and real estate activities was $12 million. Indemnity's investing activities in 2010 also included increased cash used to purchase certain fixed maturities, offset somewhat by increased cash from the sale of other fixed maturities and limited partnerships compared to 2009. In the second quarter of 2009, Indemnity made a capital contribution to EFL in the amount of $12 million to support EFL's life insurance and annuity business and strengthen its surplus.

Net cash used in Indemnity's financing activities totaled $257 million in 2011, $155 million in 2010, and $96 million in 2009. The increase in cash used in financing activities in 2011 was primarily driven by an increase in the cash outlay for the purchase of treasury stock. Indemnity repurchased 2.2 million shares of its Class A nonvoting common stock in conjunction with its stock repurchase program at a total cost of $155 million in 2011. In 2010, shares repurchased under this program totaled 1.1 million at a total cost of $57 million, compared to 0.1 million shares at a total cost of $3 million in 2009. In October 2011, our Board of Directors approved a continuation of the current stock repurchase program for a total of $150 million, with no time limitation. This repurchase authority includes, and is not in addition to, any unspent amounts remaining under the prior authorization. Indemnity had approximately $138 million of repurchase authority remaining under this program at December 31, 2011.

In July 2011, Indemnity also repurchased 64,095 shares of its outstanding Class A nonvoting common stock outside of its publicly announced share repurchase program at a total cost of $4.8 million. Of this amount, 57,695 shares were purchased for $4.3 million, or $73.72 per share, in conjunction with our long-term incentive plan, and 6,400 shares were purchased for $0.5 million, or $73.74 per share, for the vesting of stock-based awards for executive management. These shares were delivered to plan participants and executive management, respectively, in July 2011. In 2010, Indemnity also repurchased 44,206 shares of its outstanding Class A nonvoting common stock outside of its publicly announced share repurchase program at a total cost of $2 million. Of this amount, 39,406 shares were purchased in June 2010 for $1.8 million, or $45.92 per share, in conjunction with our long-term incentive plan, and 4,800 shares were purchased in July 2010 for $0.2 million, or $48.75 per share, for the vesting of stock-based awards for executive management. These shares were delivered to plan participants and executive management, respectively, in July 2010.

Dividends paid to shareholders totaled $102 million, $98 million and $93 million in 2011, 2010 and 2009, respectively. Indemnity increased both its Class A and Class B shareholder quarterly dividends for 2011 and 2010. There are no regulatory restrictions on the payment of dividends to Indemnity's shareholders. Dividends have been approved at a 7.3% increase for 2012.

Capital Outlook

We regularly prepare forecasts evaluating the current and future cash requirements of Indemnity and the Exchange for both normal and extreme risk events. Should an extreme risk event result in a cash requirement exceeding normal cash flows, we have the ability to meet our future funding requirements through various alternatives available to us.

Indemnity – Outside of Indemnity's normal operating and investing cash activities, future funding requirements could be met through 1) Indemnity's cash and cash equivalents, which total approximately $11 million at December 31, 2011, 2) a $100 million bank revolving line of credit held by Indemnity, and 3) liquidation of assets held in Indemnity's investment portfolio, including common stock, preferred stock and investment grade bonds which totaled approximately $600 million at December 31, 2011. Volatility in the financial markets could impair Indemnity's ability to sell certain of its fixed income securities or cause such securities to sell at deep discounts. Additionally, Indemnity has the ability to curtail or modify discretionary cash outlays such as those related to shareholder dividends and share repurchase activities.

Indemnity had no borrowings under its line of credit at December 31, 2011. At December 31, 2011, bonds with fair values of $112 million were pledged as collateral. These securities have no trading restrictions. The bank requires compliance with certain covenants, which include minimum net worth and leverage ratios. Indemnity was in compliance with its bank covenants at December 31, 2011.

Prior to and through December 31, 2010, the underwriting results retained by EIC and ENY and the investment results of EIC, ENY and EPC accrued to the Indemnity shareholder interest. Due to the sale of Indemnity's property and casualty insurance subsidiaries to the Exchange on December 31, 2010, all property and casualty underwriting results and all investment results for these companies accrue to the interest of the subscribers (policyholders) of the

Exchange, or noncontrolling interest, after December 31, 2010. The net cash provided from these entities by operating activities totaled $30 million in 2010 and $33 million in 2009. These operating cash flows accrue to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest, in 2011 and thereafter.

Exchange – Outside of the Exchange's normal operating and investing cash activities, future funding requirements could be met through 1) the Exchange's cash and cash equivalents, which total approximately $174 million at December 31, 2011, 2) a $300 million bank revolving line of credit held by the Exchange, and 3) liquidation of assets held in the Exchange's investment portfolio, including common stock, preferred stock and investment grade bonds which totaled approximately $9.8 billion at December 31, 2011. Volatility in the financial markets could impair the Exchange's ability to sell certain of its fixed income securities or cause such securities to sell at deep discounts.

The Exchange had no borrowings under its line of credit at December 31, 2011. At December 31, 2011, bonds with fair values of $333 million were pledged as collateral. These securities have no trading restrictions. The bank requires compliance with certain covenants, which include statutory surplus and risk based capital ratios. The Exchange was in compliance with its bank covenants at December 31, 2011.

Indemnity has no rights to the assets, capital, or line of credit of the Exchange and, conversely, the Exchange has no rights to the assets, capital, or line of credit of Indemnity. We believe we have the funding sources available to us to support our cash flow requirements in 2012.

Contractual Obligations

Cash outflows for the Property and Casualty Group are variable because the fluctuations in settlement dates for claims payments vary and cannot be predicted with absolute certainty. While volatility in claims payments could be significant for the Property and Casualty Group, the cash flow requirements for claims have not historically had a significant effect on our liquidity. Based upon a historical 15 year average, approximately 30% of losses and loss expenses included in reserves for the Property and Casualty Group are paid out within the first 12 months, and approximately 70% are paid out within the first five years. Amounts that are paid out after the first five years reflect long-tail lines such as workers compensation and auto bodily injury.

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We have certain obligations and commitments to make future payments under various contracts. As of December 31, 2011, the aggregate obligations were as follows:

	Erie Insurance Group Payments due by period				
(in millions)	Total	2012	2013-2014	2015-2016	2017 and thereafter
Fixed obligations:					
Indemnity:					
Limited partnership commitments [(1)]	$ 40	$ 40	$ 0	$ 0	$ 0
Pension contribution [(2)]	16	16	0	0	0
Other commitments [(3)]	41	21	19	1	0
Operating leases–vehicles	14	4	8	2	0
Operating leases–real estate [(4)]	6	2	3	1	0
Operating leases–computers	4	3	1	0	0
Financing arrangements	2	1	1	0	0
Total fixed contractual obligations – Indemnity	123	87	32	4	0
Noncontrolling interest:					
Limited partnership commitments [(1)]	384	262	38	84	0
Total fixed contractual obligations – Exchange	384	262	38	84	0
Total fixed contractual obligations – Erie Insurance Group	507	349	70	88	0
Gross property and casualty loss and loss expense reserves – Exchange [(5)]	3,499	1,085	1,015	420	979
Life gross long-term liabilities [(6)]	4,441	170	357	417	3,497
Gross contractual obligations – Erie Insurance Group [(7)]	$ 8,447	$ 1,604	$ 1,442	$ 925	$ 4,476

Gross contractual obligations net of estimated reinsurance recoverables are as follows:

	Erie Insurance Group Payments due by period				
(in millions)	Total	2012	2013-2014	2015-2016	2017 and thereafter
Gross contractual obligations – Erie Insurance Group [(7)]	$8,447	$1,604	$1,442	$925	$4,476
Estimated reinsurance recoverables – property and casualty	151	8	13	10	120
Estimated reinsurance recoverables – life [(8)]	512	27	47	49	389
Net contractual obligations – Erie Insurance Group	$7,784	$1,569	$1,382	$866	$3,967

(1) Limited partnership commitments will be funded as required for capital contributions at any time prior to the agreement expiration date. The commitment amounts are presented using the expiration date as the factor by which to age when the amounts are due. At December 31, 2011, Indemnity's total commitment to fund limited partnerships that invest in private equity securities is $17 million, mezzanine debt of $11 million, and real estate activities $12 million. At December 31, 2011, the Exchange's total commitment to fund limited partnerships that invest in private equity securities is $162 million, mezzanine debt of $118 million, and real estate activities $104 million.

(2) The pension contribution for 2012 was estimated in accordance with the Pension Protection Act of 2006. Contributions anticipated in future years are expected to be an amount at least equal to the IRS minimum required contribution in accordance with this Act.

(3) Other commitments include various agreements for service, including such things as computer software, telephones and maintenance.

(4) Operating leases–real estate are for 16 of our 24 field offices that are operated in the states in which the Property and Casualty Group does business and two operating leases are for warehousing facilities leased from unaffiliated parties.

(5) Due to the sale of Indemnity's property and casualty insurance subsidiaries to the Exchange on December 31, 2010, all property and casualty loss and loss expense reserves accrue to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after December 31, 2010.

(6) Contractual obligations on gross long-term liabilities represent estimated benefit payments from insurance policies and annuity contracts including claims currently payable. Actual obligations in any single year will vary based upon actual mortality, morbidity, lapse and withdrawal experience. The sum of these obligations exceeds the liability on the Consolidated Statements of Financial Position of $1.7 billion due to expected future premiums and investment income that, along with invested assets backing the liabilities, will be used to fund these obligations.

(7) Gross contractual obligations do not include the obligations for our unfunded benefit plans, including the Supplemental Employee Retirement Plan (SERP) for our executive and senior management. The recorded accumulated benefit obligation for this plan at December 31, 2011, is $7 million. We expect to have sufficient cash flows from operations to meet the future benefit payments as they become due.

(8) Reinsurance recoverables on life business includes estimated amounts from reinsurers on long-term liabilities that are subject to the credit worthiness of the reinsurer.

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Off-Balance Sheet Arrangements

Off-balance sheet arrangements include those with unconsolidated entities that may have a material current or future effect on our financial condition or results of operations, including material variable interests in unconsolidated entities that conduct certain activities. We have no material off-balance sheet obligations or guarantees, other than limited partnership investment commitments.

Financial Ratings

Our property and casualty insurers are rated by rating agencies that provide insurance consumers with meaningful information on the financial strength of insurance entities. Higher ratings generally indicate financial stability and a strong ability to pay claims. The ratings are generally based upon factors relevant to policyholders and are not directed toward return to investors. The insurers of the Property and Casualty Group are currently rated by AM Best Company as follows:

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

The outlook for all ratings is stable. According to AM Best, a "Superior" rating (A+), the second highest of their financial strength rating categories, is assigned to those companies that, in AM Best's opinion, have achieved superior overall performance when compared to the standards established by AM Best and have a superior ability to meet their obligations to policyholders over the long term. Less than 10% of insurance groups are rated A+ or higher, and we are included in that group. By virtue of its affiliation with the Property and Casualty Group, EFL is typically rated one level lower, or an "Excellent" rating (A), than our property and casualty insurance companies by AM Best Company. The insurers of the Property and Casualty Group are also rated by Standard & Poor's, but this rating is based solely on public information. Standard & Poor's rates these insurers Api, "strong." Financial strength ratings continue to be an important factor in evaluating the competitive position of insurance companies.

Regulatory Risk-Based Capital

The standard set by the National Association of Insurance Commissioners (NAIC) 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, 2011, the members of the Property and Casualty Group and EFL had RBC levels substantially in excess of levels that would require regulatory action.

Regulatory Restrictions on Surplus

The members of the Property and Casualty Group and EFL are subject to various regulatory restrictions that limit the maximum amount of dividends available to be paid without prior approval of insurance regulatory authorities. The Exchange's property and casualty insurance subsidiaries have a maximum of $30 million available for such dividends in 2012 without prior approval of the Pennsylvania Insurance Commissioner for Pennsylvania-domiciled subsidiaries and the New York Superintendent of Insurance for the New York domiciled subsidiary. No dividends were paid from the property and casualty insurance subsidiaries in 2011, 2010 or 2009.

The maximum dividend EFL could pay the Exchange in 2012 without prior approval is $33 million. No dividends were paid to Indemnity or the Exchange in 2011, 2010 or 2009.

The Exchange is operated for the interest of its subscribers (policyholders) and any distributions it might declare would only be payable to them. The Exchange did not make any distributions to its subscribers (policyholders) in 2011, 2010 or 2009.

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Enterprise Risk Management

We are exposed to many risks as a large property and casualty insurer with supplemental life insurance operations. The role of our Enterprise Risk Management (ERM) function is to ensure that all significant risks are clearly identified, understood, proactively managed and consistently monitored to achieve strategic objectives for all stakeholders of the Erie Insurance Group. As an insurance company, we are in the business of taking risks from our policyholders, managing these risks in a cost-effective manner and ensuring long term stability for policyholders as well as shareholders. Since risk is integral to our business, we strive to manage the multitude of risks we face in an optimal manner.

Our risks can be broadly classified into insurance, investment and operational risks. These risks are a function of our business segments as well as the market and regulatory environment within which we operate. Since certain risks can occur simultaneously or be correlated with other risks, an event or a series of events has the potential to impact multiple areas of our business and materially affect our results of operations, financial position or liquidity. Therefore our ERM program takes a holistic view of risk and ensures implementation of risk responses to mitigate potential impacts across our entire group of companies.

Our ERM process is founded on a governance framework that ensures oversight at multiple levels of our organization, including our Board of Directors and risk committees made up of senior management. Accountability to identify, manage and mitigate risk is embedded within all functions and areas of our business. We have defined risk tolerances to monitor and manage significant risks within acceptable levels. In addition to identifying, evaluating, prioritizing, monitoring and mitigating significant risks, our ERM process includes extreme event analyses and scenario testing. Dynamic Financial Analysis (DFA) and catastrophe modeling enable us to quantify risk within our property and casualty insurance operations and investment portfolio. Model output is used to quantify the potential variability of future performance and the sufficiency of capital levels given our defined tolerance for risk. These models provide insight into capital management, allocation of capital by product lines, catastrophe exposure management and reinsurance purchasing decisions. Additionally, ERM tools have been developed and modified to enhance our ability to assess project level risk and to provide senior management with pertinent risk information, enabling them to make better informed decisions.

TRANSACTIONS / AGREEMENTS BETWEEN INDEMNITY AND NONCONTROLLING INTEREST (EXCHANGE)

Board Oversight
Our Board of Directors has a broad oversight responsibility over our intercompany relationships within and among the Property and Casualty Group. As a consequence, our Board of Directors may be required to make decisions or take actions that may not be solely in the interest of our shareholders, such as setting the management fee rate paid by the Exchange to Indemnity and ratifying any other significant intercompany activity.

Subscriber's Agreement
Indemnity serves as attorney-in-fact for the policyholders at the Exchange, a reciprocal insurance exchange. Each applicant for insurance to a reciprocal insurance exchange signs a subscriber's agreement that contains an appointment of an attorney-in-fact. Through the designation of attorney-in-fact, Indemnity is required to provide sales, underwriting and policy issuance services to the policyholders of the Exchange, as discussed previously. Pursuant to the subscriber's agreement, Indemnity earns a management fee for these services calculated as a percentage of the direct premiums written by the Exchange and the other members of the Property and Casualty Group, which are assumed by the Exchange under an intercompany pooling arrangement.

Intercompany Agreements
Pooling
Members of the Property and Casualty Group participate in an intercompany reinsurance pooling agreement. Under the pooling agreement, all insurance business of the Property and Casualty Group is pooled in the Exchange. The Erie Insurance Company and Erie Insurance Company of New York share in the underwriting results of the reinsurance pool through retrocession. Since 1995, the Board of Directors has set the allocation of the pooled underwriting results at 5.0% participation for Erie Insurance Company, 0.5% participation for Erie Insurance Company of New York, and 94.5% participation for the Exchange.

Prior to and through December 31, 2010, the underwriting results retained by Erie Insurance Company and Erie Insurance Company of New York accrued to the Indemnity shareholder interest. Due to the sale of Indemnity's property and casualty insurance subsidiaries to the Exchange on December 31, 2010, all property and casualty underwriting results for these companies accrue to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after December 31, 2010.

Service agreements
Indemnity makes certain payments on behalf of the Erie Insurance Group's related entities. These amounts are reimbursed to Indemnity on a cost basis in accordance with service agreements between Indemnity and the individual entities within the Erie Insurance Group. These reimbursements have generally been settled quarterly; however, beginning in the fourth quarter of 2011, the reimbursements are settled monthly.

Leased property
The Exchange leases certain office space to Indemnity, including the home office and three field office facilities. Rents are determined considering returns on invested capital and building operating and overhead costs. Rental costs of shared facilities are allocated based upon square footage occupied.

Cost Allocation
The allocation of costs affects the financial condition of the Erie Insurance Group companies. Management's role is to determine that allocations are consistently made in accordance with the subscriber's agreements with the policyholders at the Exchange, intercompany service agreements and applicable insurance laws and regulations. Allocation of costs under these various agreements requires judgment and interpretation, and such allocations are performed using a consistent methodology, which is intended to adhere to the terms and intentions of the underlying agreements.

Intercompany Receivables of Indemnity

	Indemnity Shareholder Interest					
(in millions)	2011	Percent of Indemnity total assets	2010	Percent of Indemnity total assets	2009	Percent of Indemnity total assets
Reinsurance recoverable from and ceded unearned premiums to the Exchange	$ –	0.0%	$ –	0.0%	$ 902	33.8%
Other receivables from the Exchange and affiliates (management fees, costs and reimbursements)	254	20.5	232	17.7	213	8.0
Note receivable from EFL	25	2.0	25	1.9	25	0.9

Total intercompany receivables	$279	22.5%	$257	19.6%	$1,140	42.7%

Indemnity has significant receivables from the Exchange that result in a concentration of credit risk. In 2009, these receivables included the liability for losses and unearned premiums ceded to the Exchange under the intercompany pooling agreement and from management services performed by Indemnity for the Exchange. Prior to and through December 31, 2010, all property and casualty insurance underwriting receivables recorded by EIC, ENY and EPC accrued to the Indemnity shareholder interest. Due to the sale of Indemnity's property and casualty insurance subsidiaries to the Exchange on December 31, 2010, all property and casualty underwriting receivables accrue to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest, on and after December 31, 2010. At December 31, 2010 and thereafter, Indemnity's receivables from the Exchange primarily include the management fee due for services performed by Indemnity for the Exchange under the subscriber's agreement.

Credit risks related to the receivables from the Exchange are evaluated periodically by management. Prior to and through December 31, 2010, reinsurance contracts did not relieve Indemnity from its primary obligations to policyholders if the Exchange was unable to satisfy its obligation, and Indemnity collected its reinsurance recoverable amounts generally within 30 days of actual settlement of losses.

In addition to Indemnity's receivable from the Exchange for management fees and costs Indemnity pays on behalf of the Exchange, Indemnity also pays certain costs for, and is reimbursed by, EFL. Since its inception, Indemnity has collected these amounts due from the Exchange and EFL in a timely manner, normally quarterly. Beginning in the fourth quarter of 2011, the receivable from the Exchange for management fees and costs Indemnity pays on behalf of the Exchange is settled monthly.

Surplus Notes

Indemnity holds a surplus note for $25 million from EFL that is payable on demand on or after December 31, 2018; however, no principal or interest payments may be made without prior approval of the Pennsylvania Insurance Commissioner. EFL paid interest to Indemnity on the surplus note of $2 million in both 2011 and 2010.

The Exchange holds a surplus note for $20 million from EFL that is payable on demand on or after December 31, 2025; however, as stated above, no principal or interest payments may be made without prior approval of the Pennsylvania Insurance Commissioner. EFL paid interest to the Exchange on the surplus note of $1 million in both 2011 and 2010.

Capital Contribution

In June 2009, Indemnity made a $12 million capital contribution to EFL and the Exchange made a $43 million capital contribution to EFL to strengthen its surplus. This $55 million in capital contributions increased EFL's investments and total shareholders' equity.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Prior to and through December 31, 2010, the investment results from EIC, ENY and EPC accrued to the Indemnity shareholder interest. Due to the sale of Indemnity's property and casualty insurance subsidiaries to the Exchange on December 31, 2010, the investment results for these companies accrue to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after December 31, 2010.

Market Risk

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, as well as other relevant market rate or price changes. The volatility and liquidity in the markets in which the underlying assets are traded directly influence market risk. The following is a discussion of our primary risk exposures, including interest rate risk, investment credit risk, concentration risk, liquidity risk, equity price risk and how those exposures are currently managed as of December 31, 2011.

Interest Rate Risk

We invest primarily in fixed maturity investments, which comprised 68% of invested assets for Indemnity and 65% of invested assets for the Exchange at December 31, 2011. The value of the fixed maturity portfolio is subject to interest rate risk. As market interest rates decrease, the value of the portfolio goes up with the opposite holding true in rising interest rate environments. We do not hedge our exposure to interest rate risk since we have the capacity and intention to hold the fixed maturity positions until maturity. A common measure of the interest sensitivity of fixed maturity assets is modified duration, a calculation that utilizes maturity, coupon rate, yield and call terms to calculate an average age of the expected cash flows. The longer the duration, the more sensitive the asset is to market interest rate fluctuations. Duration is analyzed quarterly to ensure that it remains in the targeted range we established.

A sensitivity analysis is used to measure the potential loss in future earnings, fair values or cash flows of market-sensitive instruments resulting from one or more selected hypothetical changes in interest rates and other market rates or prices over a selected period. In our sensitivity analysis model, a hypothetical change in market rates is selected that is expected to reflect reasonably possible changes in those rates. The following pro forma information is presented assuming a 100-basis point increase in interest rates at December 31 of each year and reflects the estimated effect on the fair value of our fixed maturity investment portfolio. We used the modified duration of our fixed maturity investment portfolio to model the pro forma effect of a change in interest rates at December 31, 2011 and 2010.

<u>Fixed maturities interest-rate sensitivity analysis</u>

(dollars in millions)	Erie Insurance Group	
	At December 31,	
Indemnity	2011	2010
Fair value of fixed income portfolio	$ 548	$ 264
Fair value assuming 100-basis point rise in interest rates	$ 535	$ 255
Modified duration – Indemnity	2.84	3.93
Exchange		
Fair value of fixed income portfolio	$7,292	$7,279
Fair value assuming 100-basis point rise in interest rates	$6,964	$6,954

Modified duration – Exchange	4.89	4.87

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While the fixed income portfolio is sensitive to interest rates, the future principal cash flows that will be received by contractual maturity date are presented below at December 31, 2011 and 2010. Actual cash flows may differ from those stated as a result of calls, prepayments or defaults.

Contractual repayments of principal by maturity date
(in millions)

	Erie Insurance Group	
	December 31, 2011	
	Indemnity	Exchange
Fixed maturities:		
2012	$150	$ 511
2013	114	668
2014	89	530
2015	25	596
2016	20	617
Thereafter	124	3,890
Total (1)	$522	$6,812
Fair value	$548	$7,292

(1) These amounts exclude Indemnity's $25 million surplus note due from EFL and the Exchange's $20 million surplus note due from EFL.

	Erie Insurance Group	
	December 31, 2010	
Fixed maturities:	Indemnity	Exchange
2011	$ 64	$ 309
2012	22	553
2013	21	719
2014	18	564
2015	25	681
Thereafter	100	4,030
Total (1)	$250	$6,856
Fair value	$264	$7,279

(1) These amounts exclude Indemnity's $25 million surplus note due from EFL and the Exchange's $20 million surplus note due from EFL.

Investment Credit Risk
Our objective is to earn competitive returns by investing in a diversified portfolio of securities. Our portfolios of fixed maturity securities, nonredeemable preferred stock, mortgage loans and, to a lesser extent, short-term investments are subject to credit risk. This risk is defined as the potential loss in fair value resulting from adverse changes in the borrower's ability to repay the debt. We manage this risk by performing upfront underwriting analysis and ongoing reviews of credit quality by position and for the fixed maturity portfolio in total. We do not hedge the credit risk inherent in our fixed maturity investments.

Generally, the fixed maturities in our portfolio are rated by external rating agencies. If not externally rated, we rate them internally on a basis consistent with that used by the rating agencies. We classify all fixed maturities as available-for-sale securities, allowing us to meet our liquidity needs and provide greater flexibility to appropriately respond to changes in market conditions.

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The following table shows our fixed maturity investments by rating as of December 31, 2011:

(dollars in millions)	Erie Insurance Group (1)		
	Amortized cost	Fair value	Percent of total
Indemnity			
AAA, AA, A	$ 382	$ 394	72%
BBB	153	154	28
Total investment grade	535	548	100
BB	0	0	0
B	0	0	0
CCC, CC, C	0	0	0
Total non-investment grade	0	0	0
Total – Indemnity	$ 535	$ 548	100%
Exchange			
AAA, AA, A	$3,808	$4,083	56%
BBB	2,707	2,878	39
Total investment grade	6,515	6,961	95
BB	273	286	4
B	39	43	1
CCC, CC, C	2	2	0

Total non-investment grade	314	331	5
Total – Exchange	$6,829	$7,292	100%

(1) Ratings are supplied by S&P, Moody's, and Fitch. The table is based upon the lowest rating for each security.

Approximately 4% of Indemnity's and 5% of the Exchange's fixed income portfolios are invested in structured products. This includes mortgage-backed securities (MBS), collateralized debt and loan obligations (CDO and CLO), collateralized mortgage obligations (CMO) and asset-backed securities (ABS). The overall credit rating of the structured product portfolio is AA.

Our municipal bond portfolio accounts for $221 million, or 40% of the total fixed maturity portfolio for Indemnity, and $1.4 billion, or 19% of the total fixed maturity portfolio for the Exchange. The overall credit rating of our municipal portfolio, without consideration of the underlying insurance, is AA.

Our limited partnership investment portfolio is exposed to credit risk, as well as price risk. Price risk is defined as the potential loss in estimated fair value resulting from an adverse change in prices. Our investments are directly affected by the impact of changes in these risk factors on the underlying investments held by our fund managers, which could vary significantly from fund to fund. We manage these risks by performing up-front due diligence on our fund managers, ongoing monitoring, and through the construction of a diversified portfolio.

Indemnity is also exposed to a concentration of credit risk with the Exchange. See the section, "Transactions / Agreements between Indemnity and Noncontrolling Interest (Exchange), Intercompany receivables of Indemnity" for further discussion of this risk.

Concentration Risk

While our portfolio is well diversified within each market sector, there is an inherent risk of concentration in a particular industry or sector. We continually monitor our level of exposure to individual issuers as well as our allocation to each industry and market sector against internally established policies. See the "Financial Condition" section of Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained within this report for details of investment holdings by sector.

Liquidity Risk

Periods of volatility in the financial markets can create conditions where fixed maturity investments, despite being publicly traded, can become illiquid. However, we actively manage the maturity profile of our fixed maturity portfolio such that scheduled repayments of principal occur on a regular basis. Additionally, there is no ready market for our investments in limited partnerships which increases the risk that they may not be converted to cash on favorable terms and on a timely basis.

Equity Price Risk

Our portfolio of equity securities, which include common stock classified as trading securities and non-redeemable preferred stock classified as available-for-sale, are carried on the Consolidated Statements of Financial Position at estimated fair value. Equity securities are exposed to the risk of potential loss in estimated fair value resulting from an adverse change in prices ("price risk"). We do not hedge our exposure to price risk inherent in our equity investments.

The majority of our equity security portfolio is invested in common stock. Our objective is to earn competitive relative returns by investing in a diverse portfolio of high-quality, liquid securities. Portfolio holdings are diversified across industries and among exchange-traded, small- to large-cap stocks. We measure the risk of our common stock portfolio by comparing its performance to benchmark returns such as the Standard & Poors (S&P) 500 Composite Index. Beta is a measure of a security's systematic (non-diversifiable) risk, which is the percentage change in an individual security's return for a 1% change in the return of the market. The average Beta for our common stock holdings was 1.01 for Indemnity and 1.04 for the Exchange. Based upon a hypothetical 20% reduction in the overall value of the stock market, the fair value of the common stock portfolio would decrease by approximately $5 million for Indemnity and $480 million for the Exchange.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Erie Indemnity Company

Erie, Pennsylvania

We have audited the accompanying consolidated statements of financial position of Erie Indemnity Company as of December 31, 2011 and 2010, and the related consolidated statements of operations, shareholders' equity and noncontrolling interest, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedules listed in the Index at 15 (a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Erie Indemnity Company at December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. 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.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Erie Indemnity Company's internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Cleveland, Ohio
February 27, 2012

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ERIE INDEMNITY COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 2011, 2010 and 2009
(dollars in millions, except per share data)

	2011	2010	2009
Revenues			
Premiums earned	$ 4,214	$ 3,987	$ 3,869
Net investment income	433	433	433
Net realized investment (losses) gains	(4)	313	412
Net impairment losses recognized in earnings	(2)	(6)	(126)
Equity in earnings (losses) of limited partnerships	149	128	(369)
Other income	34	35	36
Total revenues	4,824	4,890	4,255
Benefits and expenses			
Insurance losses and loss expenses	3,444	2,900	2,728
Policy acquisition and underwriting expenses	1,022	969	1,003
Goodwill impairment	–	22	–
Total benefits and expenses	4,466	3,891	3,731
Income from operations before income taxes and noncontrolling interests	358	999	524
Provision for income taxes	90	339	78
Net income	**$ 268**	**$ 660**	**$ 446**
Less: Net income attributable to noncontrolling interest in consolidated entity - Exchange	**99**	**498**	**338**
Net income attributable to Indemnity	**$ 169**	**$ 162**	**$ 108**
Earnings Per Share			
Net income attributable to Indemnity per share			
Class A common stock – basic	$ 3.45	$ 3.18	$ 2.10
Class A common stock – diluted	**$ 3.08**	**$ 2.85**	**$ 1.89**
Class B common stock – basic and diluted	$ 522.47	$ 462.83	$312.45
Weighted average shares outstanding attributable to Indemnity – Basic			
Class A common stock	48,875,316	50,705,607	51,250,606
Class B common stock	2,546	2,546	2,549
Weighted average shares outstanding attributable to Indemnity – Diluted			
Class A common stock	55,057,437	56,884,894	57,428,999
Class B common stock	2,546	2,546	2,549

See accompanying notes to Consolidated Financial Statements. See Note 23, "Indemnity Supplemental Information," for supplemental statements of operations information.

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ERIE INDEMNITY COMPANY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
At December 31, 2011 and 2010
(dollars in millions, except per share data)

	2011	2010
Assets		
Investments – Indemnity		
Available-for-sale securities, at fair value:		
Fixed maturities (amortized cost of $535 and $257, respectively)	$ 548	$ 264
Equity securities (cost of $24 and $20, respectively)	25	24
Trading securities, at fair value (cost of $23 and $21, respectively)	27	28
Limited partnerships (cost of $185 and $202, respectively)	208	216
Other invested assets	1	1
Investments – Exchange		
Available-for-sale securities, at fair value:		
Fixed maturities (amortized cost of $6,829 and $6,863, respectively)	7,292	7,279
Equity securities (cost of $531 and $503, respectively)	564	570
Trading securities, at fair value (cost of $2,021 and $1,773, respectively)	2,308	2,306
Limited partnerships (cost of $1,003 and $1,083, respectively)	1,082	1,108
Other invested assets	19	19
Total investments	**12,074**	**11,815**
Cash and cash equivalents (Exchange portion of $174 and $120, respectively)	185	430
Premiums receivable from policyholders – Exchange	976	942
Reinsurance recoverable – Exchange	166	201
Deferred income taxes – Indemnity	19	0
Deferred acquisition costs – Exchange	487	467
Other assets (Exchange portion of $322 and $357, respectively)	441	489
Total assets	**$14,348**	**$14,344**
Liabilities and shareholders' equity		
Liabilities		
Indemnity liabilities		
Deferred income taxes	0	26
Other liabilities	455	382
Exchange liabilities		
Losses and loss expense reserves	3,499	3,584
Life policy and deposit contract reserves	1,671	1,603
Unearned premiums	2,178	2,082
Deferred income taxes	147	257
Other liabilities	105	76
Total liabilities	**8,055**	**8,010**
Indemnity's shareholders' equity		
Class A common stock, stated value $0.0292 per share; authorized 74,996,930 shares; issued 68,289,600 shares; 47,861,842 and 50,054,506 shares outstanding, respectively	2	2
Class B common stock, convertible at a rate of 2,400 Class A shares for one Class B share, stated value $70 per share; 2,546 shares authorized, issued and outstanding, respectively	0	0
Additional paid-in-capital	16	8
Accumulated other comprehensive loss	(105)	(53)
Retained earnings	1,894	1,827
Total contributed capital and retained earnings	1,807	1,784
Treasury stock, at cost, 20,427,758 and 18,235,094 shares, respectively	(1,026)	(872)
Total Indemnity shareholders' equity	**781**	**912**
Noncontrolling interest in consolidated entity – Exchange	**5,512**	**5,422**
Total equity	**6,293**	**6,334**
Total liabilities, shareholders' equity and noncontrolling interest	**$14,348**	**$14,344**

See accompanying notes to Consolidated Financial Statements. See Note 23, "Indemnity Supplemental Information," for supplemental consolidating statements of financial position information.

ERIE INDEMNITY COMPANY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
AND NONCONTROLLING INTEREST
Years ended December 31, 2011, 2010 and 2009
(dollars in millions, except per share data)

	2011	2010	2009
Common stock			
Class A	$ 2	$ 2	$ 2
Class B	0	0	0
Total common stock	2	2	2
Additional paid-in capital			
Balance, beginning of year	8	8	8
Realized gain on sale of life affiliate	8	–	–
Balance, end of year	16	8	8
Accumulated other comprehensive income			
Balance, beginning of year	(53)	(43)	(136)
Cumulative effect of change in accounting principle, net of tax (Note 2)	–	–	(6)
Unrealized (losses) gains, net of tax (Note 19)	(11)	9	75
Reclassification of unrealized gain on sale of P&C affiliated subsidiaries, net of tax	–	(15)	–
Postretirement plans, net of tax (Note 19)	(41)	(4)	24
Balance, end of year	(105)	(53)	(43)
Retained earnings			
Balance, beginning of year	1,827	1,749	1,729
Net income	169	162	108
Dividends declared – Class A ($2.0975, $1.955 and $1.83 per share, respectively)	(101)	(99)	(94)

Dividends declared – Class B ($314.625, $293.25 and $274.50 per share, respectively)	(1)	0	0
Reclassification of unrealized gain on sale of P&C affiliated subsidiaries, net of tax	–	15	–
Cumulative effect of change in accounting principle, net of tax (Note 2)	–	–	6
Balance, end of year	1,894	1,827	1,749
Treasury stock			
Balance, beginning of year	(872)	(814)	(811)
Net purchase of treasury stock	(154)	(58)	(3)
Balance, end of year	(1,026)	(872)	(814)
Total Indemnity shareholders' equity	**781**	**912**	**902**
Noncontrolling interest in consolidated entity — Exchange			
Balance, beginning of year	5,422	4,823	3,967
Comprehensive income	90	599	856
Balance, end of year	**5,512**	**5,422**	**4,823**
Total equity	**$6,293**	**$6,334**	**$5,725**

See accompanying notes to Consolidated Financial Statements.

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ERIE INDEMNITY COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2011, 2010 and 2009
(in millions)

	2011	2010	2009
Cash flows from operating activities			
Premiums collected	$ 4,276	$ 4,055	$ 3,964
Net investment income received	458	445	421
Limited partnership distributions	166	122	81
Service agreement fee received	33	34	35
Commissions and bonuses paid to agents	(583)	(532)	(535)
Losses paid	(2,953)	(2,398)	(2,241)
Loss expenses paid	(439)	(419)	(405)
Other underwriting and acquisition costs paid	(531)	(517)	(552)
Income taxes (paid) recovered	(67)	(69)	121
Net cash provided by operating activities	360	721	889
Cash flows from investing activities			
Purchase of investments:			
Fixed maturities	(1,801)	(1,760)	(1,938)
Preferred stock	(119)	(179)	(176)
Common stock	(1,742)	(1,495)	(1,450)
Limited partnerships	(209)	(165)	(174)
Sales/maturities of investments:			
Fixed maturity sales	631	562	510
Fixed maturity calls/maturities	950	1,009	734
Preferred stock	113	135	210
Common stock	1,652	1,376	1,394
Sale of and returns on limited partnerships	163	142	15
Purchase of property and equipment	(11)	(33)	(14)
Net (distributions) collections on agent loans	(1)	3	(2)
Net (distributions) collections on life policy loans	(1)	0	1
Net cash used in investing activities	(375)	(405)	(890)
Cash flows from financing activities			
Annuity and supplementary contract deposits and interest	95	111	183
Annuity and supplementary contract surrenders and withdrawals	(81)	(79)	(129)
Universal life deposits and interest	29	38	39
Universal life surrenders	(16)	(35)	(39)
Purchase of treasury stock	(155)	(57)	(3)
Dividends paid to shareholders	(102)	(98)	(93)
Decrease in collateral from securities lending	0	0	(285)
Redemption of securities lending collateral	0	0	285
Net cash used in financing activities	(230)	(120)	(42)
Net (decrease) increase in cash and cash equivalents	(245)	196	(43)
Cash and cash equivalents at beginning of year	430	234	277
Cash and cash equivalents at end of year	$ 185	$ 430	$ 234

See accompanying notes to Consolidated Financial Statements. See Note 21, “Supplementary Data on Cash Flows,” and Note 23, “Indemnity Supplemental Information,” for supplemental cash flow information.

ERIE INDEMNITY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Operations

Erie Indemnity Company (“Indemnity”) is a publicly held Pennsylvania business corporation that has been the managing attorney-in-fact for the subscribers (policyholders) at the Erie Insurance Exchange (“Exchange”) since 1925. The Exchange is a subscriber owned, Pennsylvania-domiciled reciprocal insurer that writes property and casualty insurance.

Indemnity’s primary function is to perform certain services for the Exchange relating to the sales, underwriting and issuance of policies on behalf of the Exchange. This is done in accordance with a subscriber’s agreement (a limited power of attorney) executed by each subscriber (policyholder), which appoints Indemnity as their common attorney-in-fact to transact business on their behalf and to manage the affairs of the Exchange. Pursuant to the subscriber’s agreement and for its services as attorney-in-fact, Indemnity earns a management fee calculated as a percentage of the direct premiums written by the Exchange and the other members of the Property and Casualty Group (defined below), which are assumed by the Exchange under an intercompany pooling arrangement.

Indemnity has the power to direct the activities of the Exchange that most significantly impact the Exchange’s economic performance by acting as the common attorney-in-fact and decision maker for the subscribers (policyholders) at the Exchange.

Through December 31, 2010, Indemnity also operated as a property and casualty insurer through its wholly owned subsidiaries, Erie Insurance Company (“EIC”), Erie Insurance Company of New York (“ENY”) and Erie Insurance Property and Casualty Company (“EPC”). EIC, ENY and EPC, together with the Exchange and its wholly owned subsidiary, Flagship City Insurance Company (“Flagship”), are collectively referred to as the “Property and Casualty Group”. The Property and Casualty Group operates in 11 Midwestern, Mid-Atlantic and Southeastern states and the District of Columbia and primarily writes private passenger auto (47%), homeowners (22%), commercial multi-peril (12%), commercial automobile (7%), and workers compensation (7%) lines of insurance based upon 2011 direct written premiums. On December 31, 2010, Indemnity sold all of the outstanding capital stock of its wholly owned property and casualty insurance subsidiaries to the Exchange.

Erie Family Life Insurance Company (“EFL”) is an affiliated life insurance company that underwrites and sells individual and group life insurance policies and fixed annuities. On March 31, 2011, Indemnity sold its 21.6% ownership interest in EFL to the Exchange. There was no gain or loss resulting from this sale as Indemnity is the primary decision maker for the Exchange.

All property and casualty and life insurance operations are now owned by the Exchange, and Indemnity functions solely as the management company.

The consolidated financial statements of Erie Indemnity Company reflect the results of Indemnity and its variable interest entity, the Exchange, which we refer to collectively as the “Erie Insurance Group” (“we,” “us,” “our”).

“Indemnity shareholder interest” refers to the interest in Erie Indemnity Company owned by the Class A and Class B shareholders. “Noncontrolling interest” refers to the interest in the Erie Insurance Exchange held for the subscribers (policyholders).

Note 2. Significant Accounting Policies

Retrospective adoption of new accounting principle
On June 12, 2009, the Financial Accounting Standards Board (“FASB”) updated Accounting Standards Codification (“ASC”) 810, *Consolidation*, which amended the existing guidance for determining whether an enterprise is the primary beneficiary of a variable interest entity (“VIE”). As of January 1, 2010 Erie Indemnity Company adopted the new accounting principle on a retrospective basis since inception. The 2009 financial information within this report has previously been conformed to this consolidated presentation.

This guidance changed the methodology for assessing whether an enterprise is the primary beneficiary of a VIE by requiring a qualitative analysis to determine if an enterprise’s variable interest gives it a controlling financial interest.

The qualitative analysis looks at the power to direct activities of the VIE that most significantly impact economic performance and the right to receive benefits (or obligation to absorb losses) from the VIE that could be significant.

In accordance with this updated accounting guidance, Indemnity is deemed to be the primary beneficiary of the Exchange given the significance of the management fee to the Exchange and Indemnity’s power to direct the Exchange’s significant activities. Under the previously issued accounting guidance, Indemnity was not deemed the primary beneficiary of the Exchange and its financial position and operating results were not consolidated with Indemnity’s. Following adoption of the updated accounting guidance, as primary beneficiary of the Exchange, Erie Indemnity Company has consolidated Indemnity and the Exchange’s financial position and operating results. Furthermore, upon consolidation of the Exchange, 100% of the ownership of EFL resides within the consolidated entity and consequently EFL’s financial results are also consolidated.

There was no cumulative effect to Indemnity’s shareholders’ equity from consolidation of the Exchange and EFL. The noncontrolling interest in total equity represents the amount of the Exchange’s subscribers’ (policyholders’) equity.

Basis of presentation
The accompanying consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") and include the accounts of Indemnity together with its affiliated companies in which Indemnity holds a majority voting or economic interest.

The preparation of financial statements in conformity with GAAP requires us 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.

Reclassifications
Certain amounts previously reported in the 2010 and 2009 consolidated indirect method of cash flows in Note 21, "Supplementary Data on Cash Flows," have been reclassified to conform to the current period's presentation. These reclassifications had no impact on previously reported net cash provided by operating activities.

Principles of consolidation
We consolidate the Exchange as a variable interest entity for which Indemnity is the primary beneficiary. All intercompany accounts and transactions have been eliminated in consolidation. The required presentation of noncontrolling interests is reflected in the consolidated financial statements. Noncontrolling interests represent the ownership interests of the Exchange, all of which is held by parties other than Indemnity (i.e., the Exchange's subscribers (policyholders)). Noncontrolling interests also include the Exchange subscribers' ownership interest in EFL.

Presentation of assets and liabilities – While the assets of the Exchange are presented separately in the Consolidated Statements of Financial Position, the Exchange's assets can only be used to satisfy the Exchange's liabilities or for other unrestricted activities. ASC 810, *Consolidation*, does not require separate presentation of the Exchange's assets; however, because the shareholders of Indemnity have no rights to the assets of the Exchange and, conversely, the Exchange has no rights to the assets of Indemnity, we have presented the invested assets of the Exchange separately on the Consolidated Statements of Financial Position along with the remaining consolidated assets reflecting the Exchange's portion parenthetically. Liabilities are required under ASC 810, *Consolidation*, to be presented separately for the Exchange on the Consolidated Statements of Financial Position as the Exchange's creditors do not have recourse to the general credit of Indemnity.

Rights of shareholders of Indemnity and subscribers (policyholders) of the Exchange – The shareholders of Indemnity, through the management fee, have a controlling financial interest in the Exchange; however, they have no other rights to or obligations arising from assets and liabilities of the Exchange. The shareholders of Indemnity own its equity but have no rights or interest in the Exchange's (noncontrolling interest) income or equity. The noncontrolling interest equity represents the Exchange's equity held for the interest of its subscribers (policyholders), who have no rights or interest in the Indemnity shareholder interest income or equity.

All intercompany assets, liabilities, revenues and expenses between Indemnity and the Exchange have been eliminated in the Consolidated Statements of Financial Position and Operations.

Adopted accounting pronouncements
On April 1, 2009, we adopted new accounting guidance under FASB ASC 320, *Investments — Debt and Equity Securities*. This guidance amended the other-than-temporary impairment (OTTI) model for debt securities and requires that credit-related losses and securities in an unrealized loss position that we intend to sell be recognized in earnings, with the remaining decline recognized in other comprehensive income. Additionally, this accounting guidance modified the presentation of OTTI in the statement of operations with the total OTTI presented along with an offset for the amount of OTTI recognized in other comprehensive income. Disclosures include further disaggregation of securities, methodology, inputs related to credit-related loss impairments and a rollforward of credit-related loss impairments. The adoption of this guidance required a cumulative effect adjustment to reclass previously recognized non-credit other-than-temporary impairments from retained earnings to other comprehensive income. The net impact of the cumulative effect adjustment increased retained earnings and decreased other comprehensive income by $6 million, net of tax. Disclosures regarding our impairment methodology are included in this note under the caption Investments. The remaining disclosures regarding credit and non-credit related impairments have been provided in Note 7.

In January 2010, the FASB issued Accounting Standards Update ("ASU") 2010-06, *Improving Disclosures about Fair Value Measurements*. This guidance updated the disclosures on FASB ASC 820, *Fair Value Measurements and Disclosures*. The additional disclosures include the amounts and reasons for significant transfers between the levels in the fair value hierarchy, the expansion of fair market disclosures by each class of assets, disclosure of the policy for recognition of level transfers, and disclosure of the valuation techniques used for all Level 2 and Level 3 assets. These disclosures were effective for periods beginning after December 15, 2009 and have been included in Note 6, "Fair Value." An additional disclosure requirement to present purchases, sales, issuances, and settlements of Level 3 activity on a gross basis became effective with periods beginning after December 15, 2010. The additional disclosures required by this guidance have also been included in Note 6.

Pending accounting pronouncements
In October 2010, the FASB issued ASU 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*. This guidance modifies the definition of the types of costs incurred by insurance entities that can be capitalized in the acquisition of new and renewal insurance contracts. The amendments in this guidance specify that the costs are limited to incremental direct costs that result directly from successful contract transactions and would not have been incurred by the insurance entity had the contract transactions not occurred. These costs must be directly related to underwriting, policy issuance and processing, medical and inspection reports and sales force contract selling. The amendments also specify that advertising costs are only included as deferred acquisition costs if the direct-response advertising criteria are met. ASU 2010-26 is effective for interim and annual reporting periods beginning after December 15, 2011 with either prospective or retrospective adoption permitted. We have elected to prospectively adopt this guidance, the impact of which is immaterial to our consolidated financial statements as this guidance has no impact on the Indemnity shareholder interest.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurements*. This guidance changes the description of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements and certain other changes to converge with the fair value guidance of the International Accounting Standards Board ("IASB"). The amendments in this guidance detail the requirements specific to measuring the fair value of an instrument classified in a reporting entity's shareholders' equity. The amendments also clarify that a reporting entity should disclose quantitative information about the observable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. We do not expect the adoption of this new guidance to have a material impact on our consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income*. This guidance eliminates the option to present components of other comprehensive income as part of the statement of changes in shareholders' equity. The amendments in this guidance specify an entity has the option to present the total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The disclosures required remain the same. In both options, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011. In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income – Deferral of The Effective Date for Amendments to the Presentation of Reclassification of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update 2011-05.* The amendments in this ASU supersede changes to

paragraphs in ASU 2011-05 that pertain to how, when and where reclassification adjustments are presented. We do not expect adoption of ASU 2011-05 and ASU 2011-12 to have a material impact on our consolidated financial statements.

Investments

Available-for-sale securities – Fixed maturity and preferred stock securities are classified as available-for-sale and are reported at fair value. Unrealized holding gains and losses, net of related tax effects, on fixed maturities and preferred stock are charged or credited directly to shareholders' equity as accumulated other comprehensive income (loss).

Realized gains and losses on sales of fixed maturity and preferred stock securities are recognized in income based upon the specific identification method. Interest and dividend income are recognized as earned.

Fixed income and redeemable preferred stock (debt securities) are evaluated monthly for other-than-temporary impairment loss. For debt securities that have experienced a decline in fair value and we intend to sell or for which it is more likely than not we will be required to sell the security before recovery of its amortized cost, an other-than-temporary impairment is deemed to have occurred, and is recognized in earnings.

Debt securities that have experienced a decline in fair value and that we do not intend to sell, and that we will not be required to sell before recovery, are evaluated to determine if the decline in fair value is other-than-temporary.

Some factors considered in this evaluation include:

- the extent and duration to which fair value is less than cost;
- historical operating performance and financial condition of the issuer;
- short and long-term prospects of the issuer and its industry based upon analysts' recommendations;
- specific events that occurred affecting the issuer, including a ratings downgrade;
- near term liquidity position of the issuer; and
- compliance with financial covenants.

If a decline is deemed to be other-than-temporary, an assessment is made to determine the amount of the total impairment related to a credit loss and that related to all other factors. Consideration is given to all available information relevant to the collectability of the security in this determination. If the entire amortized cost basis of the security will not be recovered, a credit loss exists. Currently, we have the intent to sell all of our securities that have been determined to have a credit-related impairment. As a result, the entire amount of the impairment has been recognized in earnings. If we had securities with credit impairments that we did not intend to sell, the non-credit portion of the impairment would have been recorded in other comprehensive income.

Impairment charges on non-redeemable preferred securities and hybrid securities with equity characteristics are included in earnings consistent with the treatment for equity securities.

Trading securities – Our common stock securities are trading securities which are reported at fair value. Unrealized holding gains and losses on these securities are included in net realized gains (losses) in the Consolidated Statements of Operations. Realized gains and losses on sales of common stock are recognized in income based upon the specific identification method. Dividend income is recognized as earned.

Limited partnerships – Limited partnerships include U.S. and foreign private equity, mezzanine debt, and real estate investments. The private equity limited partnerships invest primarily in small- to medium-sized companies. The general partners for our limited partnerships determine the market value of investments in the partnerships, including any other-than-temporary impairments of these individual investments. The primary basis for the valuation of limited partnership interests are financial statements prepared by the general partner. Because of the timing of the preparation and delivery of these financial statements, the use of the most recently available financial statements provided by the general partners result in a quarter delay in the inclusion of the limited partnership results in our Consolidated Statements of Operations. Due to this delay, these financial statements do not yet reflect the market conditions experienced in the fourth quarter of 2011.

Nearly all of the underlying investments in our limited partnerships are valued using a source other than quoted prices in active markets. The fair value amounts for our private equity and mezzanine debt partnerships are based upon the financial statements of the general partners, who use multiple methods to estimate fair value including the market approach, income approach or the cost approach. The market approach uses prices and other pertinent information from market-generated transactions involving identical or comparable assets or liabilities. Such valuation techniques often use market multiples derived from a set of comparables. The income approach uses valuation techniques to convert future cash flows or earnings to a single discounted present value amount. The measurement is based upon the value indicated by current market expectations on those future amounts. The cost approach is derived from the amount that is currently required to replace the service capacity of an asset. If information becomes available that would impair the cost of these partnerships, then the general partner would generally adjust to the net realizable value. For real estate limited partnerships, the general partners record these at fair value based upon an independent appraisal or internal estimates of fair value.

We perform various procedures in review of the general partners' valuations. While we generally rely on the general partners' financial statements as the best available information to record our share of the partnership unrealized gains and losses resulting from valuation changes, we adjust our financial statements for impairments at the fund level as necessary. As there is a limited market for these investments, they have the greatest potential for market price variability.

Unrealized gains and losses for these investments are reflected in equity in earnings (losses) of limited partnerships in our Consolidated Statements of Operations in accordance with the equity method of accounting. Cash contributions made to and distributions received from the partnerships are recorded in the period in which the transaction occurs.

Cash and cash equivalents – Short-term investments, consisting of cash, money market accounts and other short-term, highly liquid investments with a maturity of three months or less at the date of purchase, are considered cash and cash equivalents.

Deferred acquisition costs

Acquisition costs that vary with and relate to the production of insurance and investment-type contracts are deferred. Such costs consist principally of commissions, premium taxes and policy issuance expenses.

Property and casualty insurance – Deferred acquisition costs ("DAC") for property and casualty insurance contracts, which is primarily composed of commissions and certain underwriting expenses, is amortized on a pro rata basis over the applicable policy term. We consider investment income in determining if a premium deficiency exists, and if so, it would first be recognized by charging any unamortized acquisition costs to expense to the extent required to eliminate the deficiency. If the premium deficiency would be greater than unamortized acquisition costs, a liability would be accrued for the excess deficiency.

There was no reduction in costs deferred in any periods presented. The DAC profitability is analyzed annually to ensure recoverability.

Life insurance – DAC related to traditional life insurance products is amortized in proportion to premium revenues over the premium-paying period of related policies using assumptions about mortality, morbidity, lapse rates, expenses and future yield on related investments established when the policy was issued. Amortization is adjusted each period to reflect policy lapse or termination rates as compared to anticipated experience. DAC related to universal life products and deferred annuities is amortized over the estimated lives of the contracts in proportion to actual and expected future gross profits, investment, mortality and expense margins and surrender charges. Both historical and anticipated investment returns, including realized gains and losses, are considered in determining the amortization of DAC.

Estimated gross profits are adjusted monthly to reflect actual experience to date and/or for the unlocking of underlying key assumptions based upon experience studies. DAC is periodically reviewed for recoverability. For traditional life products, if the benefit reserves plus anticipated future premiums and interest earnings for a line of business are less than the current estimate of future benefits and expenses (including any unamortized DAC), a charge to income is recorded for additional DAC amortization or for increased benefit reserves. For universal life and deferred annuities, if the current present value of future expected gross profits is less than the unamortized DAC, a charge to income is recorded for additional DAC amortization.

Deferred taxes

Deferred tax assets and liabilities are recorded for temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements, using the statutory tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date under the law. Valuation allowances on deferred tax assets are estimated based upon our assessment of the realizability of such amounts.

Property and casualty unpaid losses and loss expenses

Unpaid losses and loss expenses include estimates for claims that have been reported and those that have been incurred but not reported, as well as estimates of all expenses associated with processing and settling these claims, less estimates of anticipated salvage and subrogation recoveries. Unpaid loss and loss expense reserves are set at full expected cost, except for workers compensation loss reserves, which have been discounted using an interest rate of 2.5%. Estimating the ultimate cost of future losses and loss expenses is an uncertain and complex process. This estimation process is based upon the assumption that past developments are an appropriate indicator of future events, and involves a variety of actuarial techniques that analyze experience, trends and other relevant factors. The uncertainties involved with the reserving process include internal factors, such as changes in claims handling procedures, as well as external factors, such as economic trends and changes in the concepts of legal liability and damage awards. Accordingly, final loss settlements may vary from the present estimates, particularly when those payments may not occur until well into the future.

We regularly review the adequacy of our estimated loss and loss expense reserves by line of business. Adjustments to previously established reserves are reflected in the operating results of the period in which the adjustment is determined to be necessary. Such adjustments could possibly be significant, reflecting any variety of new and adverse or favorable trends.

Life insurance reserves

The liability for future benefits of life insurance contracts is the present value of such benefits less the present value of future net premiums. Life insurance and income-paying annuity future policy benefit reserves are computed primarily by the net level premium method with assumptions as to mortality, withdrawal, lapses and investment yields. Traditional life insurance products are subject to loss recognition testing. The adequacy of the related reserves is verified as part of loss recognition testing. Loss recognition is necessary when the sum of the reserve and the present value of projected policy cash flows is less than unamortized DAC.

Deferred annuity future benefit reserves are established at accumulated account values without reduction for surrender charges. These account values are credited with varying interest rates determined at the discretion of EFL subject to certain minimums.

Agent bonus estimates
Agent bonuses are based upon an individual agency's property and casualty underwriting profitability and also include a component for growth in agency property and casualty premiums if the agency's underwriting profitability targets for our book of business are met. The estimate for agent bonuses, which are based upon the performance over 36 months, is modeled on a monthly basis using actual underwriting data by agency for the two prior years combined with the current year-to-date actual data. At December 31 of each year, we use actual data available and record an accrual based upon the expected payment amount. These costs are included in the policy acquisition and underwriting expenses in the Consolidated Statements of Operations.

Recognition of premium revenues and losses
Property and casualty insurance – Insurance premiums written are earned over the terms of the policies on a pro-rata basis. Unearned premiums represent that portion of premiums written which is applicable to the unexpired terms of policies in force. Losses and loss expenses are recorded as incurred.

Life insurance – Premiums on traditional life insurance products are recognized as revenue when due. Reserves for future policy benefits are established as premiums are earned. Premiums received for annuity and universal life products are reported as deposits and included in liabilities. For universal life products, revenue is recognized as amounts are assessed against the policyholder's account for mortality coverage and contract expenses. The primary source of revenue on annuity deposits is derived from the interest earned by EFL, which is reflected in net investment income.

Reinsurance
Property and casualty insurance – Property and casualty assumed and ceded reinsurance premiums are earned over the terms of the reinsurance contracts. Premiums ceded to other companies are reported as a reduction of premium income. Reinsurance contracts do not relieve the Property and Casualty Group from its obligations to policyholders.

Life insurance – Reinsurance premiums, commissions and expense reimbursements on reinsurance ceded on life insurance policies are accounted for on a basis consistent with those used in accounting for the underlying reinsured policies. Expense reimbursements received in connection with new reinsurance ceded have been accounted for as a

reduction of the related policy acquisition costs. Amounts recoverable from reinsurers for future policy benefits are estimated in a manner consistent with the assumptions used for the underlying policy benefits. Amounts recoverable for incurred claims, future policy benefits and expense reimbursements are recorded as assets. Reinsurance contracts do not relieve EFL from its obligations to policyholders.

Recognition of management fee revenue
Indemnity earns management fees from the Exchange for providing sales, underwriting and policy issuance services. Pursuant to the subscriber's agreements with the policyholders at the Exchange, Indemnity may retain up to 25% of all premiums written or assumed by the Exchange. Management fee revenue is calculated by multiplying the management fee rate by the direct premiums written by the Exchange and the other members of the Property and Casualty Group, which are assumed by the Exchange under an intercompany pooling arrangement. The Property and Casualty Group issues policies with annual terms only. Management fees are recorded as revenue upon policy issuance or renewal, as substantially all of the services required to be performed by us have been satisfied at that time. Certain activities are performed and related costs are incurred by us subsequent to policy issuance in connection with the services provided to the Exchange; however, these activities are inconsequential and perfunctory. Management fee revenue is eliminated upon consolidation.

Recognition of service agreement revenue
Included in service agreement revenue are service charges Indemnity collects from policyholders for providing multiple payment plans on policies written by the Property and Casualty Group. Service charges, which are flat dollar charges for each installment billed beyond the first installment, are recognized as revenue when bills are rendered to the policyholder. Service agreement revenue also includes late payment and policy reinstatement fees. Service agreement revenue is included in other income in the Consolidated Statements of Operations.

Note 3. Earnings Per Share

Basic earnings per share are calculated under the two-class method, which allocates earnings to each class of stock based upon its dividend rights. Class B shares are convertible into Class A shares at a conversion ratio of 2,400 to 1. See Note 18, "Capital Stock." Class A diluted earnings per share are calculated under the if-converted method, which reflects the conversion of Class B shares and the effect of potentially dilutive outstanding employee stock-based awards and awards vested and not yet vested related to the outside directors' stock compensation plan. Vested shares related to the outside directors' compensation plan were included in the table below for the first time in 2010. The 2009 amounts have been updated to include these shares. This had no impact on previously reported diluted earnings per share.

A reconciliation of the numerators and denominators used in the basic and diluted per-share computations is presented as follows for each class of Indemnity common stock:

	Indemnity Shareholder Interest								
(dollars in millions, except per share data)	For the years ended December 31,								
	2011			2010			2009		
	Allocated net income (numerator)	Weighted shares (denominator)	Per-share amount	Allocated net income (numerator)	Weighted shares (denominator)	Per-share amount	Allocated net income (numerator)	Weighted shares (denominator)	Per-share amount
Class A – Basic EPS:									
Income available to Class A stockholders	$168	48,875,316	$ 3.45	$161	50,705,607	$ 3.18	$107	51,250,606	$ 2.10
Dilutive effect of stock awards	0	71,721	–	0	68,887	–	0	60,793	–
Assumed conversion of Class B shares	1	6,110,400	–	1	6,110,400	–	1	6,117,600	–
Class A – Diluted EPS:									
Income available to Class A stockholders on Class A equivalent shares	$169	55,057,437	$ 3.08	$162	56,884,894	$ 2.85	$108	57,428,999	$ 1.89
Class B – Basic and diluted EPS:									

Income available to Class B stockholders	$ 1	2,546	$522.47	$ 1	2,546	$462.83	$ 1	2,549	$312.45

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Note 4. Variable Interest Entity

Erie Insurance Exchange

The Exchange is a reciprocal insurance exchange domiciled in Pennsylvania, for which Indemnity serves as attorney-in-fact. Indemnity holds a variable interest in the Exchange due to the absence of decision-making capabilities by the equity owners (subscribers/policyholders) of the Exchange and due to the significance of the management fee the Exchange pays to Indemnity as its decision maker. As a result, Indemnity is deemed to have a controlling financial interest in the Exchange and is considered to be its primary beneficiary.

Consolidation of the Exchange's financial results is required given the significance of the management fee to the Exchange and because Indemnity has the power to direct the activities of the Exchange that most significantly impact the Exchange's economic performance. The Exchange's anticipated economic performance is the product of its underwriting results combined with its investment results. The fees paid to Indemnity under the subscriber's agreement impact the anticipated economic performance attributable to the Exchange's results. Indemnity earns a management fee from the Exchange for the services it provides as attorney-in-fact. Indemnity's management fee revenues are based upon all premiums written or assumed by the Exchange. Indemnity's Board of Directors determines the management fee rate to be paid by the Exchange to Indemnity. This rate cannot exceed 25% of the direct and affiliated assumed written premiums of the Exchange, as defined by the subscriber's agreement signed by each policyholder. Management fee revenues and management fee expenses are eliminated upon consolidation.

The shareholders of Indemnity have no rights to the assets of the Exchange and no obligations arising from the liabilities of the Exchange. Indemnity has no obligation related to any underwriting and/or investment losses experienced by the Exchange. Indemnity would, however, be adversely impacted if the Exchange incurred significant underwriting and/or investment losses. If the surplus of the Exchange were to decline significantly from its current level, its financial strength ratings could be reduced and, as a consequence, the Exchange could find it more difficult to retain its existing business and attract new business. A decline in the business of the Exchange would have an adverse effect on the amount of the management fees Indemnity receives. In addition, a decline in the surplus of the Exchange from its current level may impact the management fee rate received by Indemnity. Indemnity also has an exposure to a concentration of credit risk related to the unsecured receivables due from the Exchange for its management fee. If any of these events occurred, Indemnity's financial position, financial performance and/or cash flows could be adversely impacted.

On December 31, 2010, Indemnity sold all of the outstanding capital stock of its wholly owned subsidiaries to the Exchange. On March 31, 2011, Indemnity sold its 21.6% ownership interest in EFL to the Exchange. Under this structure, all property and casualty and life insurance operations are owned by the Exchange, and Indemnity functions solely as the management company. There was no impact on the existing reinsurance pooling agreement between the Exchange and EIC or ENY as a result of the sales, nor was there any impact to the subscribers (policyholders) of the Exchange, the Exchange's independent insurance agents, or Indemnity's employees.

Indemnity has not provided financial or other support to the Exchange for any of the reporting periods presented. At December 31, 2011, there are no explicit or implicit arrangements that would require Indemnity to provide future financial support to the Exchange. Indemnity is not liable if the Exchange was to be in violation of its debt covenants or was unable to meet its obligation for unfunded commitments to limited partnerships.

Note 5. Segment Information

Our reportable segments include management operations, property and casualty insurance operations, life insurance operations and investment operations. Accounting policies for segments are the same as those described in the summary of significant accounting policies (see Note 2, "Significant Accounting Policies"). Assets are not allocated to the segments, but rather, are reviewed in total for purposes of decision-making. No single customer or agent provides 10% or more of revenues.

Our management operations segment consists of Indemnity serving as attorney-in-fact for the Exchange. Indemnity operates in this capacity solely for the Exchange. We evaluate profitability of our management operations segment principally on the gross margin from management operations. Indemnity earns a management fee from the Exchange for providing sales, underwriting and policy issuance services. Management fee revenue, which is eliminated in consolidation, is calculated as a percentage not to exceed 25% of all the direct premiums written by the Exchange and the other members of the Property and Casualty Group, which are assumed by the Exchange under an intercompany

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pooling arrangement. The Property and Casualty Group issues policies with annual terms only. Management fees are recorded upon policy issuance or renewal, as substantially all of the services required to be performed by Indemnity have been satisfied at that time. Certain activities are performed and related costs are incurred by us subsequent to policy issuance in connection with the services provided to the Exchange; however, these activities are inconsequential and perfunctory. Although these management fee revenues and expenses are eliminated upon consolidation, the amount of the fee directly impacts the allocation of our consolidated net income between noncontrolling interest, which bears the management fee expense and represents the interests of the Exchange subscribers (policyholders), and Indemnity's interest, which earns the management fee revenue and represents Indemnity shareholder interest in net income.

Our property and casualty insurance operations segment includes personal and commercial lines. Personal lines consist primarily of personal auto and homeowners and are marketed to individuals. Commercial lines consist primarily of commercial multi-peril, commercial auto and workers compensation and are marketed to small- and medium-sized businesses. Our property and casualty policies are sold by independent agents. Our property and casualty insurance underwriting operations are conducted through the Exchange and its subsidiaries and include assumed voluntary reinsurance from nonaffiliated domestic and foreign sources, assumed involuntary and ceded reinsurance business. The Exchange exited the assumed voluntary reinsurance business effective December 31, 2003, and therefore unaffiliated reinsurance includes only run-off activity of the previously assumed voluntary reinsurance business. We evaluate profitability of the property and casualty insurance operations segment principally based upon net underwriting results represented by the combined ratio.

Our life insurance operations segment includes traditional and universal life insurance products and fixed annuities marketed to individuals using the same independent agency force utilized by our property and casualty insurance operations. We evaluate profitability of the life insurance segment principally based upon segment net income, including investments, which for segment purposes are reflected in the investment operations segment. At the same time, we recognize that investment-related income is integral to the evaluation of the life insurance segment because of the long duration of life products. In 2011, investment activities on life insurance-related assets generated revenues of $109 million, resulting in EFL reporting income before income taxes of $50 million, before intercompany eliminations. In 2010, investment activities on life insurance-related assets generated revenues of $107 million, resulting in EFL reporting income before income taxes of $50 million, before intercompany eliminations. In 2009, investment activities on life insurance-related assets generated revenues of $63 million, resulting in EFL reporting income before income taxes of $10 million, before intercompany eliminations.

The investment operations segment performance is evaluated based upon appreciation of assets, rate of return and overall return. Investment-related income for the life operations is included in the investment segment results.

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The following tables summarize the components of the Consolidated Statements of Operations by reportable business segment:

	Erie Insurance Group					
	For the year ended December 31, 2011					
(in millions)	Management operations	Property and casualty insurance operations	Life insurance operations	Investment operations	Eliminations	Consolidated
Premiums earned/life policy revenue		$4,149	$ 67		$ (2)	$4,214
Net investment income				$444	(11)	433
Net realized investment losses				(4)		(4)
Net impairment losses recognized in earnings				(2)		(2)
Equity in earnings of limited partnerships				149		149
Management fee revenue	$1,067				(1,067)	–
Service agreement and other revenue	33		1			34
Total revenues	1,100	4,149	68	587	(1,080)	4,824
Cost of management operations	892				(892)	–
Insurance losses and loss expenses		3,349	100		(5)	3,444
Policy acquisition and underwriting expenses		1,178	27		(183)	1,022
Total benefits and expenses	892	4,527	127	–	(1,080)	4,466
Income (loss) before income taxes	208	(378)	(59)	587	–	358
Provision for income taxes	73	(132)	(21)	170	–	90
Net income (loss)	$ 135	$ (246)	$(38)	$417	$ –	$ 268

	Erie Insurance Group					
	For the year ended December 31, 2010					
(in millions)	Management operations	Property and casualty insurance operations	Life insurance operations	Investment operations	Eliminations	Consolidated
Premiums earned/life policy revenue		$3,925	$ 64		$ (2)	$3,987
Net investment income				$444	(11)	433
Net realized investment gains				313		313
Net impairment losses recognized in earnings				(6)		(6)
Equity in earnings of limited partnerships				128		128
Management fee revenue	$1,009				(1,009)	–
Service agreement and other revenue	34		1			35
Total revenues	1,043	3,925	65	879	(1,022)	4,890
Cost of management operations	841				(841)	–
Insurance losses and loss expenses		2,815	90		(5)	2,900
Policy acquisition and underwriting expenses		1,113	32		(176)	969
Goodwill impairment				22		22
Total benefits and expenses	841	3,928	122	22	(1,022)	3,891
Income (loss) before income taxes	202	(3)	(57)	857	–	999
Provision for income taxes	71	(1)	(20)	289	–	339
Net income (loss)	$ 131	$ (2)	$(37)	$568	$ –	$ 660

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	Erie Insurance Group					
	For the year ended December 31, 2009					
(in millions)	Management operations	Property and casualty insurance operations	Life insurance operations	Investment operations	Eliminations	Consolidated
Premiums earned/life policy revenue		$3,808	$ 63		$ (2)	$3,869
Net investment income				$ 444	(11)	433
Net realized investment gains				412		412
Net impairment losses recognized in earnings				(126)		(126)

Equity in losses of limited partnerships				(369)		(369)
Management fee revenue	$ 965				(965)	–
Service agreement and other revenue	35		1			36
Total revenues	1,000	3,808	64	361	(978)	4,255
Cost of management operations	813				(813)	–
Insurance losses and loss expenses		2,644	89		(5)	2,728
Policy acquisition and underwriting expenses		1,135	28		(160)	1,003
Total benefits and expenses	813	3,779	117	–	(978)	3,731
Income (loss) before income taxes	187	29	(53)	361	–	524
Provision for income taxes	60	10	(19)	27	–	78
Net income (loss)	$ 127	$ 19	$(34)	$ 334	$ –	$ 446

See the "Results of the Erie Insurance Group's Operations by Interest" table in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for the composition of income attributable to Indemnity and income attributable to the noncontrolling interest (Exchange).

Note 6. Fair Value

The 2010 fair value information within this note has been conformed to this current presentation.

Our available-for-sale and trading securities are recorded at fair value, which is the price that would be received to sell the asset in an orderly transaction between willing market participants as of the measurement date.

Valuation techniques used to derive the fair value of our available-for-sale and trading securities are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources. Unobservable inputs reflect our own assumptions regarding fair market value for these securities. Although the majority of our prices are obtained from third party sources, we also perform an internal pricing review for securities with low trading volumes in the current market conditions. Financial instruments are categorized based upon the following characteristics or inputs to the valuation techniques:

Level 1: Quoted prices for identical instruments in active markets not subject to adjustments or discounts.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3: Instruments whose significant value drivers are unobservable and reflect management's estimate of fair value based upon assumptions used by market participants in an orderly transaction as of the valuation date.

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The following table represents the fair value measurements on a recurring basis for our consolidated available-for-sale and trading securities by asset class and level of input at December 31, 2011:

	Erie Insurance Group			
	December 31, 2011			
		Fair value measurements using:		
(in millions)	Total	Quoted prices in active markets for identical assets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
Indemnity				
Available-for-sale securities:				
States & political subdivisions	$ 221	$ 0	$ 221	$ 0
Corporate debt securities	303	0	303	0
Commercial mortgage-backed securities (CMBS)	13	0	13	0
Collateralized debt obligations (CDO)	4	0	0	4
Other debt securities	7	0	7	0
Total fixed maturities	548	0	544	4
Nonredeemable preferred stock	25	10	15	0
Total available-for-sale securities	573	10	559	4
Trading securities:				
Common stock	27	27	0	0
Total trading securities	27	27	0	0
Total – Indemnity	$ 600	$ 37	$ 559	$ 4
Exchange				
Available-for-sale securities:				
U.S. government & agencies	$ 17	$ 6	$ 11	$ 0
States & political subdivisions	1,379	0	1,375	4
Foreign government securities	15	0	15	0
Corporate debt securities	5,499	20	5,467	12
Residential mortgage-backed securities (RMBS)	189	0	189	0
Commercial mortgage-backed securities (CMBS)	66	0	66	0
Collateralized debt obligations (CDO)	65	0	36	29
Other debt securities	62	0	57	5
Total fixed maturities	7,292	26	7,216	50

Nonredeemable preferred stock	564	188	371	5
Total available-for-sale securities	7,856	214	7,587	55
Trading securities:				
Common stock	2,308	2,296	0	12
Total trading securities	2,308	2,296	0	12
Total – Exchange	$ 10,164	$ 2,510	$ 7,587	$ 67
Total – Erie Insurance Group	$ 10,764	$ 2,547	$ 8,146	$ 71

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Level 3 Assets – Quarterly Change:

	Erie Insurance Group						
(in millions)	Beginning balance at September 30, 2011	Included in earnings [(1)]	Included in other comprehensive income	Purchases	Sales	Transfers in and (out) of Level 3 [(2)]	Ending balance at December 31, 2011
Indemnity							
Available-for-sale securities:							
Collateralized debt obligations (CDO)	$ 4	$ 0	$ 0	$0	$0	$0	$ 4
Total fixed maturities	4	0	0	0	0	0	4
Total available-for-sale securities	4	0	0	0	0	0	4
Trading securities:							
Common stock	0	0	0	0	0	0	0
Total trading securities	0	0	0	0	0	0	0
Total Level 3 assets – Indemnity	$ 4	$ 0	$ 0	$0	$0	$0	$ 4
Exchange							
Available-for-sale securities:							
States & political subdivisions	$ 4	$ 0	$ 0	$0	$0	$0	$ 4
Corporate debt securities	12	0	0	0	0	0	12
Collateralized debt obligations (CDO)	29	0	0	0	0	0	29
Other debt securities	5	0	0	0	0	0	5
Total fixed maturities	50	0	0	0	0	0	50
Nonredeemable preferred stock	6	0	(1)	0	0	0	5
Total available-for-sale securities	56	0	(1)	0	0	0	55
Trading securities:							
Common stock	13	(1)	0	0	0	0	12
Total trading securities	13	(1)	0	0	0	0	12
Total Level 3 assets – Exchange	$69	$(1)	$(1)	$0	$0	$0	$67
Total Level 3 assets – Erie Insurance Group	$73	$(1)	$(1)	$0	$0	$0	$71

(1) Includes losses as a result of other-than-temporary impairments and accrual of discount and amortization of premium. These amounts are reported in the Consolidated Statements of Operations. There were no unrealized gains or losses included in earnings for the three months ended December 31, 2011 on Level 3 securities.

(2) Transfers in and out of Level 3 are attributable to changes in the availability of market observable information for individual securities within the respective categories. Transfers in and out of levels are recognized at the start of the period.

There were no transfers between Levels 1 and 2 during the three months ended December 31, 2011.

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Level 3 Assets –Year-to-Date Change:

	Erie Insurance Group						
(in millions)	Beginning balance at December 31, 2010	Included in earnings [(1)]	Included in other comprehensive income	Purchases	Sales	Transfers in and (out) of Level 3 [(2)]	Ending balance at December 31, 2011
Indemnity							
Available-for-sale securities:							
Collateralized debt obligations (CDO)	$ 4	$0	$ 0	$0	$ 0	$0	$ 4
Total fixed maturities	4	0	0	0	0	0	4
Total available-for-sale securities	4	0	0	0	0	0	4
Trading securities:							
Common stock	0	0	0	0	0	0	0
Total trading securities	0	0	0	0	0	0	0
Total Level 3 assets – Indemnity	$ 4	$0	$ 0	$0	$ 0	$0	$ 4
Exchange							
Available-for-sale securities:							
States & political subdivisions	$ 4	$0	$ 0	$0	$ 0	$0	$ 4
Corporate debt securities	11	0	0	1	0	0	12
Collateralized debt obligations (CDO)	30	0	(1)	0	0	0	29

Other debt securities	10	0	0	0	(5)	0	5
Total fixed maturities	55	0	(1)	1	(5)	0	50
Nonredeemable preferred stock	7	0	(2)	0	0	0	5
Total available-for-sale securities	62	0	(3)	1	(5)	0	55
Trading securities:							
Common stock	12	0	0	0	0	0	12
Total trading securities	12	0	0	0	0	0	12
Total Level 3 assets – Exchange	$74	$0	$(3)	$1	$(5)	$0	$67
Total Level 3 assets – Erie Insurance Group	$78	$0	$(3)	$1	$(5)	$0	$71

(1) Includes losses as a result of other-than-temporary impairments and accrual of discount and amortization of premium. These amounts are reported in the Consolidated Statements of Operations. There were no unrealized gains or losses included in earnings for the year ended December 31, 2011 on Level 3 securities.

(2) Transfers in and out of Level 3 are attributable to changes in the availability of market observable information for individual securities within the respective categories. Transfers in and out of levels are recognized at the start of the period.

There were no transfers between Levels 1 and 2 during the year ended December 31, 2011.

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The following table represents the fair value measurements on a recurring basis for our consolidated available-for-sale and trading securities by major category and level of input at December 31, 2010:

	Erie Insurance Group December 31, 2010 Fair value measurements using:			
(in millions)	Total	Quoted prices in active markets for identical assets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
Indemnity				
Available-for-sale securities:				
U.S. government & agencies	$ 25	$ 25	$ 0	$ 0
States & political subdivisions	197	0	197	0
Corporate debt securities	38	0	38	0
Collateralized debt obligations (CDO)	4	0	0	4
Total fixed maturities	264	25	235	4
Nonredeemable preferred stock	24	11	13	0
Total available-for-sale securities	288	36	248	4
Trading securities:				
Common stock	28	28	0	0
Total trading securities	28	28	0	0
Total – Indemnity	$ 316	$ 64	$ 248	$ 4
Exchange				
Available-for-sale securities:				
U.S. government & agencies	$ 87	$ 12	$ 75	$ 0
States & political subdivisions	1,471	0	1,467	4
Foreign government securities	21	0	21	0
Corporate debt securities	5,263	12	5,240	11
Residential mortgage-backed securities (RMBS)	224	0	224	0
Commercial mortgage-backed securities (CMBS)	86	0	86	0
Collateralized debt obligations (CDO)	70	0	40	30
Other debt securities	57	0	47	10
Total fixed maturities	7,279	24	7,200	55
Nonredeemable preferred stock	570	166	397	7
Total available-for-sale securities	7,849	190	7,597	62
Trading securities:				
Common stock	2,306	2,294	0	12
Total trading securities	2,306	2,294	0	12
Total – Exchange	$10,155	$2,484	$7,597	$74
Total – Erie Insurance Group	$10,471	$2,548	$7,845	$78

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Level 3 Assets – Quarterly Change:

	Erie Insurance Group						
(in millions)	Beginning balance at September 30, 2010	Transfer(s) in and (out) (1)	Included in earnings (2)	Included in other comprehensive income	Purchases, sales and adjustments	Transfer(s) in and (out) of Level 3 (3)	Ending balance at December 31, 2010
Indemnity							
Available-for-sale securities:							

Corporate debt securities	$ 2	$(2)	$ 0	$0	$ 0	$ 0	$ 0
Collateralized debt obligations (CDO)	7	(4)	0	0	0	1	4
Total fixed maturities	9	(6)	0	0	0	1	4
Nonredeemable preferred stock	2	(1)	0	0	(1)	0	0
Total available-for-sale securities	11	(7)	0	0	(1)	1	4
Trading securities:							
Common stock	0	0	0	0	0	0	0
Total trading securities	0	0	0	0	0	0	0
Total Level 3 assets – Indemnity	$11	$(7)	$ 0	$0	$ (1)	$ 1	$ 4
Exchange							
Available-for-sale securities:							
States & political subdivisions	$ 0	$ 0	$ 0	$0	$ 0	$ 4	$ 4
Corporate debt securities	9	2	0	0	0	0	11
Collateralized debt obligations (CDO)	42	4	(1)	1	(16)	0	30
Other debt securities	5	0	0	0	0	5	10
Total fixed maturities	56	6	(1)	1	(16)	9	55
Nonredeemable preferred stock	5	1	0	1	0	0	7
Total available-for-sale securities	61	7	(1)	2	(16)	9	62
Trading securities:							
Common stock	11	0	1	0	0	0	12
Total trading securities	11	0	1	0	0	0	12
Total Level 3 assets – Exchange	$72	$ 7	$ 0	$2	$(16)	$ 9	$74
Total Level 3 assets – Erie Insurance Group	$83	$ 0	$ 0	$2	$(17)	$10	$78

(1) Transfers in and out are attributable to the sale of Indemnity's wholly owned property and casualty insurance subsidiaries Erie Insurance Company, Erie Insurance Company of New York and Erie Insurance Property and Casualty Company, to the Exchange. Level 3 securities previously held by the Indemnity are shown as transfer (out) while transfers to the Exchange are shown as transfer in.

(2) Includes losses as a result of other-than-temporary impairments and accrual of discount and amortization of premium. These amounts are reported in the Consolidated Statements of Operations. There were no unrealized gains or losses included in earnings for the three months ended December 31, 2010 on Level 3 securities.

(3) Transfers in and out of Level 3 are attributable to changes in the availability of market observable information for individual securities within the respective categories. Transfers in and out of levels are recognized at the start of the period.

There were no significant transfers between Levels 1 and 2 during the three months ended December 31, 2010.

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Level 3 Assets – Year-to-Date Change:

	Erie Insurance Group						
(in millions)	Beginning balance at December 31, 2009	Transfer(s) in and (out) (1)	Included in earnings (2)	Included in other comprehensive income	Purchases, sales and adjustments	Transfer(s) in and (out) of Level 3 (3)	Ending balance at December 31, 2010
Indemnity							
Available-for-sale securities:							
Corporate debt securities	$ 2	$(2)	$ 0	$0	$ 0	$ 0	$ 0
Collateralized debt obligations (CDO)	8	(4)	0	0	0	0	4
Total fixed maturities	10	(6)	0	0	0	0	4
Nonredeemable preferred stock	1	(1)	0	0	0	0	0
Total available-for-sale securities	11	(7)	0	0	0	0	4
Trading securities:							
Common stock	0	0	0	0	0	0	0
Total trading securities	0	0	0	0	0	0	0
Total Level 3 assets – Indemnity	$ 11	$(7)	$ 0	$0	$ 0	$ 0	$ 4
Exchange							
Available-for-sale securities:							
States & political subdivisions	$ 0	$ 0	$ 0	$0	$ 0	$ 4	$ 4
Corporate debt securities	17	2	0	0	0	(8)	11
Collateralized debt obligations (CDO)	49	4	(1)	5	(19)	(8)	30
Other debt securities	5	0	0	0	0	5	10
Total fixed maturities	71	6	(1)	5	(19)	(7)	55
Nonredeemable preferred stock	4	1	0	2	0	0	7
Total available-for-sale securities	75	7	(1)	7	(19)	(7)	62
Trading securities:							
Common stock	9	0	3	0	0	0	12
Total trading securities	9	0	3	0	0	0	12
Total Level 3 assets – Exchange	$84	$ 7	$ 2	$7	$(19)	$(7)	$74
Total Level 3 assets – Erie Insurance Group	$95	$ 0	$ 2	$7	$(19)	$(7)	$78

(1) Transfers in and out are attributable to the sale of Indemnity's wholly owned property and casualty insurance subsidiaries Erie Insurance Company, Erie Insurance Company of New York and Erie Insurance Property and Casualty Company, to the Exchange. Level 3 securities previously held by the Indemnity are shown as transfer (out) while transfers to the Exchange are shown as transfer in.

(2) Includes losses as a result of other-than-temporary impairments and accrual of discount and amortization of premium. These amounts are reported in the Consolidated Statements of Operations. There were no unrealized gains or losses included in earnings for the year ended December 31, 2010 on Level 3 securities.

(3) Transfers in and out of Level 3 are attributable to changes in the availability of market observable information for individual securities within the respective categories. Transfers in and out of levels are recognized at the end of the period.

There were no significant transfers between Levels 1 and 2 during the year ended December 31, 2010.

Estimates of fair values for our investment portfolio are obtained primarily from nationally recognized pricing services. Our Level 1 category includes those securities valued using an exchange traded price provided by the pricing services. The methodologies used by the pricing services that support a Level 2 classification of a financial instrument include multiple verifiable, observable inputs including benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. Pricing service valuations for Level 3 securities are based upon proprietary models and are used when observable inputs are not available in illiquid markets. In limited circumstances we adjust the price received from the pricing services when, in our judgment, a better reflection of fair value is available based upon corroborating information and our knowledge and monitoring of market conditions.

At December 31, 2011, we adjusted one price received from our pricing services to reflect an alternate fair market value. This alternative fair value was based upon observable market data. The price difference between the pricing service and the observable market data was less than $0.1 million.

We perform continuous reviews of the prices obtained from the pricing services. This includes evaluating the methodology and inputs used by the pricing service to ensure that we determine the proper level classification of the financial instrument. Price variances, including large periodic changes, are investigated and corroborated by market data. We have reviewed the pricing methodologies of our pricing service as well as other observable inputs, such as benchmark yields, reported trades, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and transaction volumes and believe that their prices adequately consider market activity in determining fair value. Our review process continues to evolve based upon accounting guidance and requirements.

When prices from the pricing services are not available, values are determined by obtaining non-binding broker quotes and/or market comparables. When available, we obtain multiple quotes for the same security. The ultimate value for these securities is determined based upon our best estimate of fair value using corroborating market information. Our evaluation includes the consideration of benchmark yields, reported trades, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data.

For certain structured securities in an illiquid market, there may be no prices available from a pricing service and no comparable market quotes available. In these situations, we value the security using an internally-developed, risk-adjusted discounted cash flow model.

The following table sets forth the fair value of the consolidated available-for-sale and trading securities by pricing source:

(in millions)	Erie Insurance Group December 31, 2011			
	Total	Level 1	Level 2	Level 3
Indemnity				
Fixed maturities:				
Priced via pricing services	$ 542	$ 0	$ 542	$ 0
Priced via market comparables/non-binding broker quote (1)	2	0	2	0
Priced via internal modeling (2)	4	0	0	4
Total fixed maturities	548	0	544	4
Nonredeemable preferred stock:				
Priced via pricing services	23	10	13	0
Priced via market comparables/non-binding broker quote (1)	2	0	2	0
Priced via internal modeling (2)	0	0	0	0
Total nonredeemable preferred stock	25	10	15	0
Common stock:				
Priced via pricing services	27	27	0	0
Priced via market comparables/non-binding broker quote (1)	0	0	0	0
Priced via internal modeling (2)	0	0	0	0
Total common stock	27	27	0	0
Total available-for-sale and trading securities – Indemnity	$ 600	$ 37	$ 559	$ 4
Exchange				
Fixed maturities:				
Priced via pricing services	$ 7,158	$ 26	$ 7,132	$ 0
Priced via market comparables/non-binding broker quote (1)	84	0	84	0
Priced via internal modeling (2)	50	0	0	50
Total fixed maturities	7,292	26	7,216	50
Nonredeemable preferred stock:				
Priced via pricing services	528	188	340	0
Priced via market comparables/non-binding broker quote (1)	36	0	31	5
Priced via internal modeling (2)	0	0	0	0
Total nonredeemable preferred stock	564	188	371	5
Common stock:				
Priced via pricing services	2,296	2,296	0	0
Priced via market comparables/non-binding broker quote (1)	0	0	0	0
Priced via internal modeling (2)	12	0	0	12

Total common stock	2,308	2,296	0	12
Total available-for-sale and trading securities – Exchange	$ 10,164	$ 2,510	$ 7,587	$ 67
Total available-for-sale and trading securities – Erie Insurance Group	$ 10,764	$ 2,547	$ 8,146	$ 71

(1) All broker quotes obtained for securities were non-binding. When a non-binding broker quote was the only price available, the security was classified as Level 3.

(2) Internal modeling using a discounted cash flow model was performed on 11 fixed maturities and 3 common equity securities representing 0.6% of the total portfolio of the Erie Insurance Group.

We have no assets that were measured at fair value on a nonrecurring basis during the year ended December 31, 2011.

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Note 7. Investments

The 2010 investment information within this note has been conformed to this current presentation.

The following tables summarize the cost and fair value of our available-for-sale securities at December 31, 2011 and 2010:

	Erie Insurance Group December 31, 2011			
(in millions)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Indemnity				
Available-for-sale securities:				
States & political subdivisions	$ 208	$ 13	$ 0	$ 221
Corporate debt securities	303	1	1	303
Commercial mortgage-backed securities (CMBS)	13	0	0	13
Collateralized debt obligations (CDO)	4	0	0	4
Other debt securities	7	0	0	7
Total fixed maturities	535	14	1	548
Nonredeemable preferred stock	24	1	0	25
Total available-for-sale securities – Indemnity	$ 559	$ 15	$ 1	$ 573
Exchange				
Available-for-sale securities:				
U.S. government & agencies	$ 16	$ 1	$ 0	$ 17
States & political subdivisions	1,289	91	1	1,379
Foreign government securities	15	0	0	15
Corporate debt securities	5,144	386	31	5,499
Residential mortgage-backed securities (RMBS)	178	11	0	189
Commercial mortgage-backed securities (CMBS)	62	4	0	66
Collateralized debt obligations (CDO)	66	4	5	65
Other debt securities	59	3	0	62
Total fixed maturities	6,829	500	37	7,292
Nonredeemable preferred stock	531	45	12	564
Total available-for-sale securities – Exchange	$ 7,360	$ 545	$ 49	$ 7,856
Total available-for-sale securities – Erie Insurance Group	$ 7,919	$ 560	$ 50	$ 8,429

	Erie Insurance Group December 31, 2010			
(in millions)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Indemnity				
Available-for-sale securities:				
U.S. government & agencies	$ 25	$ 0	$ 0	$ 25
States & political subdivisions	193	6	2	197
Corporate debt securities	36	2	0	38
Collateralized debt obligations (CDO)	3	1	0	4
Total fixed maturities	257	9	2	264
Nonredeemable preferred stock	20	4	0	24
Total available-for-sale securities – Indemnity	$ 277	$ 13	$ 2	$ 288
Exchange				
Available-for-sale securities:				
U.S. government & agencies	$ 85	$ 2	$ 0	$ 87
States & political subdivisions	1,437	43	9	1,471
Foreign government securities	20	1	0	21
Corporate debt securities	4,900	377	14	5,263
Residential mortgage-backed securities (RMBS)	216	9	1	224
Commercial mortgage-backed securities (CMBS)	82	5	1	86
Collateralized debt obligations (CDO)	69	6	5	70
Other debt securities	54	3	0	57
Total fixed maturities	6,863	446	30	7,279
Nonredeemable preferred stock	503	74	7	570
Total available-for-sale securities – Exchange	$ 7,366	$ 520	$ 37	$ 7,849
Total available-for-sale securities – Erie Insurance Group	$ 7,643	$ 533	$ 39	$ 8,137

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The amortized cost and estimated fair value of fixed maturities at December 31, 2011, are shown below by remaining contractual term to maturity. Mortgage-backed securities are allocated based upon their stated maturity dates. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Erie Insurance Group	
(in millions)	Amortized cost	Estimated fair value
Indemnity		
Due in one year or less	$ 152	$ 152
Due after one year through five years	253	256
Due after five years through ten years	47	52
Due after ten years	83	88
Total fixed maturities – Indemnity	$ 535	$ 548
Exchange		
Due in one year or less	$ 506	$ 513
Due after one year through five years	2,397	2,519
Due after five years through ten years	2,669	2,898
Due after ten years	1,257	1,362
Total fixed maturities – Exchange	$6,829	$7,292
Total fixed maturities – Erie Insurance Group	$7,364	$7,840

Available-for-sale securities in a gross unrealized loss position at December 31, 2011 are as follows. Data is provided by length of time for securities in a gross unrealized loss position.

	Erie Insurance Group December 31, 2011						
(dollars in millions)	Less than 12 months		12 months or longer		Total		
Indemnity	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair Value	Unrealized losses	No. of holdings
Available-for-sale securities:							
Corporate debt securities	$220	$ 1	$ 0	$ 0	$220	$ 1	41
Commercial mortgage-backed securities (CMBS)	4	0	9	0	13	0	3
Other debt securities	5	0	2	0	7	0	2
Total fixed maturities – Indemnity	229	1	11	0	240	1	46
Nonredeemable preferred stock	4	0	3	0	7	0	3
Total available-for-sale securities – Indemnity	$233	$ 1	$ 14	$ 0	$247	$ 1	49
Quality breakdown of fixed maturities:							
Investment grade	$229	$ 1	$ 11	$ 0	$240	$ 1	46
Non-investment grade	0	0	0	0	0	0	0
Total fixed maturities – Indemnity	$229	$ 1	$ 11	$ 0	$240	$ 1	46
Exchange							
Available-for-sale securities:							
States & political subdivisions	$ 7	$ 0	$ 6	$ 1	$ 13	$ 1	3
Corporate debt securities	635	27	50	4	685	31	108
Residential mortgage-backed securities (RMBS)	7	0	0	0	7	0	4
Commercial mortgage-backed securities (CMBS)	5	0	0	0	5	0	1
Collateralized debt obligations (CDO)	0	0	32	5	32	5	6
Other debt securities	9	0	0	0	9	0	2
Total fixed maturities – Exchange	663	27	88	10	751	37	124
Nonredeemable preferred stock	168	11	34	1	202	12	27
Total available-for-sale securities – Exchange	$831	$38	$122	$11	$953	$49	151
Quality breakdown of fixed maturities:							
Investment grade	$625	$26	$ 79	$ 9	$704	$35	109
Non-investment grade	38	1	9	1	47	2	15
Total fixed maturities – Exchange	$663	$27	$ 88	$10	$751	$37	124

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Available-for-sale securities in a gross unrealized loss position at December 31, 2010 are as follows. Data is provided by length of time for securities in a gross unrealized loss position.

	Erie Insurance Group December 31, 2010						
(dollars in millions)	Less than 12 months		12 months or longer		Total		
Indemnity	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair Value	Unrealized losses	No. of holdings
Available-for-sale securities:							
U.S. government & agencies	$ 25	$ 0	$ 0	$ 0	$ 25	$ 0	1
States & political subdivisions	39	2	1	0	40	2	20
Corporate debt securities	31	0	0	0	31	0	3
Total fixed maturities – Indemnity	95	2	1	0	96	2	24
Nonredeemable preferred stock	3	0	0	0	3	0	1
Total available-for-sale securities – Indemnity	$ 98	$ 2	$ 1	$ 0	$ 99	$ 2	25

Quality breakdown of fixed maturities:							
Investment grade	$ 95	$ 2	$ 1	$ 0	$ 96	$ 2	24
Non-investment grade	0	0	0	0	0	0	0
Total fixed maturities – Indemnity	$ 95	$ 2	$ 1	$ 0	$ 96	$ 2	24
Exchange							
Available-for-sale securities:							
U.S. government & agencies	$ 22	$ 0	$ 0	$ 0	$ 22	$ 0	3
States & political subdivisions	299	8	5	1	304	9	59
Foreign government securities	10	0	0	0	10	0	1
Corporate debt securities	398	8	144	6	542	14	101
Residential mortgage-backed securities (RMBS)	6	0	7	1	13	1	4
Commercial mortgage-backed securities (CMBS)	0	0	12	1	12	1	2
Collateralized debt obligations (CDO)	1	0	33	5	34	5	6
Total fixed maturities – Exchange	736	16	201	14	937	30	176
Nonredeemable preferred stock	45	2	59	5	104	7	15
Total available-for-sale securities – Exchange	$781	$18	$260	$19	$1,041	$37	191
Quality breakdown of fixed maturities:							
Investment grade	$703	$16	$155	$11	$ 858	$27	154
Non-investment grade	33	0	46	3	79	3	22
Total fixed maturities – Exchange	$736	$16	$201	$14	$ 937	$30	176

The above securities for Indemnity and the Exchange have been evaluated and determined to be temporary impairments for which we expect to recover our entire principal plus interest. The primary components of this analysis include a general review of market conditions and financial performance of the issuer along with the extent and duration at which fair value is less than cost. Any debt securities that we intend to sell or will more likely than not be required to sell before recovery are included in other-than-temporary impairments with the impairment charges recognized in earnings.

Investment income, net of expenses, was generated from the following portfolios:

(in millions)	Erie Insurance Group		
	Years ended December 31,		
	2011	2010	2009
Indemnity			
Fixed maturities	$ 14	$ 33	$ 36
Equity securities	2	4	5
Cash equivalents and other	1	1	1
Total investment income	17	38	42
Less: investment expenses	1	1	0
Investment income, net of expenses – Indemnity	$ 16	$ 37	$ 42
Exchange			
Fixed maturities	$364	$350	$343
Equity securities	86	72	68
Cash equivalents and other	0	2	4
Total investment income	450	424	415
Less: investment expenses	33	28	24
Investment income, net of expenses – Exchange	$417	$396	$391
Investment income, net of expenses – Erie Insurance Group	$433	$433	$433

Interest and dividend income are recognized as earned and recorded to net investment income.

Indemnity net investment income decreased by $21 million in 2011 compared to 2010. The Exchange's net investment income increased by $21 million in 2011 compared to 2010. These changes were primarily caused by the sale of the EIC, ENY and EPC from Indemnity to the Exchange on December 31, 2010.

In 2010, Indemnity sold its interest in nine limited partnerships and the Exchange sold its interest in eleven limited partnerships, which generated net realized losses. There were no sales of limited partnerships in 2011 or 2009.

Realized gains (losses) on investments were as follows:

(in millions)	Erie Insurance Group		
	Years ended December 31,		
Indemnity	2011	2010	2009
Available-for-sale securities:			
Fixed maturities:			
Gross realized gains	$ 2	$ 6	$ 5
Gross realized losses	0	(1)	(4)
Net realized gains	2	5	1

Equity securities:			
Gross realized gains	3	1	8
Gross realized losses	0	0	(7)
Net realized gains	3	1	1
Trading securities:			
Common stock:			
Gross realized gains	2	6	2
Gross realized losses	(1)	(1)	(5)
Valuation adjustments	(3)	0	11
Net realized (losses) gains	(2)	5	8
Limited partnerships:			
Gross realized gains	0	0	0
Gross realized losses	0	(12)	0
Net realized gains (losses)	0	(12)	0
Net realized investment gains (losses) – Indemnity	$ 3	$ (1)	$ 10
Exchange			
Available-for-sale securities:			
Fixed maturities:			
Gross realized gains	$ 77	$ 49	$ 22
Gross realized losses	(29)	(24)	(37)
Net realized gains (losses)	48	25	(15)
Equity securities:			
Gross realized gains	28	14	39
Gross realized losses	(1)	(3)	(26)
Net realized gains	27	11	13
Trading securities:			
Common stock:			
Gross realized gains	271	205	143
Gross realized losses	(106)	(135)	(203)
Valuation adjustments	(247)	254	464
Net realized (losses) gains	(82)	324	404
Limited partnerships:			
Gross realized gains	0	0	0
Gross realized losses	0	(46)	0
Net realized losses	0	(46)	0
Net realized investment (losses) gains – Exchange	$ (7)	$ 314	$ 402
Net realized investment (losses) gains – Erie Insurance Group	$ (4)	$ 313	$ 412

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The components of other-than-temporary impairments on investments are included below:

(in millions)	Erie Insurance Group		
	Years ended December 31		
	2011	2010	2009
Indemnity			
Fixed maturities	$ 0	$(1)	$ (7)
Equity securities	0	0	(5)
Total other-than-temporary impairments	0	(1)	(12)
Portion recognized in other comprehensive income	0	0	0
Net impairment losses recognized in earnings – Indemnity	$ 0	$(1)	$ (12)
Exchange			
Fixed maturities	$ 0	$(4)	$ (54)
Equity securities	(2)	(1)	(60)
Total other-than-temporary impairments	(2)	(5)	(114)
Portion recognized in other comprehensive income	0	0	0
Net impairment losses recognized in earnings – Exchange	$(2)	$(5)	$(114)
Net impairment losses recognized in earnings – Erie Insurance Group	$(2)	$(6)	$(126)

In considering if fixed maturity securities were credit-impaired, some of the factors considered include: potential for the default of interest and/or principal, level of subordination, collateral of the issue, compliance with financial covenants, credit ratings and industry conditions. We have the intent to sell all credit-impaired fixed maturity securities, therefore the entire amount of the impairment charges were included in earnings and no non-credit impairments were recognized in other comprehensive income. Prior to the second quarter of 2009, when new impairment guidance was issued for debt securities, the impairment policy for fixed maturities was consistent with that of equity securities. See also Note 2, "Significant Accounting Policies."

Limited partnerships

Our limited partnership investments are recorded using the equity method of accounting. As these investments are generally reported on a one-quarter lag, our limited partnership results through December 31, 2011 are comprised of partnership financial results for the fourth quarter of 2010 and the first, second, and third quarters of 2011. Given the lag in reporting, our limited partnership results do not reflect the market conditions of the fourth quarter of 2011. Cash contributions made to and distributions received from the partnerships are recorded in the period in which the transaction occurs.

We have provided summarized financial information in the following table for the years ended December 31, 2011 and 2010. Amounts provided in the table are presented using the latest available financial statements received from the partnerships. Limited partnership financial information has been presented based upon the investment percentage in the partnerships for the Erie Insurance Group consistent with how management evaluates the investments.

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As these investments are generally reported on a one-quarter lag, our limited partnership results through December 31, 2011 include partnership financial results for the fourth quarter of 2010 and the first three quarters of 2011.

	Erie Insurance Group			
	As of and for the year ended December 31, 2011			
(dollars in millions) Investment percentage in limited partnerships	Number of partnerships	Asset recorded	Income (loss) recognized due to valuation adjustments by the partnerships	Income (1oss) recorded
Indemnity				
Private equity:				
Less than 10%	26	$ 73	$ 2	$ 5
Greater than or equal to 10% but less than 50%	3	9	0	3
Greater than 50%	0	0	0	0
Total private equity	29	82	2	8
Mezzanine debt:				
Less than 10%	11	22	0	6
Greater than or equal to 10% but less than 50%	3	12	1	1
Greater than 50%	1	1	(1)	0
Total mezzanine debt	15	35	0	7
Real estate:				
Less than 10%	12	62	5	(1)
Greater than or equal to 10% but less than 50%	3	18	1	0
Greater than 50%	3	11	3	1
Total real estate	18	91	9	0
Total limited partnerships – Indemnity	62	$ 208	$11	$15
Exchange				
Private equity:				
Less than 10%	41	$ 452	$13	$30
Greater than or equal to 10% but less than 50%	3	43	(1)	12
Greater than 50%	0	0	0	0
Total private equity	44	495	12	42
Mezzanine debt:				
Less than 10%	17	133	(9)	26
Greater than or equal to 10% but less than 50%	3	33	3	3
Greater than 50%	3	35	(2)	3
Total mezzanine debt	23	201	(8)	32
Real estate:				
Less than 10%	25	284	31	(1)
Greater than or equal to 10% but less than 50%	5	59	3	0
Greater than 50%	3	43	2	10
Total real estate	33	386	36	9
Total limited partnerships – Exchange	100	$1,082	$40	$83
Total limited partnerships – Erie Insurance Group		$1,290	$51	$98

Per the limited partner financial statements, total partnership assets were $54 billion and total partnership liabilities were $6 billion at December 31, 2011 (as recorded in the September 30, 2011 limited partnership financial statements). For the twelve month period comparable to that presented in the preceding table (fourth quarter of 2010 and first three quarters of 2011), total partnership valuation adjustment gains were $2 billion and total partnership net income was $3 billion.

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As these investments are generally reported on a one-quarter lag, our limited partnership results through December 31, 2010 include partnership financial results for the fourth quarter of 2009 and the first three quarters of 2010.

Erie Insurance Group

(dollars in millions) Investment percentage in limited partnerships	Number of partnerships	Asset recorded	Income (loss) recognized due to valuation adjustments by the partnerships	Income (1oss) recorded
	As of and for the year ended December 31, 2010			
Indemnity				
Private equity:				
Less than 10%	26	$ 78	$ 4	$ 7
Greater than or equal to 10% but less than 50%	3	8	3	0
Greater than 50%	0	0	0	0
Total private equity	29	86	7	7
Mezzanine debt:				
Less than 10%	11	30	4	3
Greater than or equal to 10% but less than 50%	3	15	2	(2)
Greater than 50%	1	2	0	0
Total mezzanine debt	15	47	6	1
Real estate:				
Less than 10%	12	59	30	(31)
Greater than or equal to 10% but less than 50%	4	14	10	(10)
Greater than 50%	4	10	4	(3)
Total real estate	20	83	44	(44)
Total limited partnerships – Indemnity	64	$ 216	$ 57	$(36)
Exchange				
Private equity:				
Less than 10%	41	$ 517	$ 28	$ 40
Greater than or equal to 10% but less than 50%	3	38	10	0
Greater than 50%	0	0	0	(1)
Total private equity	44	555	38	39
Mezzanine debt:				
Less than 10%	14	142	12	13
Greater than or equal to 10% but less than 50%	3	41	2	(2)
Greater than 50%	3	31	0	2
Total mezzanine debt	20	214	14	13
Real estate:				
Less than 10%	25	250	(11)	10
Greater than or equal to 10% but less than 50%	6	52	7	(7)
Greater than 50%	4	37	15	(11)
Total real estate	35	339	11	(8)
Total limited partnerships – Exchange	99	$1,108	$ 63	$ 44
Total limited partnerships – Erie Insurance Group		$1,324	$120	$ 8

Per the limited partner financial statements, total partnership assets were $58 billion and total partnership liabilities were $10 billion at December 31, 2010 (as recorded in the September 30, 2010 limited partnership financial statements). For the twelve month period comparable to that presented in the preceding table (fourth quarter of 2009 and first three quarters of 2010), total partnership valuation adjustment gains were $4 billion and total partnership net income was $3 billion.

See also Note 20, "Commitments and Contingencies," for investment commitments related to limited partnerships.

Securities lending program
We previously participated in a program whereby marketable securities from our investment portfolio were lent to independent brokers or dealers based upon, among other things, their creditworthiness, in exchange for collateral initially equal to 102% of the value of the securities on loan and are thereafter maintained at a minimum of 100% of the fair value of the securities loaned. The program was terminated in 2009.

Note 8. Goodwill Impairment

Goodwill is reviewed for impairment at least annually or more frequently if events occur or circumstances change that would indicate that a triggering event has occurred. Goodwill impairment testing follows a two step process. In the first step, the fair value of a reporting unit is compared to its carrying value. If the carrying value of a reporting unit exceeds its fair value, the second step of the impairment test is performed for purposes of measuring the impairment.

Prior to December 31, 2010, the Exchange had $22 million of goodwill attributable to its purchase of EFL stock in 2006. In the fourth quarter of 2010, the Exchange entered into an agreement to purchase Indemnity's 21.6% ownership interest in EFL and a valuation of EFL was performed by an external independent third party in preparation for the sale, which occurred on March 31, 2011. The valuation resulted in a purchase price determination of 95% of book value. In response to the valuation and sale price, management concluded that the possibility for impairment existed and step two of the goodwill impairment test was completed to determine the impairment amount. Step two of the impairment test compared the value of new business for EFL to the current goodwill balance. The analysis determined that the value of EFL's new business did not support the $22 million goodwill, and an impairment entry was made to write down the entire balance at December 31, 2010. The charge of $22 million decreased the net income attributable to the Exchange in 2010.

Note 9. Capitalized Software Development Costs

We capitalize computer software costs developed or obtained for internal use. Capitalized costs include internal and external labor and overhead, all of which are attributable to Indemnity. Capitalization ceases and amortization begins no later than the point at which a computer software project is complete and ready for its intended use. Capitalized software costs are amortized over the estimated useful life of the software.

The following table outlines the total capitalized software development costs subject to amortization and the related amortization expense:

(in millions)	Indemnity Shareholder Interest		
	Years ended December 31,		
	2011	2010	2009
Gross carrying amount	$43	$32	$10
Accumulated amortization	(5)	(1)	0
Net carrying amount	$38	$31	$10
Amortization expense	$ 4	$ 1	$ 0

The following table outlines the estimated future amortization expense related to capitalized software development costs as of December 31, 2011:

(in millions)	Indemnity Shareholder Interest
Year ending December 31,	Estimated amortization expense
2012	$6
2013	6
2014	6
2015	6
2016	6

We anticipate incurring additional costs related to our software development initiatives.   These costs are unknown at this time and therefore are not considered in the table above.

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Note 10. Bank Line of Credit

As of December 31, 2011, Indemnity has available a $100 million bank revolving line of credit that expires on November 3, 2016. There were no borrowings outstanding on the line of credit as of December 31, 2011. Bonds with a fair value of $112 million were pledged as collateral on the line at December 31, 2011.

As of December 31, 2011, the Exchange has available a $300 million bank revolving line of credit that expires on October 28, 2016. There were no borrowings outstanding on the line of credit as of December 31, 2011. Bonds with a fair value of $333 million were pledged as collateral on the line at December 31, 2011.

Securities pledged as collateral on both lines have no trading restrictions and are reported as available-for-sale fixed maturities in the Consolidated Statements of Financial Position as of December 31, 2011. The banks require compliance with certain covenants, which include minimum net worth and leverage ratios for Indemnity's line of credit and statutory surplus and risk based capital ratios for Exchange's line of credit. We are in compliance with all covenants at December 31, 2011.

Note 11. Income Taxes

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

(in millions)	Erie Insurance Group		
	2011	2010	2009
Indemnity			
Current income tax expense	$ 85	$ 37	$56
Deferred income tax expense (benefit)	0	67	(7)
Total provision for income taxes – Indemnity	85	104	49
Exchange			
Current income tax expense (benefit)	110	(43)	7
Deferred income tax (benefit) expense	(105)	278	22
Total provision for income taxes – Exchange	5	235	29
Total provision for income taxes – Erie Insurance Group	$ 90	$339	$78

The deferred income tax benefit in 2011 was primarily driven by unrealized losses on common stock. The deferred income tax expense in 2010 was primarily driven by the sale of previously impaired investments and unrealized gains on common stock and limited partnerships. In addition, the deferred tax liability recorded for Indemnity's investment in EFL increased by $18 million in 2010 as a result of a change in the tax rate used to calculate the liability. This deferred tax charge was required due to Indemnity's decision to sell its 21.6% ownership interest in EFL, rather than receiving its share of EFL's earnings in the form of future dividends which would have been eligible for an 80% dividends received deduction.

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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 for the years ended December 31:

(in millions)	Erie Insurance Group		
	2011	2010	2009
Indemnity			
Income tax at statutory rates	$89	$ 93	$ 53
Tax-exempt interest	(3)	(3)	(3)
Dividends received deduction	(1)	(1)	(1)
Deferred tax valuation allowance	0	(2)	0
Erie Family Life (losses) earnings [(1)]	(1)	15	0
Other, net	1	2	0
Provision for income taxes – Indemnity	85	104	49
Exchange			
Income tax at statutory rates	37	259	130
Tax-exempt interest	(15)	(16)	(17)
Dividends received deduction	(13)	(11)	(11)
Deferred tax valuation allowance	0	(4)	(71)
Goodwill impairments	0	8	0
Prior year adjustments	(5)	0	0
Other, net	1	(1)	(2)
Provision for income taxes – Exchange	5	235	29
Provision for income taxes – Erie Insurance Group	$90	$339	$ 78

(1) In 2010 Indemnity's tax rate on its share of EFL earnings was adjusted from 7% to 35% due to Indemnity's decision to sell its 21.6% ownership interest in EFL to the Exchange, which closed on March 31, 2011, rather than receiving its share of EFL's earnings in the form of future dividends, which would have been eligible for an 80% dividends received deduction.

Temporary differences and carry-forwards, which give rise to consolidated deferred tax assets and liabilities, are as follows for the years ended December 31:

(in millions)	Erie Insurance Group	
	2011	2010
Indemnity		
Deferred tax assets:		
Net allowance for service fees and premium cancellations	$ 3	$ 3
Other employee benefits	9	8
Pension and other postretirement benefits	45	21
Write-downs of impaired securities	1	2
Capital loss carryover	0	7
Other	0	1
Total deferred tax assets	58	42
Deferred tax liabilities:		
Unrealized gains on investments	6	7
Equity interest in EFL	0	22
Limited partnerships	10	20
Depreciation	13	7
Prepaid expenses	7	5
Capitalized internally developed software	1	5
Other	2	2
Total deferred tax liabilities	39	68
Net deferred income tax asset (liability) – Indemnity	$19	$(26)

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(in millions)	Erie Insurance Group (continued)	
	2011	2010
Exchange		
Deferred tax assets:		
Loss reserve discount	$ 81	$ 83
Liability for future life and annuity policy benefits	12	13
Unearned premiums	165	156

Write-downs of impaired securities	29	42
Wash sales	6	8
Capital loss carryover	7	9
Other	14	8
Total deferred tax assets	314	319
Deferred tax liabilities:		
Deferred policy acquisition costs	159	153
Unrealized gains on investments	272	356
Limited partnerships	12	49
Net allowance for service fees and premium cancellations	3	3
Other	15	15
Total deferred tax liabilities	461	576
Net deferred tax liability – Exchange	$(147)	$(257)
Net deferred tax liability – Erie Insurance Group	$(128)	$(283)

Neither the Indemnity nor the Exchange had a valuation allowance recorded at December 31, 2011 or December 31, 2010.

In 2010, Indemnity generated taxable losses of $38 million and the Exchange generated taxable losses of $175 million on the sale of limited partnerships. These partnerships were sold to recapture tax paid on prior period capital gains that were due to expire. The unrealized losses on these partnerships were previously recorded as a deferred tax asset. Indemnity and the Exchange received $13 million and $61 million, respectively, in tax on these transactions in 2011.

We have one uncertain income tax position for which a current liability was recorded. As a related temporary tax difference was also recognized, there was no impact on our results of operations or financial position. We recognized interest related to our remaining uncertain tax position in income tax expense. Accrued estimated interest on our unrecognized tax benefit was $0.3 million and $0.2 million at December 31, 2011 and 2010, respectively. The IRS has examined tax filings through 2007 and is currently examining our federal income tax returns for 2008 and 2009. We currently estimate that our unrecognized tax benefits will not change significantly in the next 12 months.

Indemnity is the attorney-in-fact for the subscribers (policyholders) at the Exchange, a reciprocal insurance exchange. In that capacity, Indemnity provides all services and facilities necessary to conduct the Exchange's insurance business. Indemnity and the Exchange together constitute one insurance business. Indemnity is not subject to state corporation income or franchise taxes in states where the Exchange conducts its business, as a result of the Exchange's remittance of premium taxes in those states.

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Note 12. Deferred Policy Acquisition Costs

The following table summarizes the components of the Property and Casualty Group's and EFL's deferred policy acquisition costs assets for the years ended December 31:

(in millions)	Erie Insurance Group	
	2011	2010
Property and Casualty Group		
Deferred policy acquisition costs asset at beginning of year	$ 327	$ 313
Capitalized deferred policy acquisition costs	684	649
Amortized deferred policy acquisition costs	(668)	(635)
Deferred policy acquisition costs asset at end of year – Property and Casualty Group	$ 343	$ 327
Erie Family Life Insurance Company		
Deferred policy acquisition costs asset at beginning of year	$ 140	$ 154
Capitalized deferred policy acquisition costs	18	17
Amortized deferred policy acquisition costs	(12)	(16)
Amortized shadow deferred policy acquisition costs	(2)	(15)
Deferred policy acquisition costs asset at end of year – EFL	$ 144	$ 140
Deferred policy acquisition costs asset at end of year – Erie Insurance Group	$ 487	$ 467

Note 13. Property and Casualty Unpaid Losses and Loss Expenses

The following table provides a reconciliation of our property and casualty beginning and ending loss and loss expense reserve balances for the years ended December 31:

	Property and Casualty Group		
(in millions)	2011	2010	2009
Losses and loss expense reserves at January 1, – Gross	$3,584	$3,598	$3,586
Less: reinsurance recoverable	188	200	187
Losses and loss expense reserves at January 1, – Net	3,396	3,398	3,399
Incurred losses and loss expenses related to:			
Current accident year	3,616	3,053	2,732

Prior accident years	(272)	(244)	(93)
Total incurred losses and loss expenses	3,344	2,809	2,639
Paid losses and loss expenses related to:			
Current accident year	2,360	1,855	1,608
Prior accident years	1,032	956	1,032
Total paid losses and loss expenses	3,392	2,811	2,640
Losses and loss expense reserves at December 31, – Net	3,348	3,396	3,398
Add: reinsurance recoverable	151	188	200
Losses and loss expense reserves at December 31, – Gross	$3,499	$3,584	$3,598

Loss reserves are set at full expected cost, except for workers compensation loss reserves which have been discounted using an interest rate of 2.5% for all periods presented. This discounting reduced unpaid losses and loss expenses by $84 million, $127 million and $136 million at December 31, 2011, 2010 and 2009, respectively. The reserves for losses and loss expenses are reported net of receivables for salvage and subrogation which totaled $145 million, $141 million and $133 million at December 31, 2011, 2010 and 2009, respectively.

Favorable development on prior accident year direct loss reserves in 2011 was primarily the result of improvements in severity trends in our personal auto, workers compensation, commercial multi-peril and homeowners lines of business combined with the closing of several large claims. In 2010, the favorable development on prior accident year direct loss reserves was primarily the result of improvements in severity trends in the commercial multi-peril, personal auto and workers compensation lines of business, combined with the closing of several large claims. In 2009, the favorable development was primarily the result of the closing of several large claims, changes in our mortality assumptions, and a change in the payout patterns used in the calculation to discount reserves in our workers compensation line of business. The 2009 favorable development was offset somewhat by adverse development in our personal auto line of business as a result of the use of gender specific tables in our mortality rate assumption and the outcome of certain court decisions related to our commercial multi-peril line of business.

Note 14. Life Policy and Deposit Contract Reserves

The following table provides the components of our life policy and deposit contract liability balances for the years ended December 31:

(in millions)	Erie Family Life Insurance Company		
	2011	2010	2009
Deferred annuities	$1,144	$1,117	$1,076
Ordinary/traditional life	282	254	229
Universal life	228	214	211
Other	17	18	24
Life policy and deposit contract reserves	$1,671	$1,603	$1,540

The reinsurance credit related to life policy and deposit contract reserves was $108 million, $95 million and $82 million at December 31, 2011, 2010, and 2009 respectively, and is presented in other assets in the Consolidated Statements of Financial Position.

Note 15. Reinsurance

Members of the Property and Casualty Group participate in an intercompany reinsurance pooling agreement. Under the pooling agreement, all insurance business of the Property and Casualty Group is pooled in the Exchange. EIC and ENY share in the underwriting results of the reinsurance pool through retrocession. Since 1995, the Board of Directors has set the allocation of the pooled underwriting results at 5.0% participation for EIC, 0.5% participation for ENY and 94.5% participation for the Exchange. The purpose of the pooling agreement is to spread the risks of the members of the Property and Casualty Group collectively across the different lines of business they underwrite and geographic regions in which each operates. This agreement may be terminated by any party as of the end of any calendar year by providing not less than 90 days advance written notice. Intercompany pooling accounts are settled in cash within 30 days after the end of each quarterly accounting period. On December 31, 2010, Indemnity sold all of the outstanding capital stock of its wholly owned subsidiaries, EIC and ENY, to the Exchange. Under this structure, all property and casualty insurance operations are owned by the Exchange, and Indemnity functions solely as the management company. There was no impact on the existing reinsurance pooling agreement between the Exchange and EIC or ENY as a result of the sale.

Reinsurance contracts do not relieve the Property and Casualty Group or EFL from their primary obligations to policyholders. A contingent liability exists with respect to reinsurance recoverables in the event reinsurers are unable to meet their obligations under the reinsurance agreements.

The Property and Casualty Group maintains several property catastrophe reinsurance treaties with nonaffiliated reinsurers to mitigate future potential catastrophe loss exposures. During 2011, a first treaty provided coverage of up to 90% of a loss of $500 million in excess of the Property and Casualty Group's loss retention of $350 million per occurrence, and a second treaty provided coverage of up to 90% of a loss of $25 million in excess of $850 million. These treaties were renewed for 2012, with the first property catastrophe reinsurance treaty providing coverage of up to 90% of a loss of $500 million in excess of the

Property and Casualty Group's loss retention of $350 million per occurrence, and the second treaty providing coverage of up to 70% of a loss of $275 million in excess of $850 million. In addition, a third property catastrophe reinsurance treaty was entered into with a nonaffiliated reinsurer providing coverage of up to 70% of a loss of $25 million in excess of $1.125 billion. The treaties exclude losses from acts of terrorism. There have been no losses subject to these treaties.

EFL maintains several reinsurance treaties with nonaffiliated life reinsurance companies in order to reduce claims volatility. EFL had direct life insurance in force totaling $42 billion and $40 billion at December 31, 2011 and 2010, respectively. Of these amounts, EFL ceded $23 billion and $22 billion of life insurance in force at December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, the largest amount of in force life insurance ceded to one reinsurer totaled $11 billion.

The following tables summarize the direct insurance and reinsurance for our property and casualty and life insurance activities, respectively, for the years ended December 31:

(in millions)

	Erie Insurance Group		
Property and casualty insurance:	2011	2010	2009
Premiums written:			
Direct	$4,271	$4,035	$3,861
Assumed	21	19	30
Ceded	(37)	(35)	(30)
Premiums written, net	4,255	4,019	3,861
Premiums earned:			
Direct	4,164	3,939	3,806
Assumed	21	20	42
Ceded	(36)	(34)	(40)
Premiums earned, net	4,149	3,925	3,808
Insurance losses and loss expenses:			
Direct	3,311	2,834	2,655
Assumed	11	(15)	12
Ceded	22	(9)	(28)
Insurance losses and loss expenses, net	$3,344	$2,810	$2,639
Life insurance:			
Premiums earned:			
Direct	$ 108	$ 104	$ 100
Ceded	(43)	(42)	(39)
Premiums earned, net	65	62	61
Insurance losses and loss expenses:			
Direct	120	102	114
Ceded	(20)	(12)	(25)
Insurance losses and loss expenses, net	$ 100	$ 90	$ 89
Total:			
Premiums earned:			
Property and casualty	$4,149	$3,925	$3,808
Life	65	62	61
Premiums earned, net	4,214	3,987	3,869
Insurance losses and loss expenses:			
Property and casualty	3,344	2,810	2,639
Life	100	90	89
Insurance losses and loss expenses, net	$3,444	$2,900	$2,728

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Note 16. Postretirement Benefits

Pension and retiree health benefit plans

Our pension plans consist of a noncontributory defined benefit pension plan covering substantially all employees and an unfunded supplemental employee retirement plan ("SERP") for certain members of executive and senior management of the Erie Insurance Group. The pension plans provide benefits to covered individuals satisfying certain age and service requirements. The defined benefit pension plan and SERP each provide benefits through a final average earnings formula.

We previously provided retiree health benefits in the form of medical and pharmacy health plans for eligible retired employees and eligible dependents. In 2006, the retiree health benefit plan was curtailed by an amendment that restricted eligibility to those who attained age 60 and 15 years of service on or before July 1, 2010.

The liabilities for the plans described in this note are presented in total for all employees of the Erie Insurance Group. The gross liability for postretirement benefits is presented in the Consolidated Statements of Financial Position as part of other liabilities. Approximately 57% of postretirement benefit expenses are reimbursed to Indemnity from the Exchange and EFL.

Our affiliated entities are charged an allocated portion of net periodic benefit costs under the benefit plans. For our funded pension plan, amounts are settled in cash throughout the year for affiliated entities' share of net periodic benefit costs. For our unfunded plans, we pay the obligations when due. Amounts are settled in cash between affiliates when there is a payout under the unfunded plans.

The following tables set forth the assumptions used to determine benefit obligations and net periodic benefit cost at the periods ended December 31:

	Erie Insurance Group		
Assumptions used to determine benefit obligations:	2011	2010	2009
Employee pension plan:			
Discount rate	4.99%	5.69%	6.11%
Expected return on plan assets	8.00	8.00	8.25
Rate of compensation increase (1)	4.15	4.15	4.15
SERP:			
Discount rate (2)	4.99/4.49	5.69/5.19	6.11/5.00
Rate of compensation increase	6.00	6.00	6.00
Assumptions used to determine net periodic benefit cost:			
Employee pension plan:			
Discount rate	5.69%	6.11%	6.06%
Expected return on plan assets	8.00	8.00	8.25
Rate of compensation increase (1)	4.15	4.15	4.15
SERP:			
Discount rate (2)	5.69/5.19	6.11/5.00	6.06/5.00
Rate of compensation increase	6.00	6.00	6.00

(1) Rate of compensation increase is age-graded. An equivalent single compensation increase rate of 4.15% in 2011, 2010 and 2009 would produce similar results.

(2) Pre-retirement/post-retirement.

The two economic assumptions that have the most impact on the postretirement benefit expense are the discount rate and the long-term rate of return on plan assets. The discount rate assumption used to determine the benefit obligation for 2011 was 4.99% and was based upon a yield curve developed from corporate bond yield information. The construction of these yield curves is based upon yields of corporate bonds rated Aa quality. Target yields are developed from bonds at various maturity points and a curve is fitted to those targets. Spot rates (zero coupon bond yields) are developed from the yield curve and used to discount benefit payment amounts associated with each future year. The present value of plan benefits is calculated by applying the spot/discount rates to projected benefit cash flows. A single discount rate is then developed to produce the same present value. This represents the suggested discount rate. The same methodology was employed to develop the 5.69% discount rate used to determine the benefit obligation for 2010. For 2009, the discount rate assumption used to determine the benefit obligation was based upon a

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bond-matching study that compared projected pension plan benefit flows to the cash flows from a comparable portfolio of fixed maturity instruments rated AA- or better with a duration similar to plan liabilities. The approach used to determine the long-term rate of return assumption is derived from expected future returns for each asset category based upon applicable indices and their historical relationships under various market conditions. These expected future returns were then weighted based upon our target asset allocation percentages for each asset category to produce a best estimate of range of asset return results within which our long-term rate of return assumption falls.

Defined benefit pension plan and SERP

The following tables set forth: the change in our projected benefit obligation, the change in plan assets, the funded status of the pension plans, the amounts recognized in the Consolidated Statements of Financial Position, the accumulated benefit obligation, the amounts included in accumulated other comprehensive income, before tax, that are not yet recognized as components of net periodic benefit cost and the components of net periodic benefit cost for the years ended December 31:

(in millions)	Erie Insurance Group		
	2011	2010	2009
Change in projected benefit obligation:			
Benefit obligation at beginning of period	$ 400	$344	$326
Service cost	17	15	15
Interest cost	23	21	19
Amendments	1	1	3
Actuarial loss (gain)	54	25	(12)
Benefits paid	(7)	(6)	(4)
Impact due to settlement	0	0	(3) (1)
Benefit obligation at end of period	$ 488	$400	$344
Change in plan assets:			
Fair value of plan assets at beginning of period	$ 328	$279	$218
Actual return (loss) on plan assets	12	41	51
Employer contributions	15	13	14
Benefits paid	(7)	(5)	(4)
Fair value of plan assets at end of period	$ 348	$328	$279
Funded status at end of period	$(140)	$ (72)	$ (65)
Amounts recognized in the Consolidated Statement of Financial Position			
Current liabilities	$ (1)	$ 0	$ 0
Noncurrent liabilities	(139)	(72)	(65)
Amounts recognized	$(140)	$ (72)	$ (65)
Accumulated benefit obligation, December 31,	$ 363	$297	$252
Amounts included in accumulated other comprehensive income, before tax, not yet recognized as components of net periodic benefit cost:			
Net actuarial loss	$ 173	$110	$104
Prior service cost	6	5	5
Net amount not yet recognized	$ 179	$115	$109
Components of net periodic benefit cost:			

Service cost	$ 17	$ 15	$ 15
Interest cost	23	21	19
Expected return on plan assets (2)	(27)	(25)	(24)
Amortization of prior service cost	1	1	0
Recognized net actuarial loss	6	3	3
Settlement gain	0	0	(1) (1)
Net periodic benefit expense before allocation to affiliates	$ 20	$ 15	$ 12

(1) *In December 2007, employment agreements for certain members of executive management were signed which incorporated a payment in full of accrued SERP benefits as of December 2008 in a lump sum payment, after which time no additional SERP benefits would accrue. This resulted in a settlement gain in 2009.*

(2) *The market-related value of plan assets is used to determine the expected return component of pension benefit cost. We use a four year averaging method to determine the market-related value, under which asset gains or losses that result from returns that differ from our long-term rate of return assumption are recognized in the market-related value of assets on a level basis over a four year period. Once factored into the market-related asset value, these experience losses will be amortized over a period of 15 years, which is the average remaining service period of the employee group in the plan.*

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The 2011 net actuarial loss was primarily due to the change in the discount rate assumption used to measure the future benefit obligations to 4.99% in 2011 from 5.69% in 2010. The 2010 net actuarial loss was primarily due to the change in the discount rate assumption used to measure the future benefit obligations to 5.69% in 2010 from 6.11% in 2009. The cumulative net actuarial loss was offset in 2009 by an actuarial gain resulting from actual investment returns that were greater than expected. Also contributing to this gain were assumption changes made based upon actual experience, such as the decrease in the assumed rate of compensation increase. Recognition of this loss is being deferred over the subsequent four year period.

Amounts recognized in other comprehensive income for our pension plans were as follows for the years ended December 31:

(in millions)

	Erie Insurance Group	
Amounts recognized in other comprehensive income for pension plans:	2011	2010
Amortization of net actuarial loss	$ (6)	$(4)
Amortization of prior service cost	(1)	0
Net actuarial loss arising during the year	69	9
Amendments	1 (1)	1 (2)
Total recognized in other comprehensive income	$63	$ 6

(1) *The charges recognized as amendments were the result of factoring in the prior service cost for seven new plan participants in 2011.*

(2) *The charges recognized as amendments were the result of factoring in the prior service cost for four new plan participants in 2010.*

The estimated net actuarial loss and prior service cost for the pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost during 2012 are $11 million and $1 million, respectively.

The following table sets forth amounts of benefits expected to be paid over the next 10 years from our pension and other postretirement plans as of December 31:

(in millions)

	Erie Insurance Group
Year ending December 31,	**Expected future cash flows**
2012	$ 9
2013	10
2014	11
2015	13
2016	15
2017 - 2021	110

The following table provides information for the defined benefit pension plans with an accumulated benefit obligation in excess of plan assets as of December 31:

(in millions)

	Erie Insurance Group	
Information for pension plans with an accumulated benefit obligation in excess of plan assets:	2011	2010
Projected benefit obligation	$488	$10
Accumulated benefit obligation	363	5
Fair value of plan assets	348	0

At December 31, 2011 the defined benefit pension plan and the SERP had an accumulated benefit obligation in excess of plan assets. At December 31, 2010 only the SERP had an accumulated benefit obligation in excess of plan assets.

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Our current policy is generally to contribute an amount equal to the greater of the IRS minimum required contribution or the target normal cost for the year plus interest to the date the contribution is made. A $16 million contribution was made to the plan in January of 2012.

The employee pension plan utilizes a return seeking and a liability asset matching allocation strategy. It is based upon the understanding that 1) equity investments are expected to outperform debt investments over the long-term, 2) the potential volatility of short-term returns from equities is acceptable in exchange for the larger expected long-term returns, and 3) a portfolio structured across investment styles and markets (both domestic and foreign) reduces volatility. As a result, the employee pension plan's investment portfolio utilizes a broadly diversified asset allocation across domestic and foreign equity and debt markets. The investment portfolio is composed of commingled pools that are dedicated exclusively to the management of employee benefit plan assets.

Our target asset allocation percentage was 60% equity securities and 40% fixed income securities for 2011, 2010 and 2009.

The target and actual asset allocation for the portfolio is as follows for the years ended December 31:

	Erie Insurance Group		
	Target asset allocation	**Actual asset allocation**	**Actual asset allocation**
	2010-2011	2011	2010
Return seeking assets:			
U.S. equity index (1)	17%	17%	17%
U.S. large capitalization core equity (2)	16	16	16
International risk-controlled equity (3)	15	15	15
U.S. small capitalization core equity (4)	8	8	8
International small capitalization risk-controlled equity (5)	2	2	2
Emerging markets equity (6)	2	2	2
Total return seeking assets	60%	60%	60%
Liability matching assets:			
Long duration fixed income (7)	16%	16%	16%
Broad market fixed income (8)	15	15	15
Long duration corporate fixed income (9)	8	8	8
Institutional money market fund	1	1	1
Total liability matching assets	40%	40%	40%
Total plan assets	**100%**	**100%**	**100%**

(1) Comprises equity index funds not actively managed that track the S&P 500.
(2) Includes equity securities that seek to achieve excess returns relative to the S&P 500 while maintaining portfolio risk characteristics similar to the index.
(3) Seeks long-term capital growth with an emphasis on controlling return volatility relative to an international market index.
(4) Includes equity securities that seek to achieve excess returns relative to the Russell 2000 Index while maintaining portfolio risk characteristics similar to the index.
(5) Seeks to provide excess returns relative to an international small cap index, while maintaining regional weights similar to the index.
(6) Seeks long-term capital growth in securities of companies that have their principal business activities in countries in the Morgan Stanley Capital International Emerging Markets Free Index.
(7) Seeks to generate returns that exceed the Barclays Capital U.S. Long Government/Credit Bond Index through investment-grade fixed income securities.
(8) Seeks to generate returns that exceed the Barclays Capital U.S. Aggregate Bond Index through investment-grade fixed income securities.
(9) Seeks to generate returns that exceed the Barclays Capital U.S. Long Corporate A or Better Index investing in U.S. corporate bonds with an emphasis on long duration bonds rated A or better.

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The following tables represent the fair value measurements for the pension plan assets by major category and level of input:

	Erie Insurance Group			
	At December 31, 2011			
	Fair value measurements of plan assets using:			
(in millions)	Total	Quoted prices in active markets for identical assets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
Return seeking assets:				
U.S. equity index (1)	$ 58	$0	$ 58	$0
U.S. large capitalization core equity (2)	54	0	54	0
International risk-controlled equity (3)	53	0	53	0
U.S. small capitalization core equity (4)	28	0	28	0
International small capitalization risk-controlled equity (5)	8	0	8	0
Emerging markets equity (6)	7	0	7	0
Liability matching assets:				
Long duration fixed income (7)	55	0	55	0
Broad market fixed income (8)	53	0	53	0
Long duration corporate fixed income (9)	30	0	30	0
Institutional money market fund	2	2	0	0
Total	$348	$2	$346	$0

	Erie Insurance Group			
	At December 31, 2010			
	Fair value measurements of plan assets using:			
(in millions)	Total	Quoted prices in active markets for identical assets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
Return seeking assets:				
U.S. equity index (1)	$ 55	$0	$ 55	$0

U.S. large capitalization core equity (2)	51	0	51	0
International risk-controlled equity (3)	50	0	50	0
U.S. small capitalization core equity (4)	26	0	26	0
International small capitalization risk-controlled equity (5)	8	0	8	0
Emerging markets equity (6)	7	0	7	0
Liability matching assets:				
Long duration fixed income (7)	51	0	51	0
Broad market fixed income (8)	49	0	49	0
Long duration corporate fixed income (9)	28	0	28	0
Institutional money market fund	3	3	0	0
Total	$328	$3	$325	$0

(1) Comprises equity index funds not actively managed that track the S&P 500.
(2) Includes equity securities that seek to achieve excess returns relative to the S&P 500 while maintaining portfolio risk characteristics similar to the index.
(3) Seeks long-term capital growth with an emphasis on controlling return volatility relative to an international market index.
(4) Includes equity securities that seek to achieve excess returns relative to the Russell 2000 Index while maintaining portfolio risk characteristics similar to the index.
(5) Seeks to provide excess returns relative to an international small cap index, while maintaining regional weights similar to the index.
(6) Seeks long-term capital growth in securities of companies that have their principal business activities in countries in the Morgan Stanley Capital International Emerging Markets Free Index.
(7) Seeks to generate returns that exceed the Barclays Capital U.S. Long Government/Credit Bond Index through investment-grade fixed income securities.
(8) Seeks to generate returns that exceed the Barclays Capital U.S. Aggregate Bond Index through investment-grade fixed income securities.
(9) Seeks to generate returns that exceed the Barclays Capital U.S. Long Corporate A or Better Index investing in U.S. corporate bonds with an emphasis on long duration bonds rated A or better.

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Estimates of fair values of the pension plan assets are obtained primarily from our trustee and custodian of our pension plan. Our Level 1 category includes a money market fund that is a mutual fund for which the fair value is determined using an exchange traded price provided by the trustee and custodian. Our Level 2 category includes commingled pools. Estimates of fair values for securities held by our commingled pools are obtained primarily from the trustee and custodian. The methodologies used by the trustee and custodian that support a financial instrument Level 2 classification include multiple verifiable, observable inputs including benchmark yields, reported trades, broker/dealer quotes, issuers spreads, two-sided markets, benchmark securities, bids, offers and reference data. There were no Level 3 investments during 2011 or 2010.

Retiree health benefit plan

The retiree health benefit plan was terminated in 2006. We continue to provide retiree health benefits only to employees who met certain age and service requirements on or before July 1, 2010. The accumulated benefit obligation and net periodic benefit cost of this plan were not material to our consolidated financial statements. At December 31, 2011 and 2010, the projected benefit obligation associated with these benefits was $6 million and $7 million, respectively. This plan is funded only as claims are incurred. Periodic benefit costs for the Erie Insurance Group were $0.2 million in 2011 and $0.3 million in both 2010 and 2009.

Employee savings plan

All full-time and regular part-time employees are eligible to participate in a traditional qualified 401(k) or a Roth 401(k) savings plan. We match 100% of the participant contributions up to 3% of compensation and 50% of participant contributions over 3% and up to 5% of compensation. Matching contributions paid to the plan were $9 million in 2011 and 2010, and $8 million in 2009. Employees are permitted to invest the employer-matching contributions in our Class A common stock. Employees, other than executive and senior officers, may sell the shares at any time without restriction; sales by executive and senior officers are subject to restrictions imposed by our insider trading policies and the federal securities laws. The plan acquires shares in the open market necessary to meet the obligations of the plan. Plan participants held 0.2 million of our Class A shares at December 31, 2011 and 2010. Liabilities for the 401(k) plan are presented in the Consolidated Statements of Financial Position with other liabilities.

Note 17. Incentive Plans and Deferred Compensation

We have separate annual and long-term incentive plans for our executive and senior vice presidents. We also make available deferred compensation plans for executive and senior management and outside directors.

Annual incentive plan

Our annual incentive plan is a bonus plan that pays cash to our executive and senior vice presidents annually.

The awards under the annual incentive plan are based on attainment of corporate and individual performance measures established at the beginning of each year. These measures, which can include various financial measures, are established by the Executive Compensation and Development Committee of our Board of Directors, and are then approved by the Board of Directors. A funding qualifier was introduced into the plan in 2009. The Executive Compensation and Development Committee of our Board of Directors determined that the plan should first consider the Indemnity’s financial results before a payout could be made to participants of the plan. The funding qualifier is based upon Indemnity’s operating income. If the funding qualifier is met, each member of executive and senior management becomes eligible for incentive compensation based upon specific performance measures. The corporate performance measures considered in the plan primarily included the Property and Casualty Group’s direct written premium and statutory combined ratio in 2010 and also included the reported policy retention ratio in 2011.

The cost of the plan is charged to operations as the compensation is earned over the performance period of one year. The after-tax compensation cost charged to operations related to the annual incentive plan bonus for the Erie Insurance Group was $2 million, $3 million and $2 million for 2011, 2010 and 2009 respectively.

Long-term incentive plan

Our long-term incentive plan (“LTIP”) is a performance based incentive plan designed to reward executive and senior vice presidents who can have a significant impact on our long-term performance.

The LTIP award is based upon the level of achievement of objective measures of performance over a three-year period as compared to a peer group of property and casualty companies selected by our Executive Compensation and Development Committee of our Board of Directors. The 2011, 2010 and 2009 awards were based upon the reported combined ratio, growth in direct written premiums and total return on invested assets as defined by the Erie Insurance Group. These performance measures are compared to the same performance measures of a peer group of companies. Because the award is based upon a comparison to results of a peer group over a three-year period, the award accrual is based upon estimates of probable results for the remaining performance period. This estimate is subject to variability if our results or the results of the peer group are substantially different than the results we project.

The Executive Compensation and Development Committee determines the form of the distribution to be granted at the beginning of each performance period. The 2009-2011 performance period is closed and distributions will be made in the form of cash later in 2012 once peer group financial information becomes available. The Executive Compensation and Development Committee agreed to also distribute awards under the 2010-2012 performance period in cash, while the 2011-2013 performance period will be paid in shares of Indemnity's Class A common stock. If the Executive Compensation and Development Committee determines that awards will be paid in restricted performance shares, then shares of our Class A common stock will be purchased on the open market and distributed to the plan participants when the award is paid. We do not issue new shares of common stock to plan participants. Accordingly, the disclosure requirements of Item 201(d) of Regulation S-K are not applicable. The performance shares awarded through the LTIP are considered vested at the end of each applicable performance period.

The maximum number of shares which may be earned under the plan by any single participant during any one performance period is limited to 250,000 shares. The aggregate number of Class A common stock that may be issued pursuant to awards granted under the LTIP is 1.0 million shares. With respect to an award of performance units, the maximum dollar amount which may be earned under the plan by any single participant during any one performance period is $3 million. A liability is recorded and compensation expense is recognized ratably over the performance period.

At December 31, 2011, the plan awards for the 2009-2011 performance period were fully earned in accordance with the LTIP. The awards for this performance period will be calculated upon receipt of the final financial information for the peer group. The estimated plan award based upon the peer group information as of September 30, 2011 is $5 million.

At December 31, 2010, the awards for the 2008-2010 performance period were fully vested in accordance with the LTIP. The average share price on the date the shares were paid to participants for the 2008-2010 performance period was $73.97. The plan award of $5 million was paid in July 2011. At December 31, 2009, the awards for the 2007-2009 performance period were fully vested in accordance with the LTIP. The average share price on the date the shares were paid to participants for the 2007-2009 performance period was $44.48. The plan award of $2 million was paid in July 2010.

Earned amounts are allocated to related entities and settled in cash once the payout is made. The after-tax compensation cost charged to operations related to these restricted stock awards for the Erie Insurance Group was $6 million in 2011, $4 million in 2010, and $2 million in 2009.

Deferred compensation plans

Our deferred compensation plans are arrangements for our executive and senior vice presidents and outside directors. The deferred compensation plan for our executive and senior vice presidents allows participants to elect to defer receipt of a portion of their base salary and/or annual incentive plan award until a later date. Employer matching contributions that cannot be credited to our tax-qualified 401(k) plan, because they exceed the annual contribution or compensation limits of that plan, are also credited to the accounts of participants who elected to participate in the deferred compensation plan for the year by deferring receipt of some portion of their base salary. The deferred compensation plan for our outside directors allows participants to defer receipt of a portion of their director and meeting fees until a later date. Employees or outside directors participating in the respective plans select hypothetical investment funds for their deferrals which are credited with the hypothetical returns generated.

The awards, payments, deferrals and liabilities under the annual incentive plan, long-term incentive plan and deferred compensation plans for officers and outside directors were as follows for the years ended December 31:

(in millions)	Erie Insurance Group		
	2011	2010	2009
Awards, employer match and hypothetical earnings by plan:			
Long-term incentive plan awards	$ 9	$ 7	$ 4
Annual incentive plan awards	3	4	3
Deferred compensation plans, employer match and hypothetical earnings	1	2	1
Total plan awards and earnings	13	13	8
Total plan awards paid	(10)	(6)	(8)
Compensation deferred under the plans	0	1	1
Distributions from the deferred compensation plans	(1)	(1)	(1)
Gross incentive plan and deferred compensation liabilities at end of period	$ 24	$22	$15

Stock compensation plan for outside directors

We have a stock compensation plan for our outside directors to further align the interests of directors with shareholders by providing for a portion of annual compensation for the directors' services in shares of our Class A common stock. Each director vests in the grant 25% every three months over the course of a year. Dividends paid by us are reinvested into each director's account as additional share credits which vest immediately. Upon leaving board service, directors are paid shares of our Class A common stock equal to the number of share credits in their deferred stock account. Our practice is to purchase the shares that will be paid to the directors on the open market. We do not issue new shares of common stock to directors. Accordingly, the disclosure requirements of Item 201(d) of Regulation S-K are not applicable. The annual charge related to the stock compensation plan for our directors totaled $1 million in 2011, $2 million in 2010, and $0.4 million in 2009.

Note 18. Capital Stock

Class A and B common stock
We have two classes of common stock: Class A which has a dividend preference and Class B which has voting power and a conversion right. 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 1.0% of any dividend declared on each share of Class B common stock. We may declare and pay a dividend in respect to Class A common stock without any requirement that any dividend be declared and paid in respect to Class B common stock. Sole shareholder voting power is vested in Class B common stock except insofar as any applicable law shall permit Class A common shareholders to vote as a class in regards to any changes in the rights, preferences and privileges attaching to Class A common stock. 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 per Class B share. In 2009, five shares of Class B common stock were converted into 12,000 shares of Class A common stock. There were no conversions of Class B shares to Class A shares in 2011 or 2010. There is no provision for conversion of Class A shares to Class B shares, and, Class B shares surrendered for conversion cannot be reissued.

Stock repurchases
A stock repurchase program was authorized for our outstanding Class A nonvoting common stock beginning January 1, 2004. Treasury shares are recorded in the Consolidated Statements of Financial Position at total cost based upon trade date. Shares repurchased under this program totaled 2.2 million at a total cost of $155 million during 2011, and 1.1 million shares at a total cost of $57 million during 2010. In October 2011, our Board of Directors approved a continuation of the current stock repurchase program for a total of $150 million, with no time limitation. We had approximately $138 million of repurchase authority remaining under this program at December 31, 2011.

In July 2011, we also repurchased 64,095 shares of our outstanding Class A nonvoting common stock outside of our publicly announced share repurchase program at a total cost of $4.8 million. Of this amount, 57,695 shares were purchased for $4.3 million, or $73.72 per share, in conjunction with our long-term incentive plan, and 6,400 shares

were purchased for $0.5 million, or $73.74 per share, for the vesting of stock-based awards for executive management. These shares were delivered to plan participants and executive management, respectively, in July 2011.

In 2010, we repurchased 44,206 shares of our outstanding Class A nonvoting common stock outside of our publicly announced share repurchase program at a total cost of $2 million. Of this amount, 39,406 shares were purchased in June 2010 for $1.8 million, or $45.92 per share, in conjunction with our long-term incentive plan, and 4,800 shares were purchased in July 2010 for $0.2 million, or $48.75 per share, for the vesting of stock-based awards for executive management. These shares were delivered to plan participants and executive management, respectively, in July 2010.

Note 19. Comprehensive Income

The components of the change in comprehensive (loss) income are as follows for the periods ended December 31:

(in millions)	Erie Insurance Group		
Change in other comprehensive (loss) income:	2011	2010	2009
Indemnity:			
Cumulative effect of accounting changes, net of tax	$ -	$ -	$ (6)
Unrealized (loss) gain on securities:			
Gross unrealized holding (losses) gains on investments arising during period	(11)	18	105
Unrealized gains transferred to the noncontrolling interest (1)	-	(23)	-
Reclassification adjustment for gross (gains) losses included in net income	(5)	(5)	10
Unrealized holding (losses) gains on investments	(16)	(10)	115
Income tax benefit (expense) related to unrealized (losses) gains	5	4	(40)
Net unrealized holding (losses) gains on investments arising during year	(11)	(6)	75
Postretirement plans:			
Amortization of prior service cost	1	0	0
Amortization of actuarial loss	6	4	3
Net actuarial (loss) gain during year	(69)	(9)	38
Losses due to plan changes during year	(1)	(1)	(3)
Curtailment/settlement loss arising during year	0	0	(1)
Postretirement benefits, gross	(63)	(6)	37
Income tax benefit (expense) related to postretirement benefits	22	2	(13)
Postretirement plans, net	(41)	(4)	24
Change in other comprehensive (loss) income, net of tax – Indemnity	**(52)**	**(10)**	**93**
Change in other comprehensive (loss) income, net of tax – Exchange	(9)	101	423
Change in other comprehensive (loss) income, net of tax – Erie Insurance Group	$(61)	$ 91	$516

(1) This represents unrealized gains moved from Indemnity shareholder interest to the noncontrolling interest as a result of the December 31, 2010 sale of the P&C subsidiaries.

The components of accumulated other comprehensive (loss) income, net of tax, are as follows for the periods ended December 31:

(in millions)	Erie Insurance Group		
Accumulated other comprehensive (loss) income:	2011	2010	2009
Indemnity:			
Accumulated net appreciation of investments	$ 11	$ 22	$ 28
Accumulated net losses associated with post-retirement benefits	(116)	(75)	(71)
Accumulated other comprehensive loss – Indemnity	**(105)**	**(53)**	**(43)**
Exchange:			
Accumulated other comprehensive income – Exchange	$ 287	$277	$176

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The components of comprehensive income, net of tax, are as follows for the periods ended December 31:

(in millions)	Erie Insurance Group		
Comprehensive income:	2011	2010	2009
Net income – Erie Insurance Group	$268	$660	$ 446
Change in other comprehensive (loss) income, net of tax – Erie Insurance Group	(61)	91	516
Less: Cumulative effect of accounting changes, net of tax	–	–	(101)
Less: Unrealized gains transferred to the noncontrolling interest, net of tax (1)	–	(15)	–
Total comprehensive income – Erie Insurance Group	207	766	1,063
Less: Noncontrolling interest in consolidated entity – Exchange	90	599	856
Total comprehensive income – Indemnity	**$117**	**$167**	**$ 207**

(1) This represents unrealized gains moved from Indemnity shareholder interest to the noncontrolling interest as a result of the December 31, 2010 sale of the P&C subsidiaries.

Note 20. Commitments and Contingencies

Indemnity has contractual commitments to invest up to $40 million related to its limited partnership investments at December 31, 2011. These commitments are split between private equity securities of $17 million, mezzanine debt securities of $11 million, and real estate activities of $12 million. These commitments will be funded as required by the partnership agreements.

The Exchange, including EFL, has contractual commitments to invest up to $384 million related to its limited partnership investments at December 31, 2011. These commitments are split between private equity securities of $162 million, mezzanine debt securities of $118 million, and real estate activities of $104 million. These commitments will be funded as required by the partnership agreements.

We are involved in litigation arising in the ordinary course of conducting business. In accordance with current accounting standards for loss contingencies and based upon information currently known to us, we establish reserves for litigation when it is probable that a loss associated with a claim or proceeding has been incurred and the amount of the loss or range of loss can be reasonably estimated. When no amount within the range of loss is a better estimate than any other amount, we accrue the minimum amount of the estimable loss. To the extent that such litigation against us may have an exposure to a loss in excess of the amount we have accrued, we believe that such excess would not be material to our consolidated financial condition, operations or cash flows. We believe that our accruals for legal proceedings are appropriate and, individually and in the aggregate, are not expected to be material to our consolidated financial condition, operations or cash flows.

For certain legal proceedings, we cannot reasonably estimate losses or a range of loss, particularly for proceedings that are in their early stages of development or where the plaintiffs seek indeterminate damages. Various factors, including, but not limited to, the outcome of potentially lengthy discovery and the resolution of important factual questions, may need to be determined before probability can be established or before a loss or range of loss can be reasonably estimated. If the loss contingency in question is not both probable and reasonably estimable, we do not establish an accrual and the matter will continue to be monitored for any developments that would make the loss contingency both probable and reasonably estimable. The outcome of this pending litigation is uncertain, but in our opinion the outcome of each case, individually and in the aggregate, is not expected to be material to our consolidated financial condition, operations or cash flows. We review all litigation on an ongoing basis when making accrual and disclosure decisions.

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Note 21. Supplementary Data on Cash Flows

Indirect method of cash flows
A reconciliation of net income to net cash provided by operating activities as presented in the Consolidated Statements of Cash Flows is as follows for the years ended December 31:

(in millions)	Erie Insurance Group		
	2011	2010	2009
Cash flows from operating activities:			
Net income	$ 268	$ 660	$ 446
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	4	12	9
Amortization of deferred policy acquisition costs	680	652	624
Impairment of goodwill	–	22	–
Deferred income tax (benefit) expense	(105)	342	15
Realized losses (gains) and impairments on investments	6	(307)	(285)
Equity in (earnings) losses of limited partnerships	(149)	(128)	369
Net amortization of bond premium (discount)	26	9	(12)
Increase in deferred compensation	4	7	0
Limited partnership distributions	166	122	81
Decrease (increase) in receivables, reinsurance recoverables and reserve credits	91	(158)	209
(Increase) decrease in prepaid expenses	(56)	10	(9)
Increase in deferred policy acquisition costs	(701)	(667)	(642)
Increase (decrease) in accounts payable and accrued expenses	83	18	(1)

Increase (decrease) in accrued commissions and agent bonuses	4	1	(15)
(Decrease) increase in loss reserves	(85)	(11)	12
Increase in future life policy benefits and claims reserves	28	21	37
Increase in unearned premiums	96	116	51
Net cash provided by operating activities	$ 360	$ 721	$ 889

Note 22. Statutory Information

Accounting principles used to prepare statutory financial statements differ from those used to prepare financial statements under GAAP. Prescribed statutory accounting practices ("SAP") include state laws, regulations, and general administration rules, as well as a variety of publications from the National Association of Insurance Commissioners ("NAIC"). The statutory financial statements of the Exchange and its subsidiaries, EIC, EPC, Flagship and EFL, are prepared in accordance with accounting practices prescribed and permitted by the Pennsylvania Insurance Department. ENY prepares its statutory financial statements in accordance with accounting practices prescribed by the New York Insurance Department.

Financial statements prepared under statutory accounting principles focus on the solvency of the insurer and generally provide a more conservative approach than under GAAP. Differences between SAP and GAAP include the valuation of investments, deferred policy acquisition cost assets, the actuarial assumptions used in life reserves, deferred tax assets, and unearned subscriber fees.

Statutory net income and capital and surplus as determined in accordance with SAP prescribed or permitted by insurance regulatory authorities are as follows:

(in millions)	SAP Net income (loss) Years ended December 31,			SAP Capital and surplus At December 31,	
	2011	2010	2009	2011	2010
Erie Insurance Exchange	$182	$531	$(56)	$5,166	$5,070
Erie Insurance Company	9	21	16	260	251
Erie Insurance Company of New York	(1)	2	2	20	20
Erie Insurance Property & Casualty Company	0	0	0	11	10
Flagship City Insurance Company	0	0	0	11	11
Erie Family Life Insurance Company	34	38	3	245	208

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The minimum statutory capital and surplus requirements under Pennsylvania and New York law for the Exchange's property and casualty insurance subsidiaries amounts to $12 million. The Exchange's subsidiaries' total statutory capital and surplus significantly exceed these minimum requirements, totaling $302 million at December 31, 2011. The risk-based capital levels of all members of the Property and Casualty Group and EFL significantly exceed the minimum requirements. Cash and securities with a carrying value of $14 million were deposited by the property and casualty and life entities with regulatory authorities under statutory requirements at December 31, 2011.

As prescribed by the Insurance Department of the Commonwealth of Pennsylvania, the Exchange records unearned subscriber fees (fees to the attorney-in-fact) as deductions from unearned premium reserve and charges current operations on a pro-rata basis over the periods covered by the policies. The Pennsylvania-domiciled members of the Property and Casualty Group discount workers compensation loss reserves on a non-tabular basis as prescribed by the Insurance Department of the Commonwealth of Pennsylvania. The Exchange's NAIC prepared statutory surplus, excluding the impact of the Pennsylvania prescribed practices, would have been $4.7 billion at December 31, 2011. EIC's NAIC prepared statutory surplus, excluding the impact of the Pennsylvania prescribed practices, would have been $256 million at December 31, 2011. EPC and Flagship record the discounting of workers compensation loss reserves on a direct basis, however, after application of the intercompany pooling arrangement, there is no impact on their financial statements.

The amount of dividends that can be paid to the Exchange without the prior approval of the Pennsylvania Insurance Commissioner by EIC, EPC and Flagship, the Exchange's Pennsylvania-domiciled property and casualty insurance subsidiaries, is limited to not more than the greater of: (a) 10% of statutory surplus as reported in the last annual statement, or (b) net income as reported in the last annual statement. The amount of dividends that EIC's New York-domiciled property and casualty subsidiary, ENY, can pay without the prior approval of the New York Superintendent of Insurance is limited to the lesser of: (a) 10% of statutory surplus as reported in the last annual statement, or (b) 100% of adjusted net investment income during such period. In 2012, the maximum dividend payout that the Exchange could receive from its property and casualty insurance subsidiaries would be $30 million. No dividends were paid by these property and casualty insurance subsidiaries in 2011, 2010 or 2009.

The amount of dividends that can be paid to the Exchange without the prior approval of the Pennsylvania Insurance Commissioner by EFL, a Pennsylvania-domiciled life insurer, is limited by statute to the greater of: (a) 10% of statutory surplus as shown in the last annual statement on file with the commissioner, or (b) net income as reported in the last annual statement, but shall not include pro-rata distribution of any class of the insurer's own securities. Accordingly, the maximum dividend payout that the Exchange could receive in 2012 without prior Pennsylvania Commissioner approval is $34 million. There were no dividends paid to either the Exchange or Indemnity in 2011, 2010 or 2009.

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Note 23. Indemnity Supplemental Information

(in millions)	Erie Insurance Group **Consolidating Statement of Financial Position** December 31, 2011			
	Indemnity shareholder	Exchange noncontrolling	Reclassifications and	Erie Insurance

Assets	interest	interest	eliminations	Group
Investments				
Available-for-sale securities, at fair value:				
Fixed maturities	$ 548	$ 7,292	$ –	$ 7,840
Equity securities	25	564	–	589
Trading securities, at fair value	27	2,308	–	2,335
Limited partnerships	208	1,082	–	1,290
Other invested assets	1	19	–	20
Total investments	809	11,265	–	12,074
Cash and cash equivalents	11	174	–	185
Premiums receivable from policyholders	–	976	–	976
Reinsurance recoverable	–	166	–	166
Deferred income taxes	19	–		19
Deferred acquisition costs	–	487	–	487
Other assets	119	322	–	441
Receivables from the Exchange and other affiliates	254	–	(254)	–
Note receivable from EFL	25	–	(25)	–
Total assets	$1,237	$13,390	$(279)	$14,348
Liabilities				
Losses and loss expense reserves	$ –	$ 3,499	$ –	$ 3,499
Life policy and deposit contract reserves	–	1,671	–	1,671
Unearned premiums	–	2,178	–	2,178
Deferred income taxes	–	147	–	147
Other liabilities	456	383	(279)	560
Total liabilities	456	7,878	(279)	8,055
Shareholders' equity and noncontrolling interest				
Total Indemnity shareholders' equity	781	–	–	781
Noncontrolling interest in consolidated entity – Exchange	–	5,512	–	5,512
Total equity	781	5,512	–	6,293
Total liabilities, shareholders' equity and noncontrolling interest	$1,237	$13,390	$(279)	$14,348

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	Erie Insurance Group			
	Consolidating Statement of Financial Position			
	December 31, 2010			
(in millions)	Indemnity shareholder interest	Exchange noncontrolling interest	Reclassifications and eliminations	Erie Insurance Group
Assets				
Investments				
Available-for-sale securities, at fair value:				
Fixed maturities	$ 264	$ 7,279	$ –	$ 7,543
Equity securities	24	570	–	594
Trading securities, at fair value	28	2,306	–	2,334
Limited partnerships	216	1,108	–	1,324
Other invested assets	1	19	–	20
Total investments	533	11,282	–	11,815
Cash and cash equivalents	310	120	–	430
Premiums receivable from policyholders	–	942	–	942
Reinsurance recoverable	–	201	–	201
Deferred acquisition costs	–	467	–	467
Other assets	132	357	–	489
Receivables from the Exchange and other affiliates	232	–	(232)	–
Note receivable from EFL	25	–	(25)	–
Equity in EFL (1)	80	–	(80)	–
Total assets	$1,312	$13,369	$(337)	$14,344
Liabilities				
Losses and loss expense reserves	$ –	$ 3,584	$ –	$ 3,584
Life policy and deposit contract reserves	–	1,603	–	1,603
Unearned premiums	–	2,082	–	2,082
Deferred income taxes	26	257	–	283
Other liabilities	374	341	(257)	458
Total liabilities	400	7,867	(257)	8,010
Shareholders' equity and noncontrolling interest				
Total Indemnity shareholders' equity	912	–	–	912
Noncontrolling interest in consolidated entity – Exchange	–	5,502	(80)	5,422
Total equity	912	5,502	(80)	6,334
Total liabilities, shareholders' equity and noncontrolling interest	$1,312	$13,369	$(337)	$14,344

(1) On March 31, 2011, Indemnity sold its 21.6% ownership interest in EFL to the Exchange.

Receivables from the Exchange and EFL and concentrations of credit risk
Financial instruments could potentially expose Indemnity to concentrations of credit risk, including unsecured receivables from the Exchange. A majority of Indemnity's revenue and receivables are from the Exchange and affiliates. See also Note 4, "Variable Interest Entity."

Management fees and expense allocation amounts due from the Exchange were $251 million and $229 million at December 31, 2011 and 2010, respectively. The receivable from EFL for expense allocations totaled $3 million at December 31, 2011 and 2010.

Indemnity is due $25 million from EFL in the form of a surplus note that was issued in 2003. The note may be repaid only out of unassigned surplus of EFL. Both principal and interest payments are subject to prior approval by the Pennsylvania Insurance Commissioner. The note bears an annual interest rate of 6.7% and will be payable on demand on or after December 31, 2018, with interest scheduled to be paid semi-annually, subject to prior approval by the Pennsylvania Insurance Commissioner. EFL paid annual interest to Indemnity of $2 million in both 2011 and 2010.

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(in millions)	Percent	Indemnity Shareholder Interest **Income attributable to Indemnity shareholder interest** Years ended December 31, 2011	2010	2009
Management operations:				
Management fee revenue, net	100.0%	$ 1,067	$ 1,009	$ 965
Service agreement revenue	100.0%	33	34	35
Total revenue from management operations		1,100	1,043	1,000
Cost of management operations	100.0%	892	841	813
Income from management operations before taxes		208	202	187
Property and casualty insurance operations: (2)				
Net premiums earned	5.5% (2)	–	216	209
Losses and loss expenses	5.5% (2)	–	155	145
Policy acquisition and underwriting expenses	5.5% (2)	–	61	63
Income from property and casualty insurance operations before taxes		–	0	1
Life insurance operations: (1)				
Total revenue	21.6% (3)	10	37	27
Total benefits and expenses	21.6% (3)	7	26	25
Income from life insurance operations before taxes		3	11	2
Investment operations:				
Net investment income (2)		16	37	42
Net realized gains (losses) on investments (2)		3	(1)	10
Net impairment losses recognized in earnings (2)		0	(1)	(12)
Equity in earnings (losses) of limited partnerships		26	21	(76)
Income (loss) from investment operations before taxes (2)		45	56	(36)
Income from operations before income taxes		256	269	154
Provision for income taxes		87	107	46
Net income		$ 169	$ 162	$ 108

(1) Earnings on life insurance related invested assets are integral to the evaluation of the life insurance operations because of the long duration of life products. On that basis, for presentation purposes, the life insurance operations in the table above include life insurance related investment results. However, the life insurance investment results are included in the investment operations segment discussion in Note 5, "Segment Information".

(2) Prior to and through December 31, 2010, the underwriting results retained by EIC and ENY and the investment results of EIC, ENY and EPC accrued to the Indemnity shareholder interest. Due to the sale of Indemnity's property and casualty insurance subsidiaries to the Exchange on December 31, 2010, all property and casualty underwriting results and all investment results for these companies accrue to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after December 31, 2010.

(3) Prior to and through March 31, 2011, Indemnity retained a 21.6% ownership interest in EFL, which accrued to the Indemnity shareholder interest, and the Exchange retained a 78.4% ownership interest in EFL, which accrued to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest. Due to the sale of Indemnity's 21.6% ownership interest in EFL to the Exchange on March 31, 2011, 100% of EFL's life insurance results accrue to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after March 31, 2011.

Expense allocations
All claims handling services for the Exchange are performed by Indemnity employees who are entirely dedicated to claims related activities. All costs associated with these employees are reimbursed to Indemnity from the Exchange's revenues in accordance with the subscriber's agreement. Indemnity is reimbursed by EFL from its revenues for all costs associated with employees who perform life insurance related operating activities for EFL in accordance with its service agreement with Indemnity. Cash settlements for payments on the account of the Exchange totaled $325 million, $293 million and $282 million in 2011, 2010 and 2009, respectively, and $28 million, $27 million and $32 million in 2011, 2010 and 2009, respectively, for EFL. These reimbursements have generally been settled quarterly; however, beginning in the fourth quarter of 2011, the reimbursements are settled on a monthly basis.

Common overhead expenses included in the expenses paid by Indemnity are allocated based upon appropriate utilization statistics (employee count, square footage, vehicle count, project hours, etc.) specifically measured to accomplish proportional allocations. Executive compensation is allocated based upon each executive's primary responsibilities (management services, property and casualty claims operations, EFL operations and investment operations). We believe the methods used to allocate common overhead expenses among the affiliated entities are reasonable.

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Office leases

Indemnity leases certain office space from the Exchange, including the home office and three field office facilities. Rent expenses under these leases totaled $6 million in 2011, 2010 and 2009. Indemnity also has a lease commitment with EFL for a branch office until 2018. Annual rentals paid to EFL under this lease totaled $0.4 million in 2011 and 2010 and $0.3 million in 2009.

Direct method of cash flows

Indemnity's components of direct cash flows as included in the Consolidated Statements of Cash Flows are as follows for the years ended December 31:

(in millions)	Indemnity Shareholder Interest		
	Direct method of cash flows		
	2011	2010	2009
Management fee received	$ 1,053	$ 947	$ 912
Service agreement fee received	33	34	35
Premiums collected [1]	–	220	214
Net investment income received [1]	22	45	45
Limited partnership distributions	22	21	13
(Decrease) increase in reimbursements collected from affiliates	(9)	(15)	3
Commissions and bonuses paid to agents	(583)	(532)	(535)
Salaries and wages paid	(124)	(106)	(110)
Pension contribution and employee benefits paid	(36)	(33)	(32)
Losses paid [1]	–	(132)	(123)
Loss expenses paid [1]	–	(23)	(22)
Other underwriting and acquisition costs paid [1]	–	(53)	(54)
General operating expenses paid	(127)	(119)	(104)
Income taxes paid	(82)	(61)	(62)
Net cash provided by operating activities	169	193	180
Net cash (used in) provided by investing activities	(211)	196	(69)
Net cash used in financing activities	(257)	(155)	(96)
Net (decrease) increase in cash and cash equivalents	(299)	234	15
Cash and cash equivalents at beginning of year	310	76	61
Cash and cash equivalents at end of year	$ 11	$ 310	$ 76

(1) Prior to and through December 31, 2010, the underwriting results retained by EIC and ENY and the investment results of EIC, ENY and EPC accrued to the Indemnity shareholder interest. Due to the sale of Indemnity's property and casualty insurance subsidiaries to the Exchange on December 31, 2010, all property and casualty underwriting results and all investment results for these companies accrue to the interest of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after December 31, 2010.

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Note 24. Quarterly Results of Operations (unaudited)

	Erie Insurance Group				
	Year ended December 31, 2011				
(in millions, except per share data)	First quarter	Second quarter	Third quarter	Fourth quarter	Year
Revenues	$ 1,365	$ 1,245	$ 796	$ 1,418	$4,824
Benefits and expenses	953	1,419	1,101	993	4,466
Income (loss) from operations before income taxes and noncontrolling interest	412	(174)	(305)	425	358
Net income (loss)	274	(107)	(180)	281	268
Less: Net income (loss) attributable to noncontrolling interest in consolidated entity – Exchange	230	(159)	(227)	255	99
Net income attributable to Indemnity	**$ 44**	**$ 52**	**$ 47**	**$ 26**	**$ 169**
Earnings per share [1]					
Net income attributable to Indemnity per share					
Class A common stock – basic	$ 0.88	$ 1.05	$ 0.97	$ 0.55	$ 3.45
Class A common stock – diluted	**$ 0.78**	**$ 0.94**	**$ 0.87**	**$ 0.49**	**$ 3.08**
Class B common stock – basic and diluted	$ 126.48	$ 158.33	$ 146.67	$ 81.76	$ 522.47

(1) The cumulative sum of quarterly basic and diluted net income per share amounts may not equal total basic and diluted net income per share for the year due to differences in weighted average shares and equivalent shares outstanding for each of the periods presented.

	Erie Insurance Group				
	Year ended December 31, 2010				
(in millions, except per share data)	First quarter	Second quarter	Third quarter	Fourth quarter	Year
Revenues	$ 1,216	$ 916	$ 1,357	$ 1,401	$ 4,890
Benefits and expenses	988	967	952	984	3,891
Income (loss) from operations before income taxes and noncontrolling interest	228	(51)	405	417	999
Net income (loss)	162	(31)	275	254	660

Less: Net income (loss) attributable to noncontrolling interest in consolidated entity – Exchange	115	(80)	221	242	498
Net income attributable to Indemnity	**$ 47**	**$ 49**	**$ 54**	**$ 12**	**$ 162**
Earnings per share (1)					
Net income attributable to Indemnity per share					
Class A common stock – basic	$ 0.92	$ 0.96	$ 1.05	$ 0.25	$ 3.18
Class A common stock – diluted	**$ 0.82**	**$ 0.86**	**$ 0.94**	**$ 0.22**	**$ 2.85**
Class B common stock – basic and diluted	$ 132.83	$ 138.21	$ 150.87	$ 40.93	$ 462.83

(1) *The cumulative sum of quarterly basic and diluted net income per share amounts may not equal total basic and diluted net income per share for the year due to differences in weighted average shares and equivalent shares outstanding for each of the periods presented.*

Note 25. Subsequent Events

We have evaluated for recognized and nonrecognized subsequent events through the date of financial statement issuance. No items were identified in this period subsequent to the financial statement date that required adjustment or disclosure.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Erie Indemnity Company

Erie, Pennsylvania

We have audited Erie Indemnity Company's internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Erie Indemnity Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Erie Indemnity Company has maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of Erie Indemnity Company as of December 31, 2011 and 2010, and the related consolidated statements of operations, shareholders' equity and noncontrolling interest, and cash flows for each of the three years in the period ended December 31, 2011 of Erie Indemnity Company and our report dated February 27, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Cleveland, Ohio
February 27, 2012

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A.   CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures
We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosures.

As required by the Securities and Exchange Commission Rule 13a-15(e), we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2011. Based upon the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting
There has been no change in our internal controls over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect our internal controls over financial reporting. Our process for evaluating controls and procedures is continuous and encompasses constant improvement of the design and effectiveness of established controls and procedures.

Management's Report on Internal Control over Financial Reporting
Management is responsible for establishing and maintaining adequate internal control over financial reporting of Erie Indemnity Company, as such term is defined in the Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the Erie Indemnity Company's internal control over financial reporting based upon the framework in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon our evaluation under the framework in *Internal Control-Integrated Framework*, management has concluded that Erie Indemnity Company's internal control over financial reporting was effective as of December 31, 2011.

/s/ Terrence W. Cavanaugh	/s/ Marcia A. Dall	/s/ Gregory J. Gutting
Terrence W. Cavanaugh	Marcia A. Dall	Gregory J. Gutting
President and	Executive Vice President and	Senior Vice President and
Chief Executive Officer	Chief Financial Officer	Controller
February 27, 2012	February 27, 2012	February 27, 2012

Our independent auditors have issued an attestation report on management's assessment of our internal control over financial reporting. This report appears on page 124.

ITEM 9B.   OTHER INFORMATION

There was no additional information in the fourth quarter of 2011 that has not already been filed in a Form 8-K.

PART III

ITEM 10.   DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information with respect to our outside directors, audit committee, and audit committee financial experts and Section 16(a) beneficial ownership reporting compliance, is incorporated by reference to the information statement on Form 14(C) to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2011.

We have adopted a code of conduct that applies to all of our outside directors, officers (including our chief executive officer, chief financial officer, chief accounting officer and any person performing similar functions) and employees. We previously filed a copy of this Code of Conduct as Exhibit 14 to the Registrant's 2003 Form 10-K Annual Report as filed with the SEC on March 8, 2004. We have also made the Code of Conduct available on our website at http://www.erieinsurance.com.

Executive Officers of the Registrant

Name	Age as of 12/31/11	Principal Occupation for Past Five Years and Positions with Erie Insurance Group
President & Chief Executive Officer:		
Terrence W. Cavanaugh	58	President and Chief Executive Officer of Erie Indemnity Company since July 29, 2008; Senior Vice President, Chubb & Son/Federal Insurance, for more than five years prior thereto; Chief Operating Officer, Chubb Surety, for more than five years prior thereto; Director, Erie Indemnity Company, EFL, EIC, Flagship, ENY and EPC.
Executive Vice Presidents:		
Marcia A. Dall	48	Executive Vice President and Chief Financial Officer since March 30, 2009; Chief Financial Officer – Healthcare, Cigna Corporation, January 2008 through March 2009; Chief Financial Officer – International & U.S. Mortgage Insurance, Genworth Financial, September 2006 through January 2008; Chief Financial Officer – International & U.S. Mortgage Insurance, GE Mortgage Insurance, August 2002

		through September 2006; General Electric, various positions for more than five years prior thereto; Director, EFL, EIC, Flagship, ENY and EPC.
George D. Dufala	40	Executive Vice President – Services since September 1, 2010; Senior Vice President, Erie Family Life Insurance Company, October 2008 through August 2010; Senior Vice President, Customer Service, January 2005 through September 2008.
John F. Kearns	52	Executive Vice President – Sales & Marketing since September 1, 2010; Senior Vice President, Commercial Lines Division, February 2007 through August 2010; Sabbatical, February 2005 through January 2007; President – Financial & Professional Services, St. Paul Travelers, November 2000 through January 2005.
James J. Tanous	64	Executive Vice President, Secretary and General Counsel since April 30, 2007; Partner and Chairman of Jaeckle Fleischmann & Mugel, LLP (law firm headquartered in Buffalo, NY) for more than five years prior thereto; Director, EFL, EIC, Flagship, ENY and EPC.

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Name	Age as of 12/31/11	Principal Occupation for Past Five Years and Positions with Erie Insurance Group
Executive Vice Presidents (continued):		
Michael S. Zavasky	59	Executive Vice President–Insurance Operations since March 7, 2008; Senior Vice President–Strategy Management, January 2006 through March 2008; Senior Vice President–Commercial Lines Underwriting, June 2001 through January 2006; Director, EFL, EIC, Flagship, ENY and EPC.
Senior Vice President:		
Douglas F. Ziegler	61	Senior Vice President, Treasurer and Chief Investment Officer, since 1993; Director, EFL, EIC, Flagship, ENY, and EPC. As discussed in our 8-K filing with the Securities and Exchange Commission on October 4, 2011, Douglas F. Ziegler has retired effective December 31, 2011.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item with respect to executive compensation is incorporated by reference to the information statement on Form 14(C) to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2011.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information with respect to security ownership of certain beneficial owners and management and securities authorized for issuance under equity compensation plans, is incorporated by reference to the information statement on Form 14(C) to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2011.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information with respect to certain relationships with our outside directors is incorporated by reference to the information statement on Form 14(C) to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2011.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference to the information statement on Form 14(C) to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2011.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

1. Consolidated Financial Statements

Included in Item 8 "Financial Statements and Supplementary Data" contained in this report.

Erie Indemnity Company:

- Report of Independent Registered Public Accounting Firm on the Effectiveness of Internal Control over Financial Reporting
- Report of Independent Registered Public Accounting Firm on the Consolidated Financial Statements
- Consolidated Statements of Operations for the three years ended December 31, 2011, 2010 and 2009
- Consolidated Statements of Financial Position as of December 31, 2011 and 2010
- Consolidated Statements of Shareholders' Equity and Noncontrolling Interest for the three years ended December 31, 2011, 2010 and 2009
- Consolidated Statements of Cash Flows for the three years ended December 31, 2011, 2010 and 2009
- Notes to 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.

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.

February 27, 2012

ERIE INDEMNITY COMPANY
(Registrant)

By: /s/ Terrence W. Cavanaugh
Terrence W. Cavanaugh, President and CEO
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

February 27, 2012

/s/ Terrence W. Cavanaugh
Terrence W. Cavanaugh, President and CEO
(Principal Executive Officer)

/s/ Marcia A. Dall
Marcia A. Dall, Executive Vice President & CFO
(Principal Financial Officer)

/s/ Gregory J. Gutting
Gregory J. Gutting, Senior Vice President & Controller
(Principal Accounting Officer)

Board of Directors:

/s/ J. Ralph Borneman, Jr. J. Ralph Borneman, Jr.	/s/ Lucian L. Morrison Lucian L. Morrison
/s/ Terrence W. Cavanaugh Terrence W. Cavanaugh	/s/ Thomas W. Palmer Thomas W. Palmer
/s/ Jonathan Hirt Hagen Jonathan Hirt Hagen	/s/ Martin P. Sheffield Martin P. Sheffield

/s/ Susan Hirt Hagen
Susan Hirt Hagen

/s/ Thomas B. Hagen
Thomas B. Hagen

/s/ C. Scott Hartz
C. Scott Hartz

/s/ Claude C. Lilly, III
Claude C. Lilly, III

/s/ Richard L. Stover
Richard L. Stover

/s/ Elizabeth A. Vorsheck
Elizabeth A. Vorsheck

/s/ Robert C. Wilburn
Robert C. Wilburn

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

(in millions)	Erie Insurance Group December 31, 2011 Amortized cost	Estimated fair value	Amount at which shown in the balance sheet
Indemnity			
Available-for-sale securities:			
States & political subdivisions	$ 208	$ 221	$ 221
Corporate debt securities	303	303	303
Commercial mortgage-backed securities (CMBS)	13	13	13
Collateralized debt obligations (CDO)	4	4	4
Other debt securities	7	7	7
Total fixed maturities – Indemnity	535	548	548
Nonredeemable preferred stock	24	25	25
Total available-for-sale securities	559	573	573
Trading securities	23	27	27
Limited partnerships	185	208	208
Real estate mortgage loans	1	1	1
Total Investments – Indemnity	$ 768	$ 809	$ 809
Exchange			
Available-for-sale securities:			
U.S. government & agencies	$ 16	$ 17	$ 17
States & political subdivisions	1,289	1,379	1,379
Foreign government securities	15	15	15
Corporate debt securities	5,144	5,499	5,499
Residential mortgage-backed securities (RMBS)	178	189	189
Commercial mortgage-backed securities (CMBS)	62	66	66
Collateralized debt obligations (CDO)	66	65	65
Other debt securities	59	62	62
Total fixed maturities – Exchange	6,829	7,292	7,292
Nonredeemable preferred stock	531	564	564
Total available-for-sale securities	7,360	7,856	7,856
Trading securities	2,021	2,308	2,308
Limited partnerships	1,003	1,082	1,082
Life policy loans	15	15	15
Real estate mortgage loans	4	4	4
Total Investments – Exchange	$10,403	$11,265	$11,265
Total Investments – Erie Insurance Group	$11,171	$12,074	$12,074

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SCHEDULE III
SUPPLEMENTARY INSURANCE INFORMATION

(in millions)	Erie Insurance Group Deferred policy acquisition costs	Reserves for losses, loss expenses, life	Unearned premiums	Premiums earned	Net investment income*	Benefits, claims, losses, and	Amortization of deferred policy	Other operating expenses*	Net premiums written

		policy deposit contracts				settlement expenses	acquisition costs		(excluding life)
December 31, 2011:									
Property and casualty insurance operations	$343	$3,499	$2,178	$4,149	$324	$3,344	$668	$327	$4,255
Life insurance operations	144	1,671	0	65	93	100	12	15	0
Management operations	0	0	0	0	16	0	0	0	0
Total	$487	$5,170	$2,178	$4,214	$433	$3,444	$680	$342	$4,255
December 31, 2010:									
Property and casualty insurance operations	$327	$3,584	$2,082	$3,925	$325	$2,810	$635	$303	$4,019
Life insurance operations	140	1,603	0	62	96	90	16	15	0
Management operations	0	0	0	0	12	0	0	0	0
Total	$467	$5,187	$2,082	$3,987	$433	$2,900	$651	$318	$4,019
December 31, 2009:									
Property and casualty insurance operations	$313	$3,598	$1,981	$3,808	$326	$2,639	$611	$364	$3,861
Life insurance operations	154	1,540	0	61	93	89	13	15	0
Management operations	0	0	0	0	14	0	0	0	0
Total	$467	$5,138	$1,981	$3,869	$433	$2,728	$624	$379	$3,861

** Net investment income and other operating expenses are charged directly to the respective entities, therefore an allocation basis is not required.*

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SCHEDULE IV
REINSURANCE

	Erie Insurance Group				
(in millions)	Gross amount (direct)	Ceded to other companies	Assumed from other companies	Net amount	Percentage of amount assumed to net
December 31, 2011:					
Life insurance in force	$42,086	$22,753	$ 0	$19,333	0.0%
Premiums for the year:					
Life insurance	$ 108	$ 43	$ 0	$ 65	0.0%
Property and liability insurance	4,164	36	21	4,149	0.5%
Total premiums	$ 4,272	$ 79	$21	$ 4,214	0.5%
December 31, 2010:					
Life insurance in force	$40,431	$22,303	$ 0	$18,128	0.0%
Premiums for the year:					
Life insurance	$ 104	$ 42	$ 0	$ 62	0.0%
Property and liability insurance	3,939	34	20	3,925	0.5%
Total premiums	$ 4,043	$ 76	$20	$ 3,987	0.5%
December 31, 2009:					
Life insurance in force	$38,961	$20,858	$ 0	$18,103	0.0%
Premiums for the year:					
Life insurance	$ 100	$ 39	$ 0	$ 61	0.0%
Property and liability insurance	3,806	40	42	3,808	1.1%
Total premiums	$ 3,906	$ 79	$42	$ 3,869	1.1%

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SCHEDULE VI
SUPPLEMENTAL INFORMATION CONCERNING PROPERTY-CASUALTY INSURANCE OPERATIONS

	Erie Insurance Group										
(in millions)	Deferred policy acquisition costs	Reserve for unpaid losses and loss expenses	Discount, if any, deducted from reserves*	Unearned premiums	Earned premiums	Net investment income	Losses and loss expenses incurred related to: (1) Current	(2) Prior	Amortization of deferred policy acquisition costs	Net losses and loss expenses paid	Net premiums written

							year	years			
December 31, 2011:											
Consolidated P&C Entities	$343	$3,499	$84	$2,178	$4,149	$324	$3,616	$(272)	$668	$3,392	$4,255
Unconsolidated P&C Entities	0	0	0	0	0	0	0	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0	0	0	0	0	0	0	0
Total	$343	$3,499	$84	$2,178	$4,149	$324	$3,616	$(272)	$668	$3,392	$4,255
December 31, 2010:											
Consolidated P&C Entities	$327	$3,584	$127	$2,082	$3,925	$325	$3,053	$(244)	$635	$2,811	$4,019
Unconsolidated P&C Entities	0	0	0	0	0	0	0	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0	0	0	0	0	0	0	0
Total	$327	$3,584	$127	$2,082	$3,925	$325	$3,053	$(244)	$635	$2,811	$4,019
December 31, 2009:											
Consolidated P&C Entities	$313	$3,598	$136	$1,981	$3,808	$326	$2,732	$ (93)	$611	$2,640	$3,861
Unconsolidated P&C Entities	0	0	0	0	0	0	0	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0	0	0	0	0	0	0	0
Total	$313	$3,598	$136	$1,981	$3,808	$326	$2,732	$ (93)	$611	$2,640	$3,861

** Workers compensation case and incurred but not reported loss reserves were discounted at 2.5% for all years presented.*

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EXHIBIT INDEX

(Pursuant to Item 601 of Regulation S-K)

Exhibit Number	Description of Exhibit
3.1	Articles of Incorporation of Registrant. Such exhibit is incorporated by reference to the like numbered exhibit in the Registrant’s Form 10 Registration Statement Number 0-24000 filed with the Commission on May 2, 1994.
3.1A	Amendment to the Articles of Incorporation of Registrant effective May 2, 1996. Such exhibit is incorporated by reference to the like numbered exhibit in the Registrant’s Form 10-Q that was filed with the Commission on July 29, 2010.
3.1B	Amendment to the Articles of Incorporation of Registrant effective May 4, 2001. Such exhibit is incorporated by reference to the like numbered exhibit in the Registrant’s Form 10-Q that was filed with the Commission on July 29, 2010.
3.1C	Amendment to the Articles of Incorporation of Registrant effective May 10, 2007. Such exhibit is incorporated by reference to the like numbered exhibit in the Registrant’s Form 10-Q that was filed with the Commission on July 29, 2010.
3.7	Erie Indemnity Company Amended and Restated Bylaws effective May 5, 2009. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant’s Form 8-K that was filed with the Commission on May 11, 2009.
3.8	Amended and Restated Articles of Incorporation of Registrant dated April 19, 2011. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant’s Form 10-Q that was filed with the Commission on August 2, 2011.
10.12	Form of Subscriber’s Agreement whereby policyholders of Erie Insurance Exchange appoint Registrant as their Attorney-in-Fact. Such exhibit is incorporated by reference to the like titled but renumbered exhibit in the Registrant’s Form 10-Q that was filed with the Securities and Exchange Commission on November 6, 2002.
10.101	Amendment of Erie Insurance Group Retirement Plan for Employees (As Amended and Restated Effective December 31, 2005) dated December 29, 2008. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant’s Form 10-K annual report that was filed with the Commission on February 26, 2009.
10.102	Amendment of Erie Insurance Group Employee Savings Plan (As Amended and Restated Effective January 1, 2006) dated December 29, 2008. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant’s Form 10-K annual report that was filed with the Commission on February 26, 2009.
10.103	Supplemental Retirement Plan for Certain Members of the Erie Insurance Group Retirement Plan for Employees (Amended and Restated as of January 1, 2009). Such exhibit is incorporated by reference to the like titled exhibit in the Registrant’s Form 10-K annual report that was filed with the Commission on February 26, 2009.
10.104	Deferred Compensation Plan of Erie Indemnity Company (As Amended and Restated as of January 1, 2009). Such exhibit is incorporated by reference to the like titled exhibit in the Registrant’s Form 10-K annual report that was filed with the Commission on February 26, 2009.
10.105	Erie Indemnity Company Deferred Compensation Plan for Outside Directors (As Amended and Restated as of January 1, 2009). Such exhibit is incorporated by reference to the like titled exhibit in the Registrant’s Form 10-K annual report that was filed with the Commission on February 26, 2009.

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Exhibit Number	Description of Exhibit
10.106	Erie Indemnity Company Long-Term Incentive Plan (Restated Effective January 1, 2009). Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-K annual report that was filed with the Commission on February 26, 2009.
10.107	Erie Indemnity Company Annual Incentive Plan (As Amended and Restated Effective January 1, 2009). Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-K annual report that was filed with the Commission on February 26, 2009.
10.108	Form of Indemnification Agreement that Registrant has entered into on November 14, 2008 with Terrence W. Cavanaugh (Director and Officer); J. Ralph Borneman, Jr., Patricia Garrison-Corbin, Jonathan Hirt Hagen, Susan Hirt Hagen, Thomas B. Hagen, C. Scott Hartz, Claude C. Lilly, III, Lucian L. Morrison, Thomas W. Palmer, Elizabeth A. Vorsheck, Robert C. Wilburn (Directors); James J. Tanous, Michael S. Zavasky and George R. Lucore (Officers). Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-K annual report that was filed with the Commission on February 26, 2009.
10.109	Loan Agreement between Erie Indemnity Company and PNC Bank, National Association dated January 30, 2008, Amendment to Loan Documents dated February 27, 2008, Reimbursement Agreement for Standby Letter(s) of Credit dated February 27, 2008, Sixth Amendment to Loan Documents dated December 29, 2008, Eighth Amendment to Loan Documents dated April 21, 2009, and Ninth Amendment to Loan Documents dated June 29, 2009. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-Q that was filed with the Commission on August 5, 2009.
10.110	Committed Line of Credit Note between Erie Indemnity Company and PNC Bank, National Association dated January 30, 2008, and Third Amended and Restated Committed Line of Credit Note dated December 29, 2008. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-Q that was filed with the Commission on August 5, 2009.
10.111	Notification and Control Agreement between Erie Indemnity Company and PNC Bank, National Association dated January 30, 2008. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-Q that was filed with the Commission on August 5, 2009.
10.112	Pledge Agreement between Erie Indemnity Company and PNC Bank, National Association dated January 30, 2008. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-Q that was filed with the Commission on August 5, 2009.
10.113	$200,000,000.00 Revolving Credit Facility Credit Agreement between Erie Insurance Exchange acting by and through Erie Indemnity Company, its Attorney-in-Fact, and PNC Bank, National Association, JPMorgan Chase Bank, N.A., Bank of America, N.A., and PNC Capital Markets LLC dated September 30, 2009. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-Q that was filed with the Commission on October 29, 2009.
10.114	Form of Revolving Credit Note that Erie Insurance Exchange has entered into by and through the Registrant, as its Attorney-in-Fact, on September 30, 2009 with Bank of America, N.A. ($35 million), The Bank of New York Mellon ($25 million), JPMorgan Chase Bank, N.A. ($35 million), PNC Bank, National Association ($55 million), U.S. Bank National Association ($25 million), and Wells Fargo Bank, National Association ($25 million). Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-Q that was filed with the Commission on October 29, 2009.
10.115	Swing Note between Erie Insurance Exchange acting by and through Erie Indemnity Company, its Attorney-in-Fact, and PNC Bank, National Association dated September 30, 2009. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-Q that was filed with the Commission on October 29, 2009.

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Exhibit Number	Description of Exhibit
10.116	Notification and Control Agreement between Erie Indemnity Company as Attorney-in-Fact for Erie Insurance Exchange and The Bank of New York Mellon and PNC Bank, National Association dated September 30, 2009. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-Q that was filed with the Commission on October 29, 2009.
10.117	Pledge Agreement between Erie Indemnity Company as Attorney-in-Fact for Erie Insurance Exchange and PNC Bank, National Association dated September 30, 2009. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-Q that was filed with the Commission on October 29, 2009.
10.118	Tenth Amendment to Loan Documents between Erie Indemnity Company and PNC Bank, National Association dated December 10, 2009. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 8-K that was filed with the Commission on December 10, 2009.
10.119	Indemnification Agreement that Registrant has entered into on February 23, 2010 with Marcia A. Dall (Executive Vice President & CFO). Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-K that was filed with the Commission on February 25, 2010.

10.120	First Amendment to Erie Indemnity Company Annual Incentive Plan (As Amended and Restated Effective January 1, 2009) effective January 1, 2010. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-Q that was filed with the Commission on May 6, 2010.
10.121	Second Amendment to Erie Indemnity Company Annual Incentive Plan (As Amended and Restated Effective January 1, 2009) effective January 1, 2010. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-Q that was filed with the Commission on November 4, 2010.
10.122	Stock Purchase Agreement between Erie Indemnity Company and Erie Insurance Exchange Relating to the Capital Stock of Erie Insurance Company, Erie Insurance Company of New York and Erie Property and Casualty Company dated November 4, 2010. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 8-K that was filed with the Commission on November 4, 2010.
10.123	Stock Purchase Agreement between Erie Indemnity Company and Erie Insurance Exchange Relating to the Capital Stock of Erie Family Life Insurance Company dated November 4, 2010. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 8-K that was filed with the Commission on November 4, 2010.
10.124	Erie Insurance Group Retirement Plan for Employees (As Amended and Restated Effective December 31, 2009) dated December 23, 2010. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-K that was filed with the Commission on February 24, 2011.
10.125	Erie Insurance Group Employee Savings Plan (As Amended and Restated Effective as of January 1, 2010) dated December 23, 2010. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-K that was filed with the Commission on February 24, 2011.
10.126	Agreement dated January 13, 2010, by and between Erie Indemnity Company and George R. Lucore. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-K that was filed with the Commission on February 24, 2011.

Exhibit Number	Description of Exhibit
10.127	Eleventh Amendment to Loan Documents between Erie Indemnity Company and PNC Bank, National Association dated July 20, 2010. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-K that was filed with the Commission on February 24, 2011.
10.128	Amendment to Loan Documents between Erie Indemnity Company and PNC Bank, National Association dated December 22, 2010. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-K that was filed with the Commission on February 24, 2011.
10.129	Lease Agreement between Erie Insurance Exchange and Erie Indemnity Company dated January 1, 2011. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-K that was filed with the Commission on February 24, 2011.
10.130	Services Agreement between Erie Indemnity Company and Erie Family Life Insurance Company effective March 31, 2011. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 8-K that was filed with the Commission on March 31, 2011.
10.131	Third Amendment to Erie Indemnity Company Annual Incentive Plan (As Amended and Restated Effective as of January 1, 2009) dated February 24, 2011. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-Q that was filed with the Commission on May 5, 2011.
10.132	First Amendment to Erie Indemnity Company Long-Term Incentive Plan (As Amended and Restated Effective as of January 1, 2009) dated February 24, 2011. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-Q that was filed with the Commission on May 5, 2011.
10.133	Indemnification Agreement by and between Erie Indemnity Company and George D. Dufala dated April 1, 2011. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-Q that was filed with the Commission on May 5, 2011.
10.134	Indemnification Agreement by and between Erie Indemnity Company and John F. Kearns dated April 1, 2011. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-Q that was filed with the Commission on May 5, 2011.
10.135	Executive Retention Agreement between Erie Indemnity Company and James J. Tanous dated August 3, 2011. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 8-K that was filed with the Securities and Exchange Commission on August 4, 2011.
10.136	Credit Agreement among JPMorgan Chase Bank, National Association, as Administrative Agent; the Lenders named therein; and Erie Indemnity Company, dated November 3, 2011. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 8-K that was filed with the Commission on November 8, 2011.
10.137	Pledge Agreement made by Erie Indemnity Company in favor of JPMorgan Chase Bank, N.A., as administrative agent, for itself and certain other Lenders, dated November 3, 2011. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 8-K that was filed with the Commission on November 8, 2011.

10.138	Executive Retention Agreement between Erie Indemnity Company and Michael S. Zavasky dated December 6, 2011. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 8-K that was filed with the Commission on December 8, 2011.

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Exhibit Number	Description of Exhibit
10.139*	First Amended and Restated Credit Agreement among PNC Bank, National Association, as Administrative Agent; the Lenders named therein; and Erie Insurance Exchange, dated October 28, 2011.
10.140*	First Amended and Restated Pledge Agreement made by Erie Indemnity Company as Attorney-in-Fact for Erie Insurance Exchange in favor of PNC Bank, National Association, as administrative agent, for itself and certain other Lenders, dated October 28, 2011.
14	Code of Conduct. 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, 2003 that was filed with the Commission on March 8, 2004.
23*	Consent of Independent Registered Public Accounting Firm.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32*	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Audited consolidated financial statements and accompanying footnote disclosures of Erie Indemnity Company for the fiscal years ended December 31, 2009 and 2008 conformed to reflect the amended guidance in ASC 810 Consolidation, which became effective January 1, 2010. Also included is the independent auditors' report dual dated as of February 25, 2010 and May 6, 2010. Management's Discussion and Analysis of Results of Operation for the fiscal year ended December 31, 2009 conformed to reflect these changes and the Controls and Procedures item. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 8-K that was filed with the Commission on May 6, 2010.
99.2	Consent of Ernst &Young LLP. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 8-K that was filed with the Commission on May 6, 2010.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.

* Filed herewith.

$300,000,000.00 REVOLVING CREDIT FACILITY

FIRST AMENDED AND RESTATED CREDIT AGREEMENT

by and among

ERIE INSURANCE EXCHANGE, as Borrower,

and

THE LENDERS PARTY HERETO

and

PNC BANK, NATIONAL ASSOCIATION, as Administrative Agent,

and

JPMORGAN CHASE BANK, N.A., as Syndication Agent,

and

PNC CAPITAL MARKETS LLC, as Joint Lead Arranger and Joint Bookrunner,

and

J.P. MORGAN SECURITIES LLC, as Joint Lead Arranger and Joint Bookrunner

Dated as of October 28, 2011

CUSIP # 29530RAA6

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<u>LIST OF SCHEDULES AND EXHIBITS</u>

<u>SCHEDULES</u>

<u>EXHIBITS</u>

EXHIBIT 2.4.1 - REVOLVING CREDIT LOAN REQUEST
EXHIBIT 2.4.2 - SWING LOAN REQUEST
EXHIBIT 7.3.3 - QUARTERLY COMPLIANCE CERTIFICATE

FIRST AMENDED AND RESTATED CREDIT AGREEMENT

THIS FIRST AMENDED AND RESTATED CREDIT AGREEMENT (as hereafter amended, restated, modified or supplemented from time to time, this "Agreement") is dated as of October 28, 2011 and is made by and among ERIE INSURANCE EXCHANGE, a reciprocal or inter-insurance exchange domiciled in the Commonwealth of Pennsylvania, acting by and through the Attorney-in-Fact (as hereinafter defined) (the "Borrower"), the LENDERS (as hereinafter defined), JPMORGAN CHASE BANK, N.A., in its capacity as syndication agent for the Lenders under this Agreement (each a "Syndication Agent"), and PNC BANK, NATIONAL ASSOCIATION, in its capacity as administrative agent for the Lenders under this Agreement (hereinafter referred to in such capacity as the "Administrative Agent").

The Borrower, PNC Bank, National Association and the other financial institutions party thereto (PNC Bank, National Association and such other financial institutions are collectively, the "Existing Lenders"), and PNC Bank, National Association, as administrative agent for the Existing Lenders (in such capacity, the "Existing Agent") entered into that certain Credit Agreement, dated September 30, 2009 (the "Existing Credit Agreement").

The Existing Lenders and the Existing Agent will permit the amendment and restatement of the Existing Credit Agreement, pursuant to the terms and conditions set forth herein, to provide a revolving credit facility to the Borrower in an aggregate principal amount not to exceed Three Hundred Million and 00/100 Dollars ($300,000,000.00). In consideration of their mutual covenants and agreements hereinafter set forth and intending to be legally bound hereby, the parties hereto covenant and agree as follows:

1. CERTAIN DEFINITIONS

1.1 Certain Definitions. In addition to words and terms defined elsewhere in this Agreement, the following words and terms shall have the following meanings, respectively, unless the context hereof clearly requires otherwise:

Account Bank shall mean any "bank" within the meaning of Section 9-102(a)(8) of the UCC at which any deposit account constituting a Collateral Account is held, which (a) shall be located in the United States of America, (b) shall have a Moody's rating at all times equal to or greater than "A3" and a Standard & Poor's rating at all times equal to or greater than "A-", and (c) shall be otherwise acceptable to the Administrative Agent in its discretion.

Administrative Agent shall have the meaning specified in the Preamble hereof and shall include its successors and assigns.

Administrative Agent's Fee shall have the meaning specified in Section 9.9 [Administrative Agent's Fee].

Administrative Agent's Letter shall have the meaning specified in Section 9.9 [Administrative Agent's Fee].

Affiliate as to any Person any other Person (i) which directly or indirectly controls, is controlled by, or is under common control with such Person, (ii) which beneficially owns or

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holds ten percent (10%) or more of any class of the voting or other equity interests of such Person, or (iii) ten percent (10%) or more of any class of voting interests or other equity interests of which is beneficially owned or held, directly or indirectly, by such Person.

Agreement shall have the meaning specified in the Preamble hereof and shall include all schedules and exhibits hereto.

Alternate Source shall have the meaning specified in the definition of LIBOR Rate.

Annual Statement shall mean with respect to any Person, the annual financial statement of such Person as required to be filed with the Applicable Insurance Regulatory Authority, together with all exhibits or schedules filed therewith, prepared in conformity with SAP.

Anti-Terrorism Laws shall mean any Laws relating to terrorism or money laundering, including Executive Order No. 13224, the USA Patriot Act, the Laws comprising or implementing the Bank Secrecy Act, and the Laws administered by the United States Treasury Department's Office of Foreign Asset Control (as any of the foregoing Laws may from time to time be amended, renewed, extended, or replaced).

Applicable Commitment Fee Rate shall mean the percentage rate per annum based on the Financial Strength Rating then in effect according to the pricing grid on Schedule 1.1(A) below the heading "Commitment Fee."

Applicable Insurance Regulatory Authority shall mean the Commonwealth of Pennsylvania Department of Insurance or similar Official Body located in (i) the jurisdiction in which such Person is domiciled or (ii) such other jurisdiction which, due to such Person's activities, has regulatory authority over such Person, and any federal Official Body regulating the insurance industry.

Applicable Letter of Credit Fee Rate shall mean the percentage rate per annum based on the Borrower's Financial Strength Rating then in effect according to the pricing grid on Schedule 1.1(A) below the heading "Letter of Credit Fee".

Applicable Margin shall mean, as applicable:

(A) the percentage spread to be added to the Base Rate applicable to Revolving Credit Loans under the Base Rate Option based on the Borrower's Financial Strength Rating then in effect according to the pricing grid on Schedule 1.1(A) below the heading "Revolving Credit Base Rate Spread", or

(B) the percentage spread to be added to the LIBOR Rate applicable to Revolving Credit Loans under the LIBOR Rate Option based on the Borrower's Financial Strength Rating then in effect according to the pricing grid on Schedule 1.1(A) below the heading "Revolving Credit LIBOR Rate Spread".

Approved Fund shall mean any fund that is engaged in making, purchasing, holding or investing in bank loans and similar extensions of credit in the ordinary course of business and

that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

Assignment and Assumption Agreement shall mean an assignment and assumption agreement entered into by a Lender and an assignee permitted under Section 10.8 [Successors and Assigns], in substantially the form of Exhibit 1.1(A).

Attorney-in-Fact shall mean Erie Indemnity Company, a Pennsylvania corporation, in its capacity as the attorney-in-fact for the Borrower or such successor attorney-in-fact for the Borrower approved by the Administrative Agent in accordance with Section 7.1.14 [Successor Attorney-in-Fact].

Authorized Control Level Risk Based Capital shall mean, as to the Borrower, the "authorized control level risk based capital" calculated in accordance with SAP pursuant to the requirements of the Insurance Department of the Commonwealth of Pennsylvania, as amended, restated, modified or supplemented from time to time.

Authorized Officer shall mean, with respect to the Borrower, the Chief Executive Officer, President, Chief Financial Officer, Treasurer or Assistant Treasurer of the Attorney-in-Fact or such other individuals, designated by written notice to the Administrative Agent from the Borrower, authorized to execute notices, reports and other documents on behalf of the Borrower required hereunder. The Borrower may amend such list of individuals from time to time by giving written notice of such amendment to the Administrative Agent.

Base Rate shall mean, for any day, a fluctuating per annum rate of interest equal to the highest of (i) the Prime Rate, (ii) the Federal Funds Open Rate, plus one-half of one percent (0.5%) per annum, and (iii) the Daily LIBOR Rate, plus one percent (1.0%) per annum. Any change in the Base Rate (or any component thereof) shall take effect at the opening of business on the day such change occurs.

Base Rate Option shall mean the option of the Borrower to have Loans bear interest at the rate and under the terms set forth in Section 3.1.1(i) [Revolving Credit Base Rate Option].

Borrower shall have the meaning specified in the Preamble.

Borrower Statutory Net Income shall mean, for any period, for the Borrower, the positive net statutory income of the Borrower for that period, calculated in accordance with SAP.

Borrower Statutory Surplus shall mean, on any date, the amount (determined in accordance with SAP) of the Borrower's surplus as of the last day of any fiscal quarter ending on or most recently ended prior to such date.

Borrowing Date shall mean, with respect to any Loan, the date for the making thereof or the renewal or conversion thereof at or to the same or a different Interest Rate Option, which shall be a Business Day.

Borrowing Tranche shall mean specified portions of Loans outstanding as follows: (i) any Loans to which a LIBOR Rate Option applies which become subject to the same Interest

Rate Option under the same Loan Request by the Borrower and which have the same Interest Period shall constitute one (1) Borrowing Tranche, and (ii) all Loans to which a Base Rate Option applies shall constitute one (1) Borrowing Tranche.

Business Day shall mean any day other than a Saturday or Sunday or a legal holiday on which commercial banks are authorized or required to be closed for business in Pittsburgh, Pennsylvania and if the applicable Business Day relates to any Loan to which the LIBOR Rate Option applies, such day must also be a day on which dealings are carried on in the London interbank market.

Cash means Dollars held in a Collateral Account.

Cash Equivalents means at any time:

(a) time deposits and certificates of deposit, maturing not more than two (2) years after the date of determination, which are issued by the applicable Securities Intermediary; and

(b) Short-term asset management accounts offered by the Securities Intermediary which are reasonably acceptable to the Administrative Agent or investments in money market funds.

Change in Law shall mean the occurrence, after the date of this Agreement, of any of the following: (a) the adoption or taking effect of any Law, (b) any change in any Law or in the administration, interpretation, implementation or application thereof by any Official Body or (c) the making or issuance of any request, rule, guideline or directive (whether or not having the force of Law) by any Official Body; provided, that notwithstanding anything herein to the contrary, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, regulations, guidelines, interpretations or directives thereunder or issued in connection therewith (whether or not having the force of Law) and (y) all requests, rules, regulations, guidelines, interpretations or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities (whether or not having the force of Law), in each case pursuant to Basel III, shall in each case be deemed to be a Change in Law regardless of the date enacted, adopted, issued, promulgated or implemented.

CIP Regulations shall have the meaning specified in Section 9.10 [No Reliance on Administrative Agent's Customer Identification Program].

Closing Date shall mean October 28, 2011.

Code shall mean the Internal Revenue Code of 1986, as the same may be amended or supplemented from time to time, and any successor statute of similar import, and the rules and regulations thereunder, as from time to time in effect.

Collateral shall mean the collateral under the Pledge Agreement.

Collateral Account means (a) account no. EIRF 1221052 at The Bank of New York Mellon Trust Company, N.A., as to which the Borrower, The Bank of New York Mellon Trust

Company, N.A., and the Administrative Agent have entered into a Control Agreement, and (b) any other account at The Bank of New York Mellon Trust Company, N.A., or another Securities Intermediary or Account Bank as to which such Securities Intermediary or Account Bank, as the case may be, the Borrower and the Administrative Agent have entered into a Control Agreement.

Collateral Shortfall shall have the meaning specified in Section 7.1.l0 [Collateral Value].

Collateral Value means, on any date, an amount equal to the sum of the Fair Market Value of all Eligible Collateral; provided, however, that the portion of Eligible Collateral of any issuer (other than an issuer of Government Debt) which exceeds five percent (5%) of the Fair Market Value of all Eligible Collateral shall be excluded from such calculation.

Commercial Letter of Credit shall mean any letter of credit which is a commercial letter of credit issued in respect of the purchase of goods or services by the Borrower in the ordinary course of its business.

Commissioner shall mean the Insurance Commissioner of the Commonwealth of Pennsylvania.

Commitment shall mean, as to any Lender, its Revolving Credit Commitment and, in the case of PNC Bank, its Swing Loan Commitment, and Commitments shall mean the Revolving Credit Commitments and Swing Loan Commitment of all of the Lenders.

Commitment Fee shall have the meaning specified in Section 2.3 [Commitment Fees].

Compliance Certificate shall have the meaning specified in Section 7.3.3 [Certificate of the Borrower].

Control Agreement shall mean the Notification and Control Agreement by and among the Borrower, the applicable Securities Intermediary or Account Bank, as the case may be, and the Administrative Agent with respect to any Collateral Account substantially in the form of Exhibit 1.1(C).

Corporate Securities means publicly traded debt securities (other than preferred stock) denominated in Dollars issued by a corporation, limited liability company, limited partnership or similar entity organized in the United States.

Daily LIBOR Rate shall mean, for any day, the rate per annum determined by the Administrative Agent by dividing (x) the Published Rate by (y) a number equal to 1.00 *minus* the percentage prescribed by the Federal Reserve for determining the maximum reserve requirements with respect to any eurocurrency funding by banks on such day.

Defaulting Lender shall mean any Lender that (a) has failed, within two (2) Business Days of the date required to be funded or paid, to (i) fund any portion of its Loans, (ii) fund any portion of its participations in Letters of Credit or Swing Loans or (iii) pay over to the Administrative Agent, the applicable Issuing Lender, PNC Bank (as the Swing Loan Lender) or any Lender any other amount required to be paid by it hereunder, unless, in the case of clause (i) above, such Lender notifies the Administrative Agent in writing that such failure is the result

of such Lender's good faith determination that a condition precedent to funding (specifically identified and including the particular default, if any) has not been satisfied, (b) has notified the Borrower or the Administrative Agent in writing, or has made a public statement to the effect, that it does not intend or expect to comply with any of its funding obligations under this Agreement (unless such writing or public statement indicates that such position is based on such Lender's good faith determination that a condition precedent (specifically identified and including the particular default, if any) to funding a loan under this Agreement cannot be satisfied) or generally under other agreements in which it commits to extend credit, (c) has failed, within (2) two Business Days after request by the Administrative Agent, acting in good faith, to provide a certification in writing from an authorized officer of such Lender that it will comply with its obligations (and is financially able to meet such obligations) to fund prospective Loans and participations in then outstanding Letters of Credit and Swing Loans under this Agreement, provided that such Lender shall cease to be a Defaulting Lender pursuant to this clause (c) upon the Administrative Agent's receipt of such certification in form and substance satisfactory to the Administrative Agent, (d) has become the subject of a Bankruptcy Event or (e) has failed at any time to comply with the provisions of Section 5.3 with respect to purchasing participations from the other Lenders, whereby such Lender's share of any payment received, whether by setoff or otherwise, is in excess of its Ratable Share of such payments due and payable to all of the Lenders.

As used in this definition and in Section 2.12 [Defaulting Lenders], the term "Bankruptcy Event" means, with respect to any Person, such Person or such Person's direct or indirect parent company becomes the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee, administrator, custodian, assignee for the benefit of creditors or similar Person charged with the reorganization or liquidation of its business appointed for it, or, in the good faith determination of the Administrative Agent, has taken any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any such proceeding or appointment, provided that a Bankruptcy Event shall not result solely by virtue of any ownership interest, or the acquisition of any ownership interest, in such Person or such Person's direct or indirect parent company by an Official Body or instrumentality thereof if, and only if, such ownership interest does not result in or provide such Person with immunity from the jurisdiction of courts within the United States or from the enforcement of judgments or writs of attachment on its assets or permit such Person (or such Official Body or instrumentality) to reject, repudiate, disavow or disaffirm any contracts or agreements made by such Person.

Delinquency Proceeding shall have the meaning specified in Section 221.3 of the Suspension of Business-Involuntary Dissolutions Article in the Insurance Act, 40 P.S. § 221.3.

Dispositions shall have the meaning specified in Section 7.2.7 [Dispositions of Assets or Subsidiaries].

Dollar, Dollars, U.S. Dollars and the symbol $ shall mean lawful money of the United States of America.

Drawing Date shall have the meaning specified in Section 2.9.3 [Disbursements, Reimbursement].

Eligible Collateral means Cash, Cash Equivalents, Corporate Securities, Federal Agency Debt, Government Debt and Municipal Securities which (a) are denominated in Dollars, (b) meet the requirements set forth in the Pledge Agreement and

Section 7.1.12 [Eligible Collateral Requirements], if any, (c) are capable of being marked to market on a daily basis and capable of being cleared by the Depository Trust Company (other than United States Federal Governmental Securities which will clear through the Federal Reserve System) and (d) are held in a Collateral Account.

Environmental Laws shall mean all applicable federal, state, local, tribal, territorial and foreign Laws (including common law), constitutions, statutes, treaties, regulations, rules, ordinances and codes and any consent decrees, settlement agreements, judgments, orders, directives, policies or programs issued by or entered into with an Official Body pertaining or relating to: (i) pollution or pollution control; (ii) protection of human health from exposure to regulated substances; (iii) protection of the environment and/or natural resources; (iv) employee safety in the workplace; (v) the presence, use, management, generation, manufacture, processing, extraction, treatment, recycling, refining, reclamation, labeling, packaging, sale, transport, storage, collection, distribution, disposal or release or threat of release of regulated substances; (vi) the presence of contamination; (vii) the protection of endangered or threatened species; and (viii) the protection of environmentally sensitive areas.

Equity Interests shall have the meaning specified in Section 5.1.2 [Subsidiaries and Owners; Investment Companies].

Erie Property & Casualty Insurance Group shall mean Erie Insurance Company, Erie Insurance Property & Casualty Company, Erie Insurance Company of New York, the Borrower and Flagship City Insurance Company.

ERISA shall mean the Employee Retirement Income Security Act of 1974, as the same may be amended or supplemented from time to time, and any successor statute of similar import, and the rules and regulations thereunder, as from time to time in effect.

ERISA Affiliate shall mean, at any time, any trade or business (whether or not incorporated) under common control with the Borrower and are treated as a single employer under Section 414 of the Code.

ERISA Event shall mean (a) a reportable event (under Section 4043 of ERISA and regulations thereunder) with respect to a Pension Plan; (b) a withdrawal by the Borrower or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001(a)(2) of ERISA) or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by the Borrower or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (d) the filing of a notice of intent to terminate, the treatment of a Plan amendment as a termination under Sections 4041 or 4041A of ERISA, or the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; (e) an event or condition which constitutes grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan; or (f) the imposition of any liability under Title IV of ERISA, other

than for PBGC premiums due but not delinquent under Section 4007 of ERISA, upon the Borrower or any ERISA Affiliate.

ERISA Group shall mean, at any time, the Borrower and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control and all other entities which, together with the Borrower, are treated as a single employer under Section 414 of the Internal Revenue Code.

Event of Default shall mean any of the events described in Section 8.1 [Events of Default] and referred to therein as an “Event of Default.”

Excluded Taxes shall mean, with respect to the Administrative Agent, any Lender, the applicable Issuing Lender or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder, (a) taxes imposed on or measured by its overall net income (however denominated), and franchise taxes imposed on it, by the jurisdiction (or any political subdivision thereof) under the Laws of which such recipient is organized or in which its principal office is located or with which it has any other connection for tax purposes (other than a connection that would not have arisen but for entering into the Loan Documents, receiving any payments under or with respect to the Loan Documents, or enforcing any rights and remedies under the Loan Documents) or, in the case of any Lender, in which its applicable lending office is located, (b) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction in which the Borrower is located, (c) in the case of a Foreign Lender, any withholding tax that is imposed on amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party hereto (or designates a new lending office) or is attributable to such Foreign Lender’s failure or inability (other than as a result of a Change in Law) to comply with Section 4.8.6 [Status of Lenders], except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts from the Borrower with respect to such withholding tax pursuant to Section 4.8.1 [Payments Free of Taxes], (d) any backup withholding taxes imposed on the Administrative Agent, any Lender, the applicable Issuing Lender or any other recipient of any payment hereunder and (e) any U.S. federal withholding Taxes which are imposed on any “withholdable payment” as a result of the failure of the recipient of such payment to satisfy the applicable requirements under FATCA.

Executive Order No. 13224 shall mean the Executive Order No. 13224 on Terrorist Financing, effective September 24, 2001, as the same has been, or shall hereafter be, renewed, extended, amended or replaced.

Existing Agent shall have the meaning specified in the Recitals hereof.

Existing Credit Agreement shall have the meaning specified in the Recitals hereof.

Existing Lenders shall have the meaning specified in the Recitals hereof.

Existing Letters of Credit shall mean all letters of credit set forth on Schedule 1.1(E) which were issued by PNC Bank under the Existing Credit Agreement prior to the date hereof upon the application of the Borrower and are outstanding on the Closing Date.

Expiration Date shall mean, with respect to the Revolving Credit Commitments, October 28, 2016.

Fair Market Value shall mean (a) with respect to any Government Debt, Federal Agency Debt, or other publicly-traded security (other than those set forth in clause (b)) the closing price for such security on Bloomberg, Inc., and with respect to Municipal Securities, Standard & Poor's/J.J. Kenny or, if Bloomberg, Inc. or Standard & Poor's/J.J. Kenny with respect to Municipal Securities is not available, another quotation service or services reasonably acceptable to the Administrative Agent, (b) with respect to Cash and Cash Equivalents, the amounts thereof, and (c) with respect to any Eligible Collateral (other than those set forth in clauses (a), and (b)), the price for such Eligible Collateral on the date of calculation obtained from a generally recognized source approved by the Administrative Agent or the most recent bid quotation from such approved source (or, if no generally recognized source exists as to such Eligible Collateral, any other source specified by the Borrower to which the Administrative Agent does not object).

FATCA means Sections 1471 through 1474 of the Code, as of the date of this Agreement (or any amended or successor version that is substantially comparable and not materially more onerous to comply with) and any current or future regulations or official interpretations thereof.

Federal Agency means any of the following agencies of the federal government of the United States: (a) Government National Mortgage Association; (b) the Export-Import Bank of the United States; (c) the Farmers Home Administration, an agency of the United States Department of Agriculture; (d) the United States General Services Administration; (e) the United States Maritime Administration; (f) the United States Small Business Administration; (g) the Commodity Credit Corporation; (h) the Rural Electrification Administration; (i) the Rural Telephone Bank; (j) Washington Metropolitan Area Transit Authority; (k) the Federal National Mortgage Association; and (l) such other federal agencies as are reasonably acceptable to the Administrative Agent.

Federal Agency Debt means evidence of Freely Transferable Indebtedness that constitutes obligations of a Federal Agency.

Federal Funds Effective Rate for any day shall mean the rate per annum (based on a year of 360 days and actual days elapsed and rounded upward to the nearest 1/100 of 1%) announced by the Federal Reserve Bank of New York (or any successor) on such day as being the weighted average of the rates on overnight federal funds transactions arranged by federal funds brokers on the previous trading day, as computed and announced by such Federal Reserve Bank (or any successor) in substantially the same manner as such Federal Reserve Bank computes and announces the weighted average it refers to as the "Federal Funds Effective Rate" as of the date of this Agreement; provided, if such Federal Reserve Bank (or its successor) does not announce such rate on any day, the "Federal Funds Effective Rate" for such day shall be the Federal Funds Effective Rate for the last day on which such rate was announced.

Federal Funds Open Rate for any day shall mean the rate per annum (based on a year of 360 days and actual days elapsed) which is the daily federal funds open rate as quoted by ICAP North America, Inc. (or any successor) as set forth on the Bloomberg Screen BTMM for that day opposite the caption "OPEN" (or on such other substitute Bloomberg Screen that displays

such rate), or as set forth on such other recognized electronic source used for the purpose of displaying such rate as selected by the Administrative Agent (a "Federal Funds Open Rate Alternate Source") (or if such rate for such day does not appear on the Bloomberg Screen BTMM (or any substitute screen) or on any Federal Funds Open Rate Alternate Source, or if there shall at any time, for any reason, no longer exist a Bloomberg Screen BTMM (or any substitute screen) or any Federal Funds Open Rate Alternate Source, a comparable replacement rate determined by the Administrative Agent at such time (which determination shall be conclusive absent manifest error); provided, however, that if such day is not a Business Day, the Federal Funds Open Rate for such day shall be the "open" rate on the immediately preceding Business Day. If and when the Federal Funds Open Rate changes, the rate of interest with respect to any Loan to which the Federal Funds Open Rate applies will change automatically without notice to the Borrower, effective on the date of any such change.

Federal Funds Open Rate Alternate Source shall have the meaning specified in the definition of Federal Funds Open Rate.

Financial Strength Rating shall mean, as of the date of determination, the Erie Insurance Exchange Financial Strength Rating by A.M. Best Company, Inc. or its successors.

Foreign Lender shall mean any Lender that is organized under the Laws of a jurisdiction other than that in which the Borrower is resident for tax purposes. For purposes of this definition, the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

Freely Transferable means securities which are freely transferable and traded in established and recognized markets and as to which there are readily available price quotations.

GAAP shall mean generally accepted accounting principles as are in effect from time to time, subject to the provisions of Section 1.3 [Accounting Principles], and applied on a consistent basis both as to classification of items and amounts.

Government Debt means Freely Transferable Indebtedness issued by the U.S. Treasury Department or backed by the full faith and credit of the United States.

Guarantee means, as to any Person, any (a) any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation payable or performable by another Person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation, (ii) to purchase or lease property, securities or services for the purpose of assuring the obligee in respect of such Indebtedness or other obligation of the payment or performance of such Indebtedness or other obligation, (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity or level of income or cash flow of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation, or (iv) entered into for the purpose of assuring in any other manner the obligee in respect of such Indebtedness or other obligation of the payment or performance thereof or to protect such obligee against loss in respect thereof (in whole or in part), or (b) any Lien on any

assets of such Person securing any Indebtedness or other obligation of any other Person, whether or not such Indebtedness or other obligation is assumed by such Person (or any right, contingent or otherwise, of any holder of such Indebtedness to obtain any such Lien). The amount of any Guarantee shall be deemed to be an amount equal to the stated or determinable amount of the related primary obligation, or portion thereof, in respect of which such Guarantee is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by the guaranteeing Person in good faith. The term "Guarantee" as a verb has a corresponding meaning.

Increasing Lender shall have the meaning assigned to that term in Section 2.5 [Increase in Revolving Credit Commitments].

Indebtedness shall mean, as to any Person at any time, any and all indebtedness, obligations or liabilities (whether matured or unmatured, liquidated or unliquidated, direct or indirect, absolute or contingent, or joint or several) of such Person for or in respect of: (i) borrowed money, (ii) amounts raised under or liabilities in respect of any note purchase or acceptance credit facility, (iii) reimbursement obligations (contingent or otherwise) under any letter of credit, currency swap agreement, interest rate swap, cap, collar or floor agreement or other interest rate management device, (iv) any other transaction (including forward sale or purchase agreements, capitalized leases and conditional sales agreements) having the commercial effect of a borrowing of money entered into by such Person to finance its operations or capital requirements (but not including trade payables and accrued expenses incurred in the ordinary course of business which are not represented by a promissory note or other evidence of indebtedness and which are not more than forty-five (45) days past due), or (v) any Guarantee of Indebtedness for borrowed money.

Indemnified Taxes shall mean Taxes other than Excluded Taxes.

Indemnitee shall have the meaning specified in Section 10.3.2 [Indemnification by the Borrower].

Information shall mean all information received from the Borrower or any of its Subsidiaries relating to the Borrower or any of its Subsidiaries or any of their respective businesses, other than any such information that is available to the Administrative Agent, any Lender or the applicable Issuing Lender on a non-confidential basis prior to disclosure by the Borrower or any of its Subsidiaries, provided that, in the case of information received from the Borrower or any of its Subsidiaries after the date of this Agreement, such information is clearly identified at the time of delivery as confidential.

Insolvency Proceeding shall mean, with respect to any Person, (a) a case, action or proceeding with respect to such Person (i) before any court or any other Official Body under any bankruptcy, insolvency, reorganization or other similar Law now or hereafter in effect, or (ii) for the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator, conservator (or similar official) of the Borrower or otherwise relating to the liquidation, dissolution, winding-up or relief of such Person, or (b) any general assignment for the benefit of creditors, composition, marshaling of assets for creditors, or other, similar arrangement in respect of such Person's creditors generally or any substantial portion of its creditors; undertaken under any Law.

Insurance License means any license, certificate of authority, permit or other authorization which is required to be obtained from any Official Body in connection with the operation, ownership or transaction of insurance or reinsurance business.

Interest Period shall mean the period of time selected by the Borrower in connection with (and to apply to) any election permitted hereunder by the Borrower to have Revolving Credit Loans bear interest under the LIBOR Rate Option. Subject to the last sentence of this definition, such period shall be one (1), two (2), three (3) or six (6) Months. Such Interest Period shall commence on the effective date of such Interest Rate Option, which shall be (i) the Borrowing Date if the Borrower is requesting new Loans, or (ii) the date of renewal of or conversion to the LIBOR Rate Option if the Borrower is renewing or converting to the LIBOR Rate Option applicable to outstanding Loans. Notwithstanding the second sentence hereof: (A) any Interest Period which would otherwise end on a date which is not a Business Day shall be extended to the next succeeding Business Day unless such Business Day falls in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day, and (B) the Borrower shall not select, convert to or renew an Interest Period for any portion of the Loans that would end after the Expiration Date.

Interest Rate Hedge shall mean an interest rate exchange, collar, cap, swap, adjustable strike cap, adjustable strike corridor or similar agreements entered into by the Borrower or its Subsidiaries in order to provide protection to, or minimize the impact upon, the Borrower and/or its Subsidiaries of increasing floating rates of interest applicable to Indebtedness.

Interest Rate Option shall mean any LIBOR Rate Option or Base Rate Option.

Interim Statement shall mean, with respect to any Person, any interim statutory financial statement or financial report (whether quarterly, semiannually or otherwise) of such Person as required to be filed with the Applicable Insurance Regulatory Authority, together with all exhibits or schedules filed therewith, prepared in conformity with SAP.

Investments shall mean, as to any Person, any direct or indirect acquisition or investment by such Person, whether by means of (a) the purchase or other acquisition of capital stock or other securities of another Person or (b) a loan, advance or capital contribution to, Guarantee or assumption of debt of, or purchase or other acquisition of any other debt or equity participation or interest in, another Person, including any partnership or joint venture interest in such other Person and any arrangement pursuant to which the investor Guarantees Indebtedness of such other Person.

IRS shall mean the Internal Revenue Service.

ISP98 shall have the meaning specified in Section 10.11.1 [Governing Law].

Issuing Lender means PNC Bank or any of its Affiliates, or, in its discretion, JPMorgan Chase Bank, N.A., or any of its Affiliates, each in its individual capacity as an issuer of Letters of Credit hereunder, or any other Lender that Borrower, Administrative Agent and such other Lender may agree may from time to time issue Letters of Credit hereunder.

Joint Venture shall mean a corporation, partnership, limited liability company or other entity in which any Person other than the Borrower and its Subsidiaries holds, directly or indirectly, an equity interest.

Law shall mean any law (including common law), constitution, statute, treaty, regulation, rule, ordinance, opinion, release, ruling, order, injunction, writ, decree, bond, judgment, authorization or approval, lien or award by or settlement agreement with any Official Body.

Lender Provided Interest Rate Hedge shall mean an Interest Rate Hedge which is provided by any Lender or its Affiliate and with respect to which the Administrative Agent confirms: (i) is documented in a standard International Swap Dealer Association Agreement, and (ii) provides for the method of calculating the reimbursable amount of the provider’s credit exposure in a reasonable and customary manner.

Lenders shall mean the financial institutions named on Schedule 1.1(B) and their respective successors and assigns as permitted hereunder, each of which is referred to herein as a Lender. For the purpose of any Loan Document which provides for the granting of a security interest or other Lien to the Lenders or to the Administrative Agent (for its benefit and for the benefit of the Lenders) as security for the Obligations, “Lenders” shall include any Affiliate of a Lender to which such Obligation is owed.

Letter of Credit shall have the meaning specified in Section 2.9.1 [Issuance of Letters of Credit].

Letter of Credit Borrowing shall have the meaning specified in Section 2.9.3.3 [Disbursements, Reimbursement].

Letter of Credit Fee shall have the meaning specified in Section 2.9.2 [Letter of Credit Fees].

Letter of Credit Obligation means, as of any date of determination, the aggregate amount available to be drawn under all outstanding Letters of Credit (if any Letter of Credit shall increase in amount automatically in the future, such aggregate amount available to be drawn shall currently give effect to any such future increase) plus the aggregate Reimbursement Obligations and Letter of Credit Borrowings.

Letter of Credit Sublimit shall have the meaning specified in Section 2.9 [Letter of Credit Subfacility].

LIBOR Rate shall mean, with respect to the Loans comprising any Borrowing Tranche to which the LIBOR Rate Option applies for any Interest Period, the interest rate per annum determined by the Administrative Agent by dividing (the resulting quotient rounded upwards, if necessary, to the nearest 1/100th of 1% per annum) (i) the rate which appears on the Bloomberg Page BBAM1 (or on such other substitute Bloomberg page that displays rates at which U.S. Dollar deposits are offered by leading banks in the London interbank deposit market), or the rate which is quoted by another source selected by the Administrative Agent which has been approved by the British Bankers' Association as an authorized information vendor for the purpose of displaying rates at which U.S. Dollar deposits are offered by leading banks in the

London interbank deposit market (an "Alternate Source"), at approximately 11:00 a.m., London time, two (2) Business Days prior to the commencement of such Interest Period as the London interbank offered rate for U.S. Dollars for an amount comparable to such Borrowing Tranche and having a borrowing date and a maturity comparable to such Interest Period (or if there shall at any time, for any reason, no longer exist a Bloomberg Page BBAM1 (or any substitute page) or any Alternate Source, a comparable replacement rate determined by the Administrative Agent at such time (which determination shall be conclusive absent manifest error)), by (ii) a number equal to 1.00 minus the LIBOR Rate Reserve Percentage. LIBOR may also be expressed by the following formula:

$$\text{LIBOR Rate} = \frac{\text{London interbank offered rates quoted by Bloomberg or appropriate successor as shown on Bloomberg Page BBAM1}}{\text{1.00 - LIBOR Rate Reserve Percentage}}$$

The LIBOR Rate shall be adjusted with respect to any Loan to which the LIBOR Rate Option applies that is outstanding on the effective date of any change in the LIBOR Rate Reserve Percentage as of such effective date. The Administrative Agent shall give prompt notice to the Borrower of the LIBOR Rate as determined or adjusted in accordance herewith, which determination shall be conclusive absent manifest error.

LIBOR Rate Option shall mean the option of the Borrower to have Loans bear interest at the rate and under the terms set forth in Section 3.1.1(ii) [Revolving Credit LIBOR Rate Option].

LIBOR Rate Reserve Percentage shall mean as of any day the maximum percentage in effect on such day, as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the reserve requirements (including supplemental, marginal and emergency reserve requirements) with respect to eurocurrency funding (currently referred to as "Eurocurrency Liabilities").

Lien shall mean any mortgage, deed of trust, pledge, lien, security interest, charge or other encumbrance or security arrangement of any nature whatsoever, whether voluntarily or involuntarily given, including any conditional sale or title retention arrangement, and any assignment, deposit arrangement or lease intended as, or having the effect of, security and any filed financing statement or other notice of any of the foregoing (whether or not a lien or other encumbrance is created or exists at the time of the filing).

Loan Documents shall mean this Agreement, the Administrative Agent's Letter, the Notes, the Pledge Agreement, the Control Agreement, and any other instruments, certificates or documents delivered in connection herewith or therewith, as the same may be amended, restated, modified or supplemented from time to time in accordance herewith or therewith, and Loan Document shall mean any of the Loan Documents.

Loan Request shall mean either a Revolving Credit Loan Request or a Swing Loan Request, as the case may be.

Loans shall mean collectively, and Loan shall mean separately, all Revolving Credit Loans and Swing Loans or any Revolving Credit Loan or Swing Loan.

Material Adverse Change shall mean any set of circumstances or events which (a) has or could reasonably be expected to have any material adverse effect whatsoever upon the validity or enforceability of this Agreement or any other Loan Document,

(b) is material and adverse to the business, properties, assets, financial condition, results of operations or prospects of the Borrower, (c) impairs materially the ability of the Borrower to duly and punctually pay or perform its Indebtedness, or (d) impairs materially the ability of the Administrative Agent or any of the Lenders, to the extent permitted, to enforce their legal remedies pursuant to this Agreement or any other Loan Document.

Month, with respect to an Interest Period under the LIBOR Rate Option, shall mean the interval between the days in consecutive calendar months numerically corresponding to the first (1^{st}) day of such Interest Period. If any LIBOR Rate Interest Period begins on a day of a calendar month for which there is no numerically corresponding day in the month in which such Interest Period is to end, the final month of such Interest Period shall be deemed to end on the last Business Day of such final month.

Moody's shall mean Moody's Investors Service, Inc.

Multiemployer Plan shall mean any employee benefit plan which is a "multiemployer plan" within the meaning of Section 4001(a)(3) of ERISA and to which the Borrower or any member of the ERISA Group is then making or accruing an obligation to make contributions or, within the preceding five (5) Plan years, has made or had an obligation to make such contributions.

Municipal Securities means publicly traded debt securities issued by any state or municipality or subdivision or instrumentality thereunder located in the United States.

NAIC mans the National Association of Insurance Commissioners and any successor thereto.

New Lender shall have the meaning specified in Section 2.5 [Increase in Revolving Credit Commitments].

Non-Consenting Lender shall have the meaning specified in Section 10.1.4 [Miscellaneous].

Notes shall mean, collectively, the promissory notes in the form of Exhibit 1.1(N)(1) evidencing the Revolving Credit Loans, and in the form of Exhibit 1.1(N)(2) evidencing the Swing Loans, each as amended, restated, modified or supplemented from time to time.

Obligation shall mean any obligation or liability of the Borrower, howsoever created, arising or evidenced, whether direct or indirect, absolute or contingent, now or hereafter existing, or due or to become due, under or in connection with (i) this Agreement, the Notes, the Letters of Credit, the Administrative Agent's Letter or any other Loan Document whether to the Administrative Agent, any of the Lenders or their Affiliates or other Persons provided for under such Loan Documents and (ii) any Lender Provided Interest Rate Hedge.

Official Body shall mean the government of the United States of America or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supra-national bodies such as the European Union or the European Central Bank) and any group or body charged with setting financial accounting or regulatory capital rules or standards (including, without limitation, the Financial Accounting Standards Board, the Bank for International Settlements or the Basel Committee on Banking Supervision or any successor or similar authority to any of the foregoing.

Other Taxes shall mean all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or under any other Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document.

Participant has the meaning specified in Section 10.8.4 [Participations].

Participation Advance shall have the meaning specified in Section 2.9.3 [Disbursements, Reimbursement].

Payment Date shall mean the first (1^{st}) day of each calendar quarter after the date hereof and on the Expiration Date or upon acceleration of the Notes.

Payment in Full shall mean payment in full in cash of the Loans and other Obligations hereunder, termination of the Commitments and expiration or termination of all Letters of Credit.

PBGC shall mean the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA or any successor.

Pension Plan means any "employee pension benefit plan" (as such term is defined in Section 3(2) of ERISA), other than a Multiemployer Plan, that is subject to Title IV of ERISA and is sponsored or maintained by the Borrower or any ERISA Affiliate or to which the Borrower or any ERISA Affiliate contributes or has an obligation to contribute, or in the case of a multiple employer or other plan described in Section 4064(a) of ERISA, has made contributions at any times during the immediately preceding five plan years.

Permitted Liens shall have the meaning specified in Section 7.2.2 [Liens].

Person shall mean any individual, corporation, partnership, limited liability company, association, joint-stock company, trust, unincorporated organization, joint venture, government or political subdivision or agency thereof, or any other entity.

Plan shall mean at any time an employee pension benefit plan (including a Multiple Employer Plan, but not a Multiemployer Plan) which is covered by Title IV of ERISA or is subject to the minimum funding standards under Section 412 of the Code and either (i) is maintained by any member of the ERISA Group for employees of any member of the ERISA Group or (ii) has at any time within the preceding five (5) years been maintained by any entity

which was at such time a member of the ERISA Group for employees of any entity which was at such time a member of the ERISA Group.

Pledge Agreement shall mean the First Amended and Restated Pledge Agreement in substantially the form of Exhibit 1.1(P) executed and delivered by the Borrower to the Administrative Agent for the benefit of the Lenders.

PNC Bank shall mean PNC Bank, National Association, its successors and assigns.

Post-Closing Filings shall have the meaning assigned to such term in Section 7.1.11 [Post-Closing Filings].

Potential Default shall mean any event or condition which with notice or passage of time, or both, would constitute an Event of Default.

Prime Rate shall mean the interest rate per annum announced from time to time by the Administrative Agent at its Principal Office as its then prime rate, which rate may not be the lowest or most favorable rate then being charged commercial borrowers or others by the Administrative Agent. Any change in the Prime Rate shall take effect at the opening of business on the day such change is announced.

Principal Office shall mean the main banking office of the Administrative Agent in Pittsburgh, Pennsylvania.

Prior Security Interest shall mean a valid and enforceable perfected first-priority security interest under the UCC in the Collateral which is subject only to statutory Liens for taxes not yet due and payable.

Published Rate shall mean the rate of interest published each Business Day in *The Wall Street Journal* “Money Rates” listing under the caption “London Interbank Offered Rates” for a one (1) month period (or, if no such rate is published therein for any reason, then the Published Rate shall be the rate at which U.S. dollar deposits are offered by leading banks in the London interbank deposit market for a one (1) month period as published in another publication selected by the Administrative Agent).

Ratable Share shall mean the proportion that a Lender’s Commitment (excluding the Swing Loan Commitment) bears to the Commitments (excluding the Swing Loan Commitment) of all of the Lenders; provided that in the case of Section 2.12 [Defaulting Lenders] when a Defaulting Lender shall exist, “Ratable Share” shall mean the percentage of the aggregate Commitments (disregarding any Defaulting Lender’s Commitment) represented by such Lender’s Commitment. If the Commitments have terminated or expired, the Ratable Shares shall be determined based upon the Commitments (excluding the Swing Loan Commitment) most recently in effect, giving effect to any assignments.

Reimbursement Obligation shall have the meaning specified in Section 2.9.3 [Disbursements, Reimbursement].

Related Parties shall mean, with respect to any Person, such Person’s Affiliates and the partners, directors, officers, employees, agents and advisors of such Person and of such Person’s Affiliates.

Relief Proceeding shall mean any Delinquency Proceeding or any proceeding seeking a decree or order for relief in respect of the Borrower or any Subsidiary of the Borrower in a voluntary or involuntary case under any applicable bankruptcy, insolvency, reorganization or other similar law now or hereafter in effect, or for the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator, conservator (or similar official) of the Borrower or any Subsidiary of the Borrower for any substantial part of its property, or for the winding-up or liquidation of its affairs, or an assignment for the benefit of its creditors.

Required Lenders shall mean Lenders (other than any Defaulting Lender) having more than fifty percent (50%) of the aggregate amount of the Revolving Credit Commitments of the Lenders (excluding any Defaulting Lender) or, after the termination of the Revolving Credit Commitments, the outstanding Revolving Credit Loans and Ratable Share of Letter of Credit Obligations of the Lenders (excluding any Defaulting Lender).

Required Share shall have the meaning specified in Section 4.10 [Settlement Date Procedures].

Revolving Credit Commitment shall mean, as to any Lender at any time, the amount initially set forth opposite its name on Schedule 1.1(B) in the column labeled "Amount of Commitment for Revolving Credit Loans", as such Commitment is thereafter increased pursuant to Section 2.5 [Increase in Revolving Credit Commitments] or decreased pursuant to Section 2.10 [Reduction of Revolving Credit Commitments], as applicable, and Revolving Credit Commitments shall mean the aggregate Revolving Credit Commitments of all of the Lenders.

Revolving Credit Loans shall mean collectively, and Revolving Credit Loan shall mean separately, all Revolving Credit Loans or any Revolving Credit Loan made by the Lender or one (1) of the Lenders to the Borrower pursuant to Section 2.1.1 [Revolving Credit Loans] or Section 2.9.3 [Disbursements, Reimbursement].

Revolving Credit Loan Request shall have the meaning specified in Section 2.4.1 [Revolving Credit Loan Requests].

Revolving Facility Usage shall mean at any time the sum of the outstanding Revolving Credit Loans and the Letter of Credit Obligations (for purposes of this computation, PNC Bank's Swing Loans shall be deemed to be borrowed amounts under its Revolving Credit Commitment).

SAP means, as to any Person, the accounting practices prescribed or permitted by NAIC, if then applicable to such Person, or the Applicable Insurance Regulatory Authority of the jurisdiction of domicile of such Person for the preparation of Annual Statements, Interim Statements and other financial reports by insurance companies of the same type as such Person.

Securities Intermediary shall mean any "securities intermediary" within the meaning of Section 8.102(a)(14) of the UCC at which any securities account constituting a Collateral

Account is held, which shall be (a) located in the United States of America and (b) acceptable to the Administrative Agent in its reasonable discretion.

Settlement Dates shall mean any Business Day on which the Administrative Agent elects to effect settlement pursuant to Section 4.10 [Settlement Date Procedures].

Solvent shall mean, with respect to any Person on any date of determination, taking into account such right of reimbursement, contribution or similar right available to such Person from other Persons, that on such date (i) the fair value of the property of such Person is greater than the total amount of liabilities, including, without limitation, contingent liabilities, of such Person, (ii) the present fair saleable value of the assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured, (iii) such Person is able to realize upon its assets and pay its debts and other liabilities, contingent obligations and other commitments as they mature in the normal course of business, (iv) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person's ability to pay as such debts and liabilities mature, and (v) such Person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such Person's property would constitute unreasonably small capital after giving due consideration to the prevailing practice in the industry in which such Person is engaged. In computing the amount of contingent liabilities at any time, it is intended that such liabilities will be computed at the amount which, in light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

Standard & Poor's shall mean Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

Standby Letter of Credit shall mean a Letter of Credit issued to support obligations of the Borrower, contingent or otherwise, which finance the working capital and business needs of the Borrower incurred in the ordinary course of business.

Statements shall have the meaning specified in Section 5.1.6 [Financial Statements].

Subscriber's Agreement shall mean an agreement executed by each policyholder in a reciprocal/inter-insurance exchange pursuant to which, among other things, the policyholder appoints an attorney-in-fact to act on its behalf in connection with the policyholder's insurance business at the reciprocal/inter-insurance exchange.

Subsidiary of any Person at any time shall mean any corporation, trust, partnership, any limited liability company or other business entity (i) of which fifty percent (50%) or more of the outstanding voting securities or other interests normally entitled to vote for the election of one or more directors or trustees (regardless of any contingency which does or may suspend or dilute the voting rights) is at such time owned directly or indirectly by such Person or one or more of such Person's Subsidiaries, or (ii) which is controlled or capable of being controlled by such Person or one or more of such Person's Subsidiaries.

Subsidiary Equity Interests shall have the meaning specified in Section 5.1.2 [Subsidiaries and Owners; Investment Companies].

Swing Loan Commitment shall have the meaning specified in Section 2.1.2 [Swing Loan Commitment].

Swing Loan Lender shall mean PNC Bank as the Lender with respect to the Swing Loans.

Swing Loan Request shall have the meaning specified in Section 2.4.2 [Swing Loan Requests].

Swing Loans shall mean collectively, and Swing Loan, shall mean separately, all Swing Loans or any Swing Loan made by the Swing Loan Lender to the Borrower pursuant to Section 2.1.2 [Swing Loan Commitment] hereof in an aggregate principal amount up to Twenty-Five Million and 00/100 Dollars ($25,000,000.00).

Taxes shall mean all present or future taxes, levies, imposts, duties, deductions, withholdings, assessments, fees or other charges imposed by any Official Body, including any interest, additions to tax or penalties applicable thereto.

Total Adjusted Capital shall mean, as to the Borrower, the "total adjusted capital" calculated in accordance with SAP pursuant to the requirements of the Insurance Department of the Commonwealth of Pennsylvania, as amended, restated, modified or supplemented from time to time.

UCC shall mean the Uniform Commercial Code as in effect in each applicable jurisdiction.

UCP shall have the meaning specified in Section 10.11.1 [Governing Law].

USA Patriot Act shall mean the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Public Law 107-56, as the same has been, or shall hereafter be, renewed, extended, amended or replaced.

Valuation Statement shall have the meaning specified in Section 7.3.5 [Valuation Statements].

1.2 Construction. Unless the context of this Agreement otherwise clearly requires, the following rules of construction shall apply to this Agreement and each of the other Loan Documents: (i) references to the plural include the singular, the plural, the part and the whole and the words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation"; (ii) the words "hereof", "herein", "hereunder", "hereto" and similar terms in this Agreement or any other Loan Document refer to this Agreement or such other Loan Document as a whole; (iii) article, section, subsection, clause, schedule and exhibit references are to this Agreement or other Loan Document, as the case may be, unless otherwise specified; (iv) reference to any Person includes such Person's successors and assigns; (v) reference to any agreement, including this Agreement and any other Loan Document together with the schedules and exhibits hereto or thereto, document or instrument means such agreement, document or instrument as amended, modified, replaced, substituted for, superseded or restated; (vi) relative to the determination of any period of time, "from" means "from and including", "to" means "to

but excluding", and "through" means "through and including"; (vii) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights, (viii) section headings herein and in each other Loan Document are included for convenience and shall not affect the interpretation of this Agreement or such Loan Document, and (ix) unless otherwise specified, all references herein to times of day shall be references to Eastern Time.

1.3 Accounting Principles; Changes in GAAP or SAP. Except as otherwise provided in this Agreement, all computations and determinations as to accounting or financial matters and all financial statements to be delivered pursuant to this Agreement shall be made and prepared in accordance with GAAP or SAP, as applicable (including principles of consolidation where appropriate), and all accounting or financial terms shall have the meanings ascribed to such terms by GAAP or SAP, as applicable; provided, however, that all accounting terms used in Section 7.2 [Negative Covenants] (and all defined terms used in the definition of any accounting term used in Section 7.2 [Negative Covenants] shall have the meaning given to such terms (and defined terms) under GAAP or SAP, as applicable, as in effect on the date hereof applied on a basis consistent with those used in preparing the Statements referred to in Section 5.1.6(i) [Financial Statements]. Notwithstanding the foregoing, if the Borrower notifies the Administrative Agent in writing that the Borrower wishes to amend any financial covenant in Section 7.2 of this Agreement, any related definition for purposes of interest, Letter of Credit Fee and Commitment Fee determinations to eliminate the effect of any change in GAAP or SAP occurring after the Closing Date on the operation of such financial covenants and/or interest, Letter of Credit Fee or Commitment Fee determinations (or if the Administrative Agent notifies the Borrower in writing that the Required Lenders wish to amend any financial covenant in Section 7.2, any related definition for purposes of interest, Letter of Credit Fee and Commitment Fee determinations to eliminate the effect of any such change in GAAP or SAP), then the Administrative Agent, the Lenders and the Borrower shall negotiate in good faith to amend such ratios or requirements to preserve the original intent thereof in light of such change in GAAP or SAP (subject to the approval of the Required Lenders); provided that, until so amended, the Borrower's compliance with such covenants for purposes of interest, Letter of Credit Fee and Commitment Fee determinations shall be determined on the basis of GAAP or SAP in effect immediately before the relevant change in GAAP or SAP became effective, until either such notice is withdrawn or such covenants or definitions are amended in a manner satisfactory to the Borrower and the Required Lenders, and the Borrower shall provide to the Administrative Agent, when it delivers its financial statements pursuant to Section 7.3.1 [Quarterly Financial Statements] and Section 7.3.2 [Annual Financial Statements] of this Agreement, such reconciliation statements as shall be reasonably requested by the Administrative Agent.

2. REVOLVING CREDIT AND SWING LOAN FACILITIES

2.1 Revolving Credit and Swing Loan Commitments.

2.1.1 Revolving Credit Loans. Subject to the terms and conditions hereof and relying upon the representations and warranties herein set forth, each Lender severally agrees to make Revolving Credit Loans to the Borrower at any time or from time to time on or after the date hereof to, but not including, the Expiration Date; provided that after giving effect to such

Loan (i) the aggregate amount of Loans from such Lender shall not exceed such Lender's Revolving Credit Commitment minus such Lender's Ratable Share of the Letter of Credit Obligations and (ii) the Revolving Facility Usage shall not exceed the Revolving Credit Commitments. Within such limits of time and amount and subject to the other provisions of this Agreement, the Borrower may borrow, repay and reborrow pursuant to this Section 2.1.1 [Revolving Credit Loans].

2.1.2 Swing Loans. Subject to the terms and conditions hereof and relying upon the representations and warranties herein set forth, and in order to facilitate loans and repayments between Settlement Dates, PNC Bank may, at its option, cancelable at any time for any reason whatsoever, make swing loans (the "Swing Loans") to the Borrower at any time or from time to time after the date hereof to, but not including, the Expiration Date, in an aggregate principal amount up to, but not in excess of Twenty-Five Million and 00/100 Dollars ($25,000,000.00) (the "Swing Loan Commitment"), provided that the aggregate principal amount of PNC Bank's Swing Loans and the Revolving Credit Loans of all Lenders and the Letter of Credit Obligations at any one time outstanding shall not exceed the Revolving Credit Commitments of all the Lenders. Within such limits of time and amount and subject to the other provisions of this Agreement, the Borrower may borrow, repay and reborrow pursuant to this Section 2.1.2 [Swing Loans].

2.2 Nature of Lenders' Obligations with Respect to Revolving Credit Loans. Each Lender shall be obligated to participate in each request for Revolving Credit Loans pursuant to Section 2.4.1 [Revolving Credit Loan Requests] in accordance with its Ratable Share. The aggregate of each Lender's Revolving Credit Loans outstanding hereunder to the Borrower at any time shall never exceed its Revolving Credit Commitment minus its Ratable Share of the outstanding Swing Loans and Letter of Credit Obligations. The obligations of each Lender hereunder are several. The failure of any Lender to perform its obligations hereunder shall not affect the Obligations of the Borrower to any other party nor shall any other party be liable for the failure of such Lender to perform its obligations hereunder. The Lenders shall have no obligation to make Revolving Credit Loans hereunder on or after the Expiration Date.

2.3 Commitment Fees. Accruing from the date hereof until the Expiration Date, the Borrower agrees to pay to the Administrative Agent for the account of each Lender, as consideration for such Lender's Revolving Credit Commitment hereunder, a nonrefundable commitment fee (the "Commitment Fee") at a rate per annum equal to the Applicable Commitment Fee Rate (computed on the basis of a year of three hundred sixty (360) days and actual days elapsed) times the average daily difference between the amount of (i) the Revolving Credit Commitments (for purposes of this computation, the Swing Loans shall be deemed to be borrowed amounts under PNC Bank's Revolving Credit Commitment) and (ii) the Revolving Facility Usage; provided, however, that any Commitment Fee accrued with respect to the Revolving Credit Commitment of a Defaulting Lender during the period prior to the time such Lender became a Defaulting Lender and unpaid at such time shall not be payable by the Borrower so long as such Lender shall be a Defaulting Lender except to the extent that such Commitment Fee shall otherwise have been due and payable by the Borrower prior to such time; and provided further that no Commitment Fee shall accrue with respect to the Revolving Credit Commitment of a Defaulting Lender so long as such Lender shall be a Defaulting Lender.

Subject to the proviso in the directly preceding sentence, all Commitment Fees shall be payable in arrears on each Payment Date.

2.4 Revolving Credit Loan Requests; Swing Loan Requests.

2.4.1 Revolving Credit Loan Requests. Except as otherwise provided herein, the Borrower may from time to time prior to the Expiration Date request the Lenders to make Revolving Credit Loans, or renew or convert the Interest Rate Option applicable to existing Revolving Credit Loans pursuant to Section 3.2 [Interest Periods], by delivering to the Administrative Agent, not later than 10:00 a.m., (i) three (3) Business Days prior to the proposed Borrowing Date with respect to the making of Revolving Credit Loans to which the LIBOR Rate Option applies or the conversion to or the renewal of the LIBOR Rate Option for any Loans; and (ii) on the proposed Borrowing Date with respect to the making of a Revolving Credit Loan to which the Base Rate Option applies or the last day of the preceding Interest Period with respect to the conversion to the Base Rate Option for any Loan, of a duly completed request therefor substantially in the form of Exhibit 2.4.1 or a request by telephone immediately confirmed in writing by letter, facsimile or telex in such form (each, a "Revolving Credit Loan Request"), it being understood that the Administrative Agent may rely on the authority of any individual making such a telephonic request without the necessity of receipt of such written confirmation. Each Revolving Credit Loan Request shall be irrevocable and shall specify the aggregate amount of the proposed Loans comprising each Borrowing Tranche, and, if applicable, the Interest Period, which amounts shall be in integral multiples of Five Hundred Thousand and 00/100 Dollars ($500,000.00) and not less than Two Million and 00/100 Dollars ($2,000,000.00) for each Borrowing Tranche under the LIBOR Rate Option and not less than the lesser of Two Million and 00/100 Dollars ($2,000,000.00) or the maximum amount available for Borrowing Tranches under the Base Rate Option.

2.4.2 Swing Loan Requests. Except as otherwise provided herein, the Borrower may from time to time prior to the Expiration Date request PNC Bank to make Swing Loans by delivery to PNC Bank not later than 1:00 p.m. on the proposed Borrowing Date of a duly completed request therefor substantially in the form of Exhibit 2.4.2 hereto or a request by telephone immediately confirmed in writing by letter, facsimile or telex, in such form (each, a "Swing Loan Request"), it being understood that the Administrative Agent may rely on the authority of any individual making such a telephonic request without the necessity of receipt of such written confirmation. Each Swing Loan Request shall be irrevocable and shall specify (i) the proposed Borrowing Date and (ii) the principal amount of such Swing Loan, which shall be in integral multiples of One Hundred Thousand and 00/100 Dollars ($100,000.00) and not less than One Hundred Thousand and 00/100 Dollars ($100,000.00).

2.5 Increase in Revolving Credit Commitments.

(i) Increasing Lenders and New Lenders. The Borrower may, one time prior to the fourth anniversary of the Closing Date, request that (1) the current Lenders increase their Revolving Credit Commitments (any current Lender which elects to increase its Revolving Credit Commitment shall be referred to as an "Increasing Lender") or (2) one or more new lenders (each a "New Lender") join this Agreement and provide a Revolving Credit Commitment hereunder, subject to the following terms and conditions:

a. No Obligation to Increase. No current Lender shall be obligated to increase its Revolving Credit Commitment and any increase in the Revolving Credit Commitment by any current Lender shall be in the sole discretion of such current Lender.

b. Defaults. There shall exist no Events of Default or Potential Default on the effective date of such increase after giving effect to such increase.

c. Aggregate Revolving Credit Commitments. After giving effect to such increase, the total Revolving Credit Commitments shall not exceed Four Hundred Million and 00/100 Dollars ($400,000,000.00).

d. Minimum Revolving Credit Commitments. After giving effect to such increase, the amount of the Revolving Credit Commitments provided by each of the New Lenders and each of the Increasing Lenders shall be at least Twenty-Five Million and 00/100 Dollars ($25,000,000.00).

e. Resolutions; Opinion. The Borrower shall deliver to the Administrative Agent on or before the effective date of such increase the following documents in a form acceptable to the Administrative Agent: (1) certifications of an Authorized Officer with attached resolutions of the Attorney-in-Fact certifying that the increase in the Revolving Credit Commitment has been approved by the Borrower, and (2) an opinion of counsel addressed to the Administrative Agent and the Lenders addressing the authorization of the Borrower and the Attorney-in-Fact and execution of the Loan Documents by the Attorney-in-Fact, and enforceability of the Loan Documents against, the Borrower.

f. Notes. The Borrower shall execute and deliver (1) to each Increasing Lender a replacement revolving credit Note reflecting the new amount of such Increasing Lender's Revolving Credit Commitment after giving effect to the increase (and the prior Note issued to such Increasing Lender shall be deemed to be terminated) and (2) to each New Lender a revolving credit Note reflecting the amount of such New Lender's Revolving Credit Commitment.

g. Approval of New Lenders. Any New Lender shall be subject to the approval of the Administrative Agent, which approval shall not be unreasonably withheld.

h. Increasing Lenders. Each Increasing Lender shall confirm its agreement to increase its Revolving Credit Commitment pursuant to an acknowledgement in a form reasonably acceptable to the Administrative Agent, signed by it and the Borrower and delivered to the Administrative Agent at least five (5) days before the effective date of such increase.

i. New Lenders--Joinder. Each New Lender shall execute a lender joinder in form and substance reasonably satisfactory to the Administrative Agent pursuant to which such New Lender shall join and become a party to this Agreement and the other Loan Documents with a Revolving Credit Commitment in the amount set forth in such lender joinder.

(ii) Treatment of Outstanding Loans and Letters of Credit.

(a) Repayment of Outstanding Loans; Borrowing of New Loans. On the effective date of any increase in Revolving Credit Commitments as provided in the preceding clause (i), the Borrower shall repay all Loans then outstanding, subject to the Borrower's indemnity obligations under Section 4.9 [Indemnity]; provided that it may borrow new Loans with a Borrowing Date on such date. Each of the Lenders shall participate in any new Loans made on or after such date in accordance with their respective Ratable Shares after giving effect to the increase in Revolving Credit Commitments contemplated by this Section 2.5 [Increase in Revolving Credit Commitments].

(b) Outstanding Letters of Credit. Repayment of Outstanding Loans; Borrowing of New Loans. On the effective date of such increase, each Increasing Lender and each New Lender (i) will be deemed to have purchased a participation in each then outstanding Letter of Credit equal to its Ratable Share of such Letter of Credit and the participation of each other Lender in such Letter of Credit shall be adjusted accordingly and (ii) will acquire, (and will pay to the Administrative Agent, for the account of each Lender, in immediately available funds, an amount equal to) its Ratable Share of all outstanding Participation Advances.

2.6 Making Revolving Credit Loans and Swing Loans; Presumptions by the Administrative Agent; Repayment of Revolving Credit Loans; Borrowings to Repay Swing Loans.

2.6.1 Making Revolving Credit Loans. The Administrative Agent shall, promptly after receipt by it of a Revolving Credit Loan Request pursuant to Section 2.4.1 [Revolving Credit Loan Requests], notify the Lenders of its receipt of such Loan Request specifying the information provided by the Borrower and the apportionment among the Lenders of the requested Revolving Credit Loans as determined by the Administrative Agent in accordance with Section 2.2 [Nature of Lenders' Obligations with Respect to Revolving Credit Loans]. Each Lender shall remit the principal amount of each Revolving Credit Loan to the Administrative Agent such that the Administrative Agent is able to, and the Administrative Agent shall, to the extent the Lenders have made funds available to it for such purpose and subject to Section 6.2 [Each Loan or Letter of Credit], fund such Revolving Credit Loans to the Borrower in U.S. Dollars and immediately available funds at the Principal Office prior to 2:00 p.m., on the applicable Borrowing Date; provided that if any Lender fails to remit such funds to the Administrative Agent in a timely manner, the Administrative Agent may elect in its sole discretion to fund with its own funds the Revolving Credit Loans of such Lender on such Borrowing Date, and such Lender shall be subject to the repayment obligation in Section 2.6.3 [Presumptions by the Administrative Agent].

2.6.2 Making Swing Loans. So long as PNC Bank elects to make Swing Loans, PNC Bank shall, after receipt by it of a Swing Loan Request pursuant to Section 2.4.2 [Swing Loan Requests], fund such Swing Loan to the Borrower in U.S. Dollars and immediately available funds at the Principal Office prior to 2:00 p.m. on the Borrowing Date.

2.6.3 Presumptions by the Administrative Agent. Unless the Administrative Agent shall have received notice from a Lender prior to the proposed date of any Loan that such Lender will not make available to the Administrative Agent such Lender's share of such Loan, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with Section 2.6.1 [Making Revolving Credit Loans] and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Loan available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at (i) in the case of a payment to be made by such Lender, the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation and (ii) in the case of a payment to be made by the Borrower, the interest rate applicable to Loans under the Base Rate Option. If such Lender pays its share of the applicable Loan to the Administrative Agent, then the amount so paid shall constitute such Lender's Loan. Any payment by the Borrower shall be without prejudice to any claim the Borrower may have against a Lender that shall have failed to make such payment to the Administrative Agent.

2.6.4 Repayment of Revolving Credit Loans. The Borrower shall repay the Revolving Credit Loans together with all outstanding interest thereon on the Expiration Date.

2.6.5 Borrowings to Repay Swing Loans. PNC Bank may, at its option, exercisable at any time for any reason whatsoever, demand repayment of the Swing Loans, and each Lender shall make a Revolving Credit Loan in an amount equal to such Lender's Ratable Share of the aggregate principal amount of the outstanding Swing Loans, plus, if PNC Bank so requests, accrued interest thereon, provided that no Lender shall be obligated in any event to make Revolving Credit Loans in excess of its Revolving Credit Commitment less its Ratable Share of the Letter of Credit Obligations. Revolving Credit Loans made pursuant to the preceding sentence shall bear interest at the Base Rate Option and shall be deemed to have been properly requested in accordance with Section 2.4.1 [Revolving Credit Loan Requests] without regard to any of the requirements of that provision. PNC Bank shall provide notice to the Lenders (which may be telephonic, written, or facsimile notice) that such Revolving Credit Loans are to be made under this Section 2.6.5 [Borrowings to Repay Swing Loans] and of the apportionment among the Lenders, and the Lenders shall be unconditionally obligated to fund such Revolving Credit Loans (whether or not the conditions specified in Section 2.4.1 [Revolving Credit Loan Requests] are then satisfied) by the time PNC Bank so requests, which shall not be earlier than 3:00 p.m. on the next Business Day after the date the Lenders receive such notice from PNC Bank.

2.7 Notes. The Obligation of the Borrower to repay the aggregate unpaid principal amount of the Revolving Credit Loans made to it by each Lender, together with interest thereon, shall be evidenced by a revolving credit Note, dated the Closing Date payable to the order of such Lender in a face amount equal to the Revolving Credit Commitment. The Obligation of the Borrower to repay the aggregate unpaid principal amount of the Swing Loans made to it by PNC Bank, together with interest thereon, shall be evidenced by a swing Note, dated the Closing Date payable to the order of PNC Bank in a face amount equal to the Swing Loan Commitment.

2.8 Use of Proceeds. The proceeds of the Loans shall be used (a) to provide working capital to the Borrower, (b) for general corporate purposes of the Borrower, and (c) to refinance the existing Indebtedness owed by the Borrower to the Existing Lenders pursuant to the Existing Credit Agreement and other loan documents executed in connection therewith. The Borrower shall not use the Letters of Credit or the proceeds of the Loans for any purposes that contravene any Law or any provision hereof.

2.9 Letter of Credit Subfacility.

2.9.1 Issuance of Letters of Credit. Borrower may at any time prior to the Expiration Date request the issuance of letters of credit (each, a "Letter of Credit") on behalf of itself, or the amendment or extension of an existing Letter of Credit, by delivering to an Issuing Lender (with a copy to the Administrative Agent) a completed application and agreement for letters of credit, or request for such amendment or extension, as applicable, in such form as such Issuing Lender may specify from time to time by no later than 10:00 a.m. at least three (3) Business Days, or such shorter period as may be agreed to by such Issuing Lender, in advance of the proposed date of issuance. Each Letter of Credit shall be a Standby Letter of Credit (and may not be a Commercial Letter of Credit). Promptly after receipt of any Letter of Credit application, the applicable Issuing Lender shall confirm with the Administrative Agent (by telephone or in writing) that the Administrative Agent has received a copy of such Letter of Credit application and if not, such Issuing Lender will provide Administrative Agent with a copy thereof. Unless the applicable Issuing Lender has received notice from any Lender, the Administrative Agent or the Borrower, at least one (1) day prior to the requested date of issuance, amendment or extension of the applicable Letter of Credit, that one or more applicable conditions in Section 6 [Conditions of Lending and Issuance of Letters of Credit] is not satisfied, then, subject to the terms and conditions hereof and in reliance on the agreements of the other Lenders set forth in this Section 2.9 [Letter of Credit Subfacility], such Issuing Lender will issue a Letter of Credit or agree to such amendment or extension, provided that each Letter of Credit shall (A) have a maximum maturity of twelve (12) months from the date of issuance, and (B) in no event expire later than seven (7) days prior to the Expiration Date and provided further that in no event shall (i) the Letter of Credit Obligations exceed, at any one time, Twenty-Five Million and 00/100 Dollars ($25,000,000.00) (the "Letter of Credit Sublimit") or (ii) the Revolving Facility Usage exceed, at any one time, the Revolving Credit Commitments. Each request by the Borrower for the issuance, amendment or extension of a Letter of Credit shall be deemed to be a representation by the Borrower that it shall be in compliance with the preceding sentence and with Section 6 [Conditions of Lending and Issuance of Letters of Credit] after giving effect to the requested issuance, amendment or extension of such Letter of Credit. Promptly after its delivery of any Letter of Credit or any amendment to a Letter of Credit to the beneficiary thereof, the applicable Issuing Lender will also deliver to the Borrower and Administrative Agent a true and complete copy of such Letter of Credit or amendment. The Existing Letters of Credit remain outstanding and, on the Closing Date, will constitute all outstanding Letters of Credit under this Agreement as of such date.

2.9.2 Letter of Credit Fees. The Borrower shall pay (i) to the Administrative Agent for the ratable account of the Lenders a fee (the "Letter of Credit Fee") equal to the Applicable Letter of Credit Fee Rate, and (ii) to the applicable Issuing Lender for its own account a fronting fee equal to one hundred twenty-five thousandths of one percent (0.125%) per annum (in each case computed on the basis of a year of 360 days and actual days elapsed), which fees shall be computed on the daily average Letter of Credit Obligations and shall be payable quarterly in arrears on each Payment Date following issuance of each Letter of Credit. The Borrower shall also pay to the applicable Issuing Lender for such Issuing Lender's sole account such Issuing Lender's then in effect customary fees and administrative expenses payable with respect to the Letters of Credit as such Issuing Lender may generally charge or incur from time to time in connection with the issuance, maintenance, amendment (if any), assignment or transfer (if any), negotiation, and administration of Letters of Credit.

2.9.3 Disbursements, Reimbursement. Immediately upon the issuance of each Letter of Credit, each Lender shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from the applicable Issuing Lender a participation in such Letter of Credit and each drawing thereunder in an amount equal to such Lender's Ratable Share of the maximum amount available to be drawn under such Letter of Credit and the amount of such drawing, respectively.

2.9.3.1 In the event of any request for a drawing under a Letter of Credit by the beneficiary or transferee thereof, the applicable Issuing Lender will promptly notify the Borrower and the Administrative Agent thereof. Provided that it shall have received such notice, the Borrower shall reimburse (such obligation to reimburse the applicable Issuing Lender shall sometimes be referred to as a "Reimbursement Obligation") such Issuing Lender prior to 12:00 noon on each date that an amount is paid by such Issuing Lender under any Letter of Credit (each such date, a "Drawing Date") by paying to the Administrative Agent for the account of such Issuing Lender an amount equal to the amount so paid by such Issuing Lender. In the event the Borrower fails to reimburse the applicable Issuing Lender (through the Administrative Agent) for the full amount of any drawing under any Letter of Credit by 12:00 noon on the Drawing Date, the Administrative Agent will promptly notify each Lender thereof, and the Borrower shall be deemed to have requested that Revolving Credit Loans be made by the Lenders under the Base Rate Option to be disbursed on the Drawing Date under such Letter of Credit, subject to the amount of the unutilized portion of the Revolving Credit Commitment and subject to the conditions set forth in Section 6.2 [Each Loan or Letter of Credit] other than any notice requirements. Any notice given by the Administrative Agent or applicable Issuing Lender pursuant to this Section 2.9.3.1 [Disbursements; Reimbursement] may be oral if immediately confirmed in writing; provided that the lack of such an immediate confirmation shall not affect the conclusiveness or binding effect of such notice.

2.9.3.2 Each Lender shall upon any notice pursuant to this Section 2.9.3 [Disbursements; Reimbursement] make available to the Administrative Agent for the account of the applicable Issuing Lender an amount in immediately available funds equal to its Ratable Share of the amount of the drawing, whereupon the participating Lenders shall (subject to this Section 2.9.3 [Disbursements; Reimbursement]) each be deemed to have made a Revolving Credit Loan under the Base Rate Option to the Borrower in that amount. If any Lender so notified fails to make available to the Administrative Agent for the account of the applicable Issuing Lender the amount of such Lender's Ratable Share of such amount by no later than 2:00 p.m. on the Drawing Date, then interest shall accrue on such Lender's obligation to make such payment, from the Drawing Date to the date on which such Lender makes such payment (i) at a rate per annum equal to the Federal Funds Effective Rate during the first three (3) days following

the Drawing Date and (ii) at a rate per annum equal to the rate applicable to Loans under the Revolving Credit Base Rate Option on and after the fourth day following the Drawing Date. The Administrative Agent and the applicable Issuing Lender will promptly give notice (as described in this Section 2.9.3 [Disbursements; Reimbursement] above) of the occurrence of the Drawing Date, but failure of the Administrative Agent or such Issuing Lender to give any such notice on the Drawing Date or in sufficient time to enable any Lender to effect such payment on such date shall not relieve such Lender from its obligation under this Section 2.9.3 [Disbursements; Reimbursement].

2.9.3.3 With respect to any unreimbursed drawing that is not converted into Revolving Credit Loans under the Base Rate Option to the Borrower in whole or in part as contemplated by this Section 2.9.3 [Disbursements; Reimbursement], because of the Borrower's failure to satisfy the conditions set forth in Section 6.2 [Each Loan or Letter of Credit] other than any notice requirements, or for any other reason, the Borrower shall be deemed to have incurred from the applicable Issuing Lender a borrowing (each, a "Letter of Credit Borrowing") in the amount of such drawing. Such Letter of Credit Borrowing shall be due and payable on demand (together with interest) and shall bear interest at the rate per annum applicable to the Revolving Credit Loans under the Base Rate Option. Each Lender's payment to the Administrative Agent for the account of the applicable Issuing Lender pursuant to this Section 2.9.3 [Disbursements, Reimbursement] shall be deemed to be a payment in respect of its participation in such Letter of Credit Borrowing (each, a "Participation Advance") from such Lender in satisfaction of its participation obligation under this Section 2.9.3 [Disbursements; Reimbursement].

2.9.4 Repayment of Participation Advances.

2.9.4.1 Upon (and only upon) receipt by the Administrative Agent for the account of an Issuing Lender of immediately available funds from the Borrower (i) in reimbursement of any payment made by such Issuing Lender under any Letter of Credit with respect to which any Lender has made a Participation Advance to the Administrative Agent, or (ii) in payment of interest on such a payment made by such Issuing Lender under such a Letter of Credit, the Administrative Agent on behalf of such Issuing Lender will pay to each Lender, in the same funds as those received by the Administrative Agent, the amount of such Lender's Ratable Share of such funds, except the Administrative Agent shall retain for the account of the applicable Issuing Lender the amount of the Ratable Share of such funds of any Lender that did not make a Participation Advance in respect of such payment by such Issuing Lender.

2.9.4.2 If the Administrative Agent is required at any time to return to the Borrower, or to a trustee, receiver, liquidator, custodian, or any official in any Insolvency Proceeding, any portion of any payment made by the Borrower to the Administrative Agent for the account of an Issuing Lender pursuant to this Section 2.9.4 [Repayment of Participation Advances] in reimbursement of a payment made under the Letter of Credit or interest or fee thereon, each Lender shall, on demand of the Administrative Agent, forthwith return to the Administrative Agent for the account of such Issuing Lender the amount of its Ratable Share of any amounts so returned by the Administrative Agent plus interest thereon from the date such demand is made to the date such amounts are returned by such Lender to the Administrative Agent, at a rate per annum equal to the Federal Funds Effective Rate in effect from time to time.

2.9.5 Documentation. The Borrower agrees to be bound by the terms of each Issuing Lender's application and agreement for letters of credit and each Issuing Lender's written regulations and customary practices relating to letters of credit. In the event of a conflict between such application or agreement and this Agreement, this Agreement shall govern. It is understood and agreed that, except in the case of gross negligence or willful misconduct, no Issuing Lender shall be liable for any error, negligence and/or mistakes, whether of omission or commission, in following the Borrower's instructions or those contained in the Letters of Credit or any modifications, amendments or supplements thereto.

2.9.6 Determinations to Honor Drawing Requests. In determining whether to honor any request for drawing under any Letter of Credit by the beneficiary thereof, each Issuing Lender shall be responsible only to determine that the documents and certificates required to be delivered under such Letter of Credit have been delivered and that they comply on their face with the requirements of such Letter of Credit.

2.9.7 Nature of Participation and Reimbursement Obligations. Each Lender's obligation in accordance with this Agreement to make the Revolving Credit Loans or Participation Advances, as contemplated by Section 2.9.3 [Disbursements, Reimbursement], as a result of a drawing under a Letter of Credit, and the Obligations of the Borrower to reimburse the applicable Issuing Lender upon a draw under a Letter of Credit, shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Section 2.9 [Letter of Credit Subfacility] under all circumstances, including the following circumstances:

(i) any set-off, counterclaim, recoupment, defense or other right which such Lender may have against the applicable Issuing Lender or any of its Affiliates, the Borrower or any other Person for any reason whatsoever, or which the Borrower may have against the applicable Issuing Lender or any of its Affiliates, any Lender or any other Person for any reason whatsoever;

(ii) the failure of the Borrower or any other Person to comply, in connection with a Letter of Credit Borrowing, with the conditions set forth in Section 2.1 [Revolving Credit Loans], Section 2.4.1 [Revolving Credit Loan Requests], Section 2.6.1 [Making Revolving Credit Loans] or Section 6.2 [Each Loan or Letter of Credit] or as otherwise set forth in this Agreement for the making of a Revolving Credit Loan, it being acknowledged that such conditions are not required for the making of a Letter of Credit Borrowing and the obligation of the Lenders to make Participation Advances under Section 2.9.3 [Disbursements, Reimbursement];

(iii) any lack of validity or enforceability of any Letter of Credit;

(iv) any claim of breach of warranty that might be made by the Borrower or any Lender against any beneficiary of a Letter of Credit, or the existence of any claim, set-off, recoupment, counterclaim, crossclaim, defense or other right which the Borrower or any Lender may have at any time against a beneficiary, successor beneficiary any transferee or assignee of any Letter of Credit or the proceeds thereof (or any Persons for whom any such transferee may be acting), the applicable Issuing Lender or its Affiliates or any Lender or any other Person, whether in connection with this Agreement, the transactions contemplated herein

or any unrelated transaction (including any underlying transaction between the Borrower or any Subsidiaries of the Borrower and the beneficiary for which any Letter of Credit was procured);

(v) the lack of power or authority of any signer of (or any defect in or forgery of any signature or endorsement on) or the form of or lack of validity, sufficiency, accuracy, enforceability or genuineness of any draft, demand, instrument, certificate or other document presented under or in connection with any Letter of Credit, or any fraud or alleged fraud in connection with any Letter of Credit, or the transport of any property or provision of services relating to a Letter of Credit, in each case even if the applicable Issuing Lender or any of its Affiliates has been notified thereof;

(vi) payment by the applicable Issuing Lender or any of its Affiliates under any Letter of Credit against presentation of a demand, draft or certificate or other document which does not comply with the terms of such Letter of Credit;

(vii) the solvency of, or any acts or omissions by, any beneficiary of any Letter of Credit, or any other Person having a role in any transaction or obligation relating to a Letter of Credit, or the existence, nature, quality, quantity, condition, value or other characteristic of any property or services relating to a Letter of Credit;

(viii) any failure by the applicable Issuing Lender or any of its Affiliates to issue any Letter of Credit in the form requested by the Borrower, unless the applicable Issuing Lender has received written notice from the Borrower of such failure within three (3) Business Days after the applicable Issuing Lender or any of its Affiliates shall have furnished the Borrower and the Administrative Agent a copy of such Letter of Credit and such error is material and no drawing has been made thereon prior to receipt of such notice;

(ix) any adverse change in the business, operations, properties, assets, condition (financial or otherwise) or prospects of the Borrower or any Subsidiaries of the Borrower;

(x) any breach of this Agreement or any other Loan Document by any party thereto;

(xi) the occurrence or continuance of an Insolvency Proceeding with respect to the Borrower;

(xii) the fact that an Event of Default or a Potential Default shall have occurred and be continuing;

(xiii) the fact that the Expiration Date shall have passed or this Agreement or the Commitments hereunder shall have been terminated; and

(xiv) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing.

2.9.8 Indemnity. The Borrower hereby agrees to protect, indemnify, pay and save harmless each Issuing Lender and any of its Affiliates that has issued a Letter of Credit

from and against any and all claims, demands, liabilities, damages, taxes, penalties, interest, judgments, losses, costs, charges and expenses (including reasonable fees, expenses and disbursements of counsel and allocated costs of internal counsel) which such Issuing Lender or any of its Affiliates may incur or be subject to as a consequence, direct or indirect, of the issuance of any Letter of Credit, other than as a result of (A) the gross negligence or willful misconduct of such Issuing Lender as determined by a final non-appealable judgment of a court of competent jurisdiction or (B) the wrongful dishonor by such Issuing Lender or any of such Issuing Lender's Affiliates of a proper demand for payment made under any Letter of Credit, except if such dishonor resulted from any act or omission, whether rightful or wrongful, of any present or future de jure or de facto government or Official Body.

2.9.9 Liability for Acts and Omissions. As between the Borrower and each Issuing Lender, or an Issuing Lender's Affiliates, the Borrower assumes all risks of the acts and omissions of, or misuse of the Letters of Credit by, the respective beneficiaries of such Letters of Credit. In furtherance and not in limitation of the foregoing, the applicable Issuing Lender shall not be responsible for any of the following, including any losses or damages to the Borrower or other Person or property relating therefrom: (i) the form, validity, sufficiency, accuracy, genuineness or legal effect of any document submitted by any party in connection with the application for an issuance of any such Letter of Credit, even if it should in fact prove to be in any or all respects invalid, insufficient, inaccurate, fraudulent or forged (even if the applicable Issuing Lender or its Affiliates shall have been notified thereof); (ii) the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign any such Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason; (iii) the failure of the beneficiary of any such Letter of Credit, or any other party to which such Letter of Credit may be transferred, to comply fully with any conditions required in order to draw upon such Letter of Credit or any other claim of the Borrower against any beneficiary of such Letter of Credit, or any such transferee, or any dispute between or among the Borrower and any beneficiary of any Letter of Credit or any such transferee; (iv) errors, omissions, interruptions or delays in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, whether or not they be in cipher; (v) errors in interpretation of technical terms; (vi) any loss or delay in the transmission or otherwise of any document required in order to make a drawing under any such Letter of Credit or of the proceeds thereof; (vii) the misapplication by the beneficiary of any such Letter of Credit of the proceeds of any drawing under such Letter of Credit; or (viii) any consequences arising from causes beyond the control of the applicable Issuing Lender or its Affiliates, as applicable, including any act or omission of any Official Body, and none of the above shall affect or impair, or prevent the vesting of, any of the applicable Issuing Lender's or its Affiliates' rights or powers hereunder. Nothing in the preceding sentence shall relieve the applicable Issuing Lender from liability for the applicable Issuing Lender's gross negligence or willful misconduct in connection with actions or omissions described in such clauses (i) through (viii) of such sentence. In no event shall the applicable Issuing Lender or its Affiliates be liable to the Borrower for any indirect, consequential, incidental, punitive, exemplary or special damages or expenses (including without limitation attorneys' fees), or for any damages resulting from any change in the value of any property relating to a Letter of Credit.

Without limiting the generality of the foregoing, each Issuing Lender and each of its Affiliates (i) may rely on any oral or other communication believed in good faith by

the applicable Issuing Lender or such Affiliate to have been authorized or given by or on behalf of the applicant for a Letter of Credit, (ii) may honor any presentation if the documents presented appear on their face substantially to comply with the terms and conditions of the relevant Letter of Credit; (iii) may honor a previously dishonored presentation under a Letter of Credit, whether such dishonor was pursuant to a court order, to settle or compromise any claim of wrongful dishonor, or otherwise, and shall be entitled to reimbursement to the same extent as if such presentation had initially been honored, together with any interest paid by the applicable Issuing Lender or its Affiliates; (iv) may honor any drawing that is payable upon presentation of a statement advising negotiation or payment, upon receipt of such statement (even if such statement indicates that a draft or other document is being delivered separately), and shall not be liable for any failure of any such draft or other document to arrive, or to conform in any way with the relevant Letter of Credit; (v) may pay any paying or negotiating bank claiming that it rightfully honored under the Laws or practices of the place where such bank is located; and (vi) may settle or adjust any claim or demand made on the applicable Issuing Lender or its Affiliates in any way related to any order issued at the applicant's request to an air carrier, a letter of guarantee or of indemnity issued to a carrier or any similar document (each, an "Order") and honor any drawing in connection with any Letter of Credit that is the subject of such Order, notwithstanding that any drafts or other documents presented in connection with such Letter of Credit fail to conform in any way with such Letter of Credit.

In furtherance and extension and not in limitation of the specific provisions set forth above, any action taken or omitted by the applicable Issuing Lender or its Affiliates under or in connection with the Letters of Credit issued by it or any documents and certificates delivered thereunder, if taken or omitted in good faith, shall not put the applicable Issuing Lender or its Affiliates under any resulting liability to the Borrower or any Lender.

2.9.10 Issuing Lender Reporting Requirements. Each Issuing Lender shall, on the first (1st) Business Day of each month, provide to the Administrative Agent and Borrower a schedule of the Letters of Credit issued by it, in form and substance satisfactory to Administrative Agent, showing the date of issuance of each Letter of Credit, the account party, the original face amount (if any), and the expiration date of any Letter of Credit outstanding at any time during the preceding month, and any other information relating to such Letter of Credit that the Administrative Agent may request.

2.10 Reduction of Revolving Credit Commitment. The Borrower shall have the right at any time after the Closing Date upon five (5) days' prior written notice to the Administrative Agent to permanently reduce (ratably among the Lenders in proportion to their Ratable Shares) the Revolving Credit Commitments, in a minimum amount of Five Million and 00/100 Dollars ($5,000,000.00), and whole multiples of One Million and 00/100 Dollars ($1,000,000.00), or to terminate completely the Revolving Credit Commitments, without penalty or premium except as hereinafter set forth; provided that any such reduction or termination shall be accompanied by prepayment of the Notes, together with outstanding Commitment Fees, and the full amount of interest accrued on the principal sum to be prepaid (and all amounts referred to in Section 4.9 [Indemnity] hereof) to the extent necessary to cause the aggregate Revolving Facility Usage after giving effect to such prepayments to be equal to or less than the Revolving Credit Commitments as so reduced or terminated. Any notice to reduce the Revolving Credit Commitments under this Section 2.10 [Reduction of Revolving Credit Commitment] shall be irrevocable.

2.11 Valuation Statement. Unless the Borrower is delivering daily Valuation Statements at such time pursuant to Section 7.3.5 [Valuation Statements], prior to any Revolving Credit Loan Request (excluding, however, the renewal or conversion of the Interest Rate Option applicable to any existing Revolving Credit Loans), Swing Loan Request or request for a Letter of Credit (excluding, however, the renewal of any outstanding Letter of Credit), the Borrower must deliver to the Administrative Agent a Valuation Statement calculated as of the most recent Business Day prior to the date of such request.

2.12 Defaulting Lenders.

Notwithstanding any provision of this Agreement to the contrary, if any Lender becomes a Defaulting Lender, then the following provisions shall apply for so long as such Lender is a Defaulting Lender:

(i) fees shall cease to accrue on the unfunded portion of the Commitment of such Defaulting Lender pursuant to Section 2.3 [Commitment Fees];

(ii) the Commitment and outstanding Loans of such Defaulting Lender shall not be included in determining whether the Required Lenders have taken or may take any action hereunder (including any consent to any amendment, waiver or other modification pursuant to Section 10.1 [Modifications, Amendments or Waivers]); provided, that this clause (ii) shall not apply to the vote of a Defaulting Lender in the case of an amendment, waiver or other modification requiring the consent of such Lender or each Lender directly affected thereby;

(iii) if any Swing Loans are outstanding or any Letter of Credit Obligations exist at the time such Lender becomes a Defaulting Lender, then:

(a) all or any part of the outstanding Swing Loans and Letter of Credit Obligations of such Defaulting Lender shall be reallocated among the non-Defaulting Lenders in accordance with their respective Ratable Shares but only to the extent that (x) the Revolving Facility Usage does not exceed the total of all non-Defaulting Lenders' Revolving Credit Commitments, and (y) no Potential Default or Event of Default has occurred and is continuing at such time;

(b) if the reallocation described in clause (a) above cannot, or can only partially, be effected, the Borrower shall within one Business Day following notice by the Administrative Agent (x) first, prepay such outstanding Swing Loans, and (y) second, cash collateralize for the benefit of the applicable Issuing Lender the Borrower's obligations corresponding to such Defaulting Lender's Letter of Credit Obligations (after giving effect to any partial reallocation pursuant to clause (a) above) in a deposit account held at the Administrative Agent for so long as such Letter of Credit Obligations are outstanding;

(c) if the Borrower cash collateralizes any portion of such Defaulting Lender's Letter of Credit Obligations pursuant to clause (b) above, the Borrower shall not be required to pay any fees to such Defaulting Lender pursuant to Section 2.9.2 [Letter of Credit Fees] with respect to such Defaulting Lender's Letter of Credit Obligations during the period such Defaulting Lender's Letter of Credit Obligations are cash collateralized;

(d) if the Letter of Credit Obligations of the non-Defaulting Lenders are reallocated pursuant to clause (a) above, then the fees payable to the Lenders pursuant to Section 2.9.2 [Letter of Credit Fees] shall be adjusted in accordance with such non-Defaulting Lenders' Ratable Share; and

(e) if all or any portion of such Defaulting Lender's Letter of Credit Obligations are neither reallocated nor cash collateralized pursuant to clause (a) or (b) above, then, without prejudice to any rights or remedies of the applicable Issuing Lender or any other Lender hereunder, all Letter of Credit Fees payable under Section 2.9.2 [Letter of Credit Fees] with respect to such Defaulting Lender's Letter of Credit Obligations shall be payable to the applicable Issuing Lender (and not to such Defaulting Lender) until and to the extent that such Letter of Credit Obligations are reallocated and/or cash collateralized; and

(iv) so long as such Lender is a Defaulting Lender, PNC Bank shall not be required to fund any Swing Loans and the applicable Issuing Lender shall not be required to issue, amend or increase any Letter of Credit, unless such Issuing Lender is satisfied that the related exposure and the Defaulting Lender's then outstanding Letter of Credit Obligations will be 100% covered by the Revolving Credit Commitments of the non-Defaulting Lenders and/or cash collateral will be provided by the Borrower in accordance with Section 2.12(iii), and participating interests in any newly made Swing Loan or any newly issued or increased Letter of Credit shall be allocated among non-Defaulting Lenders in a manner consistent with Section 2.12(iii)(a) (and such Defaulting Lender shall not participate therein).

If (i) a Bankruptcy Event with respect to a parent company of any Lender shall occur following the date hereof and for so long as such event shall continue, or (ii) PNC Bank or the applicable Issuing Lender has a good faith belief that any Lender has defaulted in fulfilling its obligations under one or more other agreements in which such Lender commits to extend credit (unless such Lender notifies the Administrative Agent in writing that such failure is the result of such Lender's good faith determination that a condition precedent to funding (specifically identified and including the particular default, if any) has not been satisfied), PNC Bank shall not be required to fund any Swing Loan and the applicable Issuing Lender shall not be required to issue, amend or increase any Letter of Credit, unless PNC Bank and the Issuing Lenders, as the case may be, shall have entered into arrangements with the Borrower or such Lender, satisfactory to PNC Bank or such Issuing Lender, as the case may be, to defease any risk to it in respect of such Lender hereunder.

In the event that the Administrative Agent, the Borrower, PNC Bank and the Issuing Lenders agree in writing that a Defaulting Lender has adequately remedied all matters that caused such Lender to be a Defaulting Lender, then the Administrative Agent will so notify the parties hereto, and the Ratable Share of the Swing Loans and Letter of Credit Obligations of the Lenders shall be readjusted to reflect the inclusion of such Lender's Commitment, and on such date such Lender shall purchase at par such of the Loans of the other Lenders (other than Swing Loans) as the Administrative Agent shall determine may be necessary in order for such Lender to hold such Loans in accordance with its Ratable Share.

3. INTEREST RATES

3.1 Interest Rate Options. The Borrower shall pay interest in respect of the outstanding unpaid principal amount of the Loans as selected by it from the Base Rate Option or LIBOR Rate Option set forth below applicable to the Loans, it being understood that, subject to the provisions of this Agreement, the Borrower may select different Interest Rate Options and different

Interest Periods to apply simultaneously to the Loans comprising different Borrowing Tranches and may convert to or renew one or more Interest Rate Options with respect to all or any portion of the Loans comprising any Borrowing Tranche; provided that there shall not be at any one time outstanding more than six (6) Borrowing Tranches in the aggregate among all of the Loans; and provided further that if an Event of Default exists and is continuing, the Borrower may not request, convert to, or renew the LIBOR Rate Option for any Loans and the Required Lenders may demand that all existing Borrowing Tranches bearing interest under the LIBOR Rate Option shall be converted at the end of the applicable Interest Period. If at any time the designated rate applicable to any Loan made by any Lender exceeds such Lender's highest lawful rate, the rate of interest on such Lender's Loan shall be limited to such Lender's highest lawful rate.

3.1.1 Revolving Credit Interest Rate Options; Swing Line Interest Rate. The Borrower shall have the right to select from the following Interest Rate Options applicable to the Revolving Credit Loans (subject to the provisions above regarding Swing Loans):

(i) Revolving Credit Base Rate Option: A fluctuating rate per annum (computed on the basis of a year of 360 days and actual days elapsed) equal to the Base Rate plus the Applicable Margin, such interest rate to change automatically from time to time effective as of the effective date of each change in the Base Rate; or

(ii) Revolving Credit LIBOR Rate Option: A rate per annum (computed on the basis of a year of 360 days and actual days elapsed) equal to the LIBOR Rate plus the Applicable Margin.

Subject to Section 3.3 [Interest After Default], only the Base Rate Option shall apply to the Swing Loans.

3.1.2 Rate Quotations. The Borrower may call the Administrative Agent on or before the date on which a Loan Request is to be delivered to receive an indication of the rates then in effect, but it is acknowledged that such projection shall not be binding on the Administrative Agent or the Lenders nor affect the rate of interest which thereafter is actually in effect when the election is made.

3.2 Interest Periods. At any time when the Borrower shall select, convert to or renew a LIBOR Rate Option, the Borrower shall notify the Administrative Agent thereof at least three (3) Business Days prior to the effective date of such LIBOR Rate Option by delivering a Loan Request. The notice shall specify an Interest Period during which such Interest Rate Option shall apply. Notwithstanding the preceding sentence, the following provisions shall apply to any selection of, renewal of, or conversion to a LIBOR Rate Option:

3.2.1 Amount of Borrowing Tranche. Each Borrowing Tranche of Loans under the LIBOR Rate Option shall be in integral multiples of Five Hundred Thousand and 00/100 Dollars ($500,000.00) and not less than Two Million and 00/100 Dollars ($2,000,000.00); and

3.2.2 Renewals. In the case of the renewal of a LIBOR Rate Option at the end of an Interest Period, the first day of the new Interest Period shall be the last day of the preceding Interest Period, without duplication in payment of interest for such day.

3.3 Interest After Default. To the extent permitted by Law, upon the occurrence of an Event of Default and until such time such Event of Default shall have been cured or waived, and at the discretion of the Administrative Agent or upon written demand by the Required Lenders to the Administrative Agent:

3.3.1 Letter of Credit Fees, Interest Rate. The Letter of Credit Fees and the rate of interest for each Loan otherwise applicable pursuant to Section 2.9.2 [Letter of Credit Fees] or Section 3.1 [Interest Rate Options], respectively, shall be increased by two percent (2%) per annum;

3.3.2 Other Obligations. Each other Obligation hereunder if not paid when due shall bear interest at a rate per annum equal to the sum of the rate of interest applicable under the Revolving Credit Base Rate Option plus an additional two percent (2%) per annum from the time such Obligation becomes due and payable and until it is paid in full; and

3.3.3 Acknowledgment. The Borrower acknowledges that the increase in rates referred to in this Section 3.3 [Interest After Default] reflects, among other things, the fact that such Loans or other amounts have become a substantially greater risk given their default status and that the Lenders are entitled to additional compensation for such risk; and all such interest shall be payable by Borrower upon demand by Administrative Agent.

3.4 LIBOR Rate Unascertainable; Illegality; Increased Costs; Deposits Not Available.

3.4.1 Unascertainable. If on any date on which a LIBOR Rate would otherwise be determined, the Administrative Agent shall have determined that:

(i) adequate and reasonable means do not exist for ascertaining such LIBOR Rate, or

(ii) a contingency has occurred which materially and adversely affects the London interbank eurodollar market relating to the LIBOR Rate,

the Administrative Agent shall have the rights specified in Section 3.4.3 [Administrative Agent's and Lender's Rights].

3.4.2 Illegality; Increased Costs; Deposits Not Available. If at any time any Lender shall have determined that:

(i) the making, maintenance or funding of any Loan to which a LIBOR Rate Option applies has been made impracticable or unlawful by compliance by such

Lender in good faith with any Law or any interpretation or application thereof by any Official Body or with any request or directive of any such Official Body (whether or not having the force of Law), or

(ii) such LIBOR Rate Option will not adequately and fairly reflect the cost to such Lender of the establishment or maintenance of any such Loan, or

(iii) after making all reasonable efforts, deposits of the relevant amount in Dollars for the relevant Interest Period for a Loan, or to banks generally, to which a LIBOR Rate Option applies, respectively, are not available to such Lender with respect to such Loan, or to banks generally, in the interbank eurodollar market,

then the Administrative Agent shall have the rights specified in Section 3.4.3 [Administrative Agents and Lenders Rights].

3.4.3 Administrative Agent's and Lender's Rights. In the case of any event specified in Section 3.4.1 [Unascertainable] above, the Administrative Agent shall promptly so notify the Lenders and the Borrower thereof, and in the case of an event specified in Section 3.4.2 [Illegality; Increased Costs; Deposits Not Available] above, such Lender shall promptly so notify the Administrative Agent and endorse a certificate to such notice as to the specific circumstances of such notice, and the Administrative Agent shall promptly send copies of such notice and certificate to the other Lenders and the Borrower. Upon such date as shall be specified in such notice (which shall not be earlier than the date such notice is given), the obligation of (A) the Lenders, in the case of such notice given by the Administrative Agent, or (B) such Lender, in the case of such notice given by such Lender, to allow the Borrower to select, convert to or renew a LIBOR Rate Option shall be suspended until the Administrative Agent shall have later notified the Borrower, or such Lender shall have later notified the Administrative Agent, of the Administrative Agent's or such Lender's, as the case may be, determination that the circumstances giving rise to such previous determination no longer exist, which notice shall be given promptly following the termination of the circumstance which gave rise to such determination. If at any time the Administrative Agent makes a determination under Section 3.4.1 [Unascertainable] and the Borrower has previously notified the Administrative Agent of its selection of, conversion to or renewal of a LIBOR Rate Option and such Interest Rate Option has not yet gone into effect, such notification shall be deemed to provide for selection of, conversion to or renewal of the Base Rate Option otherwise available with respect to such Loans. If any Lender notifies the Administrative Agent of a determination under Section 3.4.2 [Illegality; Increased Costs; Deposits Not Available], the Borrower shall, subject to the Borrower's indemnification Obligations under Section 4.9 [Indemnity], as to any Loan of the Lender to which a LIBOR Rate Option applies, on the date specified in such notice either convert such Loan to the Base Rate Option otherwise available with respect to such Loan or prepay such Loan in accordance with Section 4.6 [Voluntary Prepayments]. Absent due notice from the Borrower of conversion or prepayment, such Loan shall automatically be converted to the Base Rate Option otherwise available with respect to such Loan upon such specified date.

3.5 Selection of Interest Rate Options. If the Borrower fails to select a new Interest Period to apply to any Borrowing Tranche of Loans under the LIBOR Rate Option at the expiration of an existing Interest Period applicable to such Borrowing Tranche in accordance

with the provisions of Section 3.2 [Interest Periods], the Borrower shall be deemed to have converted such Borrowing Tranche to the Revolving Credit Base Rate Option, commencing upon the last day of the existing Interest Period.

4. PAYMENTS

4.1 Payments. All payments and prepayments to be made in respect of principal, interest, Commitment Fees, Letter of Credit Fees, Administrative Agent's Fee or other fees or amounts due from the Borrower hereunder shall be payable prior to 12:00 noon on the date when due without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived by the Borrower, and without set-off, counterclaim or other deduction of any nature. Such payments shall be made to the Administrative Agent at the Principal Office for the account of PNC Bank with respect to the Swing Loans and for the ratable accounts of the Lenders with respect to the Loans in U.S. Dollars and in immediately available funds, and the Administrative Agent shall promptly distribute such amounts to the Lenders in immediately available funds; provided that in the event payments are received by 12:00 noon by the Administrative Agent with respect to the Loans and such payments are not distributed to the Lenders on the same day received by the Administrative Agent, the Administrative Agent shall pay the Lenders the Federal Funds Effective Rate with respect to the amount of such payments for each day held by the Administrative Agent and not distributed to the Lenders. The Administrative Agent's and each Lender's statement of account, ledger or other relevant record shall, in the absence of manifest error, be conclusive as the statement of the amount of principal of and interest on the Loans and other amounts owing under this Agreement and shall be deemed an "account stated."

4.2 Pro Rata Treatment of Lenders. Each borrowing shall be allocated to each Lender according to its Ratable Share, and each selection of, conversion to or renewal of any Interest Rate Option and each payment or prepayment by the Borrower with respect to principal, interest, Commitment Fees and Letter of Credit Fees (but excluding the Administrative Agent's Fee and the applicable Issuing Lender's fronting fee) shall (except as otherwise may be provided with respect to a Defaulting Lender and except as provided in Section 3.4.3 [Administrative Agent's and Lender's Rights] in the case of an event specified in Section 3.4 [LIBOR Rate Unascertainable; Etc.], Section 4.6.2 [Replacement of a Lender] or Section 4.7 [Increased Costs]) be payable ratably among the Lenders entitled to such payment in accordance with the amount of principal, interest, Commitment Fees, Facility Fees and Letter of Credit Fees, as set forth in this Agreement. Notwithstanding any of the foregoing, each borrowing or payment or pre-payment by the Borrower of principal, interest, fees or other amounts from the Borrower with respect to Swing Loans shall be made by or to PNC Bank according to Section 2.6.5 [Borrowings to Repay Swing Loans].

4.3 Sharing of Payments by Lenders. If any Lender shall, by exercising any right of setoff, counterclaim or banker's lien, by receipt of voluntary payment, by realization upon security, or by any other non-pro rata source, obtain payment in respect of any principal of or interest on any of its Loans or other obligations hereunder resulting in such Lender receiving payment of a proportion of the aggregate amount of its Loans and accrued interest thereon or other such obligations greater than the pro-rata share of the amount such Lender is entitled thereto, then the Lender receiving such greater proportion shall (a) notify the Administrative

Agent of such fact, and (b) purchase (for cash at face value) participations in the Loans and such other obligations of the other Lenders, or make such other adjustments as shall be equitable, so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Loans and other amounts owing them, provided that:

(i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, together with interest or other amounts, if any, required by Law (including court order) to be paid by the Lender or the holder making such purchase; and

(ii) the provisions of this Section 4.3 [Sharing of Payments by Lenders] shall not be construed to apply to (x) any payment made by the Borrower pursuant to and in accordance with the express terms of the Loan Documents or (y) any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans or Participation Advances to any assignee or participant, other than to the Borrower or any Subsidiary of the Borrower (as to which the provisions of this Section 4.3 [Sharing of Payments by Lenders] shall apply).

The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable Law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower rights of setoff and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower in the amount of such participation.

4.4 Presumptions by Administrative Agent. Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders or the applicable Issuing Lender hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders or the applicable Issuing Lender, as the case may be, the amount due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders or the applicable Issuing Lender, as the case may be, severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender or the applicable Issuing Lender, with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

4.5 Interest Payment Dates. Interest on Loans to which the Base Rate Option applies shall be due and payable in arrears on each Payment Date. Interest on Loans to which the LIBOR Rate Option applies shall be due and payable on the last day of each Interest Period for those Loans and, if such Interest Period is longer than three (3) Months, also on the 90th day of such Interest Period. Interest on the principal amount of each Loan or other monetary Obligation shall be due and payable on demand after such principal amount or other monetary Obligation becomes due and payable (whether on the stated Expiration Date, upon acceleration or otherwise).

4.6 Voluntary Prepayments.

4.6.1 Right to Prepay. The Borrower shall have the right at its option from time to time to prepay the Loans in whole or part without premium or penalty (except as provided in Section 4.6.2 [Replacement of a Lender] below, or in Section 4.7 [Increased Costs]):

(i) at any time with respect to any Loan to which the Base Rate Option applies,

(ii) on the last day of the applicable Interest Period with respect to Loans to which a LIBOR Rate Option applies or any other day subject to compliance with the provisions of Section 4.9 [Indemnity], or

(iii) on the date specified in a notice by any Lender pursuant to Section 3.4 [LIBOR Rate Unascertainable, Etc.] with respect to any Loan to which a LIBOR Rate Option applies.

Whenever the Borrower desires to prepay any part of the Loans, it shall provide a prepayment notice to the Administrative Agent by (a) 1:00 p.m. at least one (1) Business Day prior to the date of prepayment of the Revolving Credit Loans and (b) 11:00 a.m. on the date of prepayment of Swing Loans, setting forth the following information:

(w) the date, which shall be a Business Day, on which the proposed prepayment is to be made;

(x) a statement indicating the application of the prepayment between the Revolving Credit Loans and Swing Loans; and

(y) a statement indicating the application of the prepayment between Loans to which the Base Rate Option applies and Loans to which the LIBOR Rate Option applies; and

(z) the total principal amount of such prepayment, which shall not be less than the lesser of (i) the Facility Usage or (ii) One Hundred Thousand and 00/100 Dollars ($100,000.00) for any Swing Loan or Two Million and 00/100 Dollars ($2,000,000.00) for any Revolving Credit Loan.

All prepayment notices shall be irrevocable. The principal amount of the Loans for which a prepayment notice is given, together with interest on such principal amount except with respect to Loans to which the Base Rate Option applies, shall be due and payable on the date specified in such prepayment notice as the date on which the proposed prepayment is to be made. Except as provided in Section 3.4.3 [Administrative Agent’s and Lender’s Rights], if the Borrower prepays a Loan but fails to specify the applicable Borrowing Tranche which the Borrower is prepaying, the prepayment shall be applied (i) first to Swing Loans then to Revolving Credit Loans; and (ii) after giving effect to the allocations in clause (i) above and in the preceding sentence, first to Loans to which the Base Rate Option applies, then to Loans to

which the LIBOR Rate Option applies. Any prepayment hereunder shall be subject to the Borrower’s Obligation to indemnify the Lenders under Section 4.9 [Indemnity].

4.6.2 Replacement of a Lender. In the event any Lender (i) gives notice under Section 3.4 [LIBOR Rate Unascertainable; Etc.], (ii) requests compensation under Section 4.7 [Increased Costs], or requires the Borrower to pay any additional amount to any Lender or any Official Body for the account of any Lender pursuant to Section 4.8 [Taxes], (iii) is a Defaulting Lender, (iv) becomes subject to the control of an Official Body (other than normal and customary supervision), or (v) is a Non-Consenting Lender referred to in Section 10.1 [Modifications, Amendments or Waivers], then in any such event the Borrower may, at its sole expense, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in, and consents required by, Section 10.8 [Successors and Assigns]), all of its interests, rights and obligations under this Agreement and the related Loan Documents to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment), provided that:

(i) the Borrower shall have paid to the Administrative Agent the assignment fee specified in Section 10.8 [Successors and Assigns];

(ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans and Participation Advances, accrued interest thereon, accrued fees and all other amounts payable to it hereunder and under the other Loan Documents (including any amounts under Section 4.9 [Indemnity]) from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts);

(iii) in the case of any such assignment resulting from a claim for compensation under Section 4.7.1 [Increased Costs Generally] or payments required to be made pursuant to Section 4.8 [Taxes], such assignment will result in a reduction in such compensation or payments thereafter; and

(iv) such assignment does not conflict with applicable Law.

A Lender shall not be required to make any such assignment or delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

4.7 Increased Costs.

4.7.1 Increased Costs Generally. If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, any Lender (except any reserve requirement reflected in the LIBOR Rate) or the applicable Issuing Lender;

(ii) subject any Lender or the applicable Issuing Lender to any tax of any kind whatsoever with respect to this Agreement, any Letter of Credit, any participation in a Letter of Credit or any Loan under the LIBOR Rate Option made by it, or change the basis of taxation of payments to such Lender or the applicable Issuing Lender in respect thereof (except for Indemnified Taxes or Other Taxes covered by Section 4.8 [Taxes] and the imposition of, or any change in the rate of, any Excluded Tax payable by such Lender or the applicable Issuing Lender); or

(iii) impose on any Lender, the applicable Issuing Lender or the London interbank market any other condition, cost or expense affecting this Agreement or any Loan under the LIBOR Rate Option made by such Lender or any Letter of Credit or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender of making, converting to, continuing or maintaining any Loan under the LIBOR Rate Option (or of maintaining its obligation to make any such Loan), or to increase the cost to such Lender or the applicable Issuing Lender of participating in, issuing or maintaining any Letter of Credit (or of maintaining its obligation to participate in or to issue any Letter of Credit), or to reduce the amount of any sum received or receivable by such Lender or the applicable Issuing Lender hereunder (whether of principal, interest or any other amount) then, upon request of such Lender or the applicable Issuing Lender, the Borrower will pay to such Lender or the applicable Issuing Lender, as the case may be, such additional amount or amounts as will compensate such Lender or the applicable Issuing Lender, as the case may be, for such additional costs incurred or reduction suffered.

The obligations of the Borrower pursuant to this Section 4.7.1 [Increased Costs Generally] are subject to the following: no Lender shall enforce the provisions solely against the Borrower or against a few of such Lender's customers without in each case generally enforcing these (or similar provisions in other contracts) with respect to similarly situated borrowers (provided that, anything herein to the contrary notwithstanding, no Lender shall be required to disclose to the Borrower the identity of, or the nature of such Lender's relationship with, any other of such Lender's customers).

4.7.2 Capital Requirements. If any Lender or the applicable Issuing Lender determines that any Change in Law affecting such Lender or the applicable Issuing Lender or any lending office of such Lender or such Lender's or the applicable Issuing Lender's holding company, if any, regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's or the applicable Issuing Lender's capital or on the capital of such Lender's or the applicable Issuing Lender's holding company, if any, as a consequence of this Agreement, the Commitments of such Lender or the Loans made by, or participations in Letters of Credit or Swing Loans held by, such Lender, or the Letters of Credit issued by the applicable Issuing Lender, to a level below that which such Lender or the applicable Issuing Lender or such Lender's or the applicable Issuing Lender's holding company could have achieved but for such Change in Law (taking into consideration such Lender's or the applicable Issuing Lender's policies and the policies of such Lender's or the applicable Issuing Lender's holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Lender or the applicable Issuing Lender, as the case may be, such additional amount or amounts as will

compensate such Lender or the applicable Issuing Lender or such Lender's or the applicable Issuing Lender's holding company for any such reduction suffered.

The obligations of the Borrower pursuant to this Section 4.7.2 [Capital Requirements] are subject to the following: no Lender shall enforce these provisions solely against the Borrower or against a few of such Lender's customers without in each case generally enforcing these (or similar provisions in other contracts) with respect to similarly situated borrowers (provided that, anything herein to the contrary notwithstanding, no Lender shall be required to disclose to the Borrower the identity of, or the nature of such Lender's relationship with, any other of such Lender's customers).

4.7.3 Certificates for Reimbursement; Repayment of Outstanding Loans; Borrowing of New Loans. A certificate of a Lender or the applicable Issuing Lender setting forth the amount or amounts necessary to compensate such Lender or the applicable Issuing Lender or its holding company, as the case may be, as specified in Sections 4.7.1 [Increased Costs Generally] or 4.7.2 [Capital Requirements] (including the calculation thereof in reasonable detail) delivered to the Borrower shall be conclusive absent manifest error. The Borrower shall pay such Lender or the applicable Issuing Lender, as the case may be, the amount shown as due on any such certificate within ten (10) Business Days after receipt thereof.

4.7.4 Delay in Requests. Failure or delay on the part of any Lender or the applicable Issuing Lender to demand compensation pursuant to this Section 4.7.4 [Delay in Requests] shall not constitute a waiver of such Lender's or the applicable Issuing Lender's right to demand such compensation, provided that the Borrower shall not be required to compensate a Lender or the applicable Issuing Lender pursuant to this Section 4.7.4 [Delay in Requests] for any increased costs incurred or reductions suffered more than six (6) months prior to the date that such Lender or the applicable Issuing Lender, as the case may be, notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's or the applicable Issuing Lender's intention to claim compensation therefor (except that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the six (6) month period referred to above shall be extended to include the period of retroactive effect thereof).

4.8 Taxes.

4.8.1 Payments Free of Taxes. Any and all payments by or on account of any obligation of the Borrower hereunder or under any other Loan Document shall be made free and clear of and without reduction or withholding for any Indemnified Taxes or Other Taxes; provided that if the Borrower shall be required by applicable Law to deduct any Indemnified Taxes (including any Other Taxes) from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the Administrative Agent, Lender or Issuing Lender, as the case may be, receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall timely pay the full amount deducted to the relevant Official Body in accordance with applicable Law.

4.8.2 Payment of Other Taxes by the Borrower. Without limiting the provisions of Section 4.8.1 [Payments Free of Taxes] above, the Borrower shall timely pay any Other Taxes to the relevant Official Body in accordance with applicable Law.

4.8.3 Indemnification by the Borrower. The Borrower shall indemnify the Administrative Agent, each Lender and the applicable Issuing Lender, within ten (10) days after demand therefor, for the full amount of any Indemnified Taxes or Other Taxes (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section 4.8 [Taxes]) paid by the Administrative Agent, such Lender or the applicable Issuing Lender, as the case may be, and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Official Body. A certificate as to the amount of such payment or liability delivered to the Borrower by a Lender or the applicable Issuing Lender (with a copy to the Administrative Agent), or by the Administrative Agent on its own behalf or on behalf of a Lender or the applicable Issuing Lender, shall be conclusive as to amount absent manifest error.

4.8.4 Indemnification by the Lenders. Each Lender shall severally indemnify the Administrative Agent for any Taxes (but, in the case of any Indemnified Taxes, only to the extent that the Borrower have not already indemnified the Administrative Agent for such Indemnified Taxes and without limiting the obligation of the Borrower to do so) attributable to such Lender that are paid or payable by the Administrative Agent in connection with any Loan Document and any reasonable expenses arising therefrom or with respect thereto, whether or not such Taxes were correctly or legally imposed or asserted by the relevant Official Body. The indemnity under this Section 4.8.4 shall be paid within ten (10) days after the Administrative Agent delivers to the applicable Lender a certificate stating the amount of Taxes so paid or payable by the Administrative Agent. Such certificate shall be conclusive of the amount so paid or payable absent manifest error.

4.8.5 Evidence of Payments. As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower to a Official Body, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Official Body evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

4.8.6 Status of Lenders. Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the Law of the jurisdiction in which the Borrower is resident for tax purposes, or any treaty to which such jurisdiction is a party, with respect to payments hereunder or under any other Loan Document shall deliver to the Borrower (with a copy to the

Administrative Agent), at the time or times prescribed by applicable Law or reasonably requested by the Borrower or the Administrative Agent, such properly completed and executed documentation prescribed by applicable Law as will permit such payments to be made without withholding or at a reduced rate of withholding. Notwithstanding the submission of a such documentation claiming a reduced rate of or exemption from U.S. withholding tax, the Administrative Agent shall be entitled to withhold United States federal income taxes at the full thirty percent (30%) withholding rate if in its reasonable judgment it is required to do so under the due diligence requirements imposed upon a withholding agent under § 1.1441-7(b) of the

United States Income Tax Regulations. Further, the Administrative Agent is indemnified under § 1.1461-1(e) of the United States Income Tax Regulations against any claims and demands of any Lender or assignee or participant of a Lender for the amount of any tax it deducts and withholds in accordance with regulations under § 1441 of the Internal Revenue Code. In addition, any Lender, if requested by the Borrower or the Administrative Agent, shall deliver such other documentation prescribed by applicable Law or reasonably requested by the Borrower or the Administrative Agent as will enable the Borrower or the Administrative Agent to determine whether or not such Lender is subject to backup withholding or information reporting requirements.

Without limiting the generality of the foregoing, in the event that the Borrower is resident for tax purposes in the United States of America, any Foreign Lender shall deliver to the Borrower and the Administrative Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the request of the Borrower or the Administrative Agent, but only if such Foreign Lender is legally entitled to do so), whichever of the following is applicable:

(i) two (2) duly completed valid originals of IRS Form W-8BEN claiming eligibility for benefits of an income tax treaty to which the United States of America is a party,

(ii) two (2) duly completed valid originals of IRS Form W-8ECI,

(iii) in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under section 881(c) of the Code, (x) an original certificate to the effect that such Foreign Lender is not (A) a "bank" within the meaning of section 881(c)(3)(A) of the Code, (B) a "10 percent shareholder" of the Borrower within the meaning of section 881(c)(3)(B) of the Code, or (C) a "controlled foreign corporation" described in section 881(c)(3)(C) of the Code and (y) duly completed originals of IRS Form W-8BEN,

(iv) any other form prescribed by applicable Law as a basis for claiming exemption from or a reduction in United States Federal withholding tax duly completed together with such supplementary documentation as may be prescribed by applicable Law to permit the Borrower to determine the withholding or deduction required to be made; or

(v) To the extent that any Lender is not a Foreign Lender, such Lender shall submit to the Administrative Agent two (2) originals of a W-9 or any other form prescribed by applicable Law demonstrating that such Lender is not a Foreign Lender.

Without limiting the generality of the first paragraph of this Section 4.8.6 and in addition to any requirements described in the second paragraph of this Section 4.8.6, if a payment made to a Foreign Lender hereunder or under any other Loan Document would be subject to U.S. federal withholding tax imposed by FATCA if such Foreign Lender, as the case may be, were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Code, as applicable, or

in any agreement or request entered into or issued pursuant to such sections), such Foreign Lender shall deliver to the Borrower and to the Administrative Agent, at the time or times prescribed by Law and at such time or times reasonably requested by the Borrower or the Administrative Agent, such documentation, certifications or other information prescribed by applicable Law (including as prescribed by Section 1471(b)(3)(C)(i) of the Code) and such additional documentation, certifications or other information reasonably requested by the Borrower or the Administrative Agent as may be necessary for the Borrower or the Administrative Agent to comply with its obligations under FATCA, to determine that such Foreign Lender has complied with its obligations under FATCA or to determine the amount to deduct and withhold from such payment.

4.8.7 Treatment of Certain Refunds. If the Administrative Agent, a Lender or the applicable Issuing Lender determines, in its sole discretion, that it has received a refund (or credit in lieu of a refund) of any Taxes or Other Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section, it shall pay to the Borrower an amount equal to such refund or credit (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower under this Section with respect to the Taxes or Other Taxes giving rise to such refund or credit); net of all out-of-pocket expenses of the Administrative Agent, such Lender or the applicable Issuing Lender, as the case may be, and without interest (other than any interest paid by the relevant Official Body with respect to such refund or credit), provided that the Borrower, upon the request of the Administrative Agent, such Lender or the applicable Issuing Lender, agrees to repay the amount paid over to the Borrower (plus any penalties, interest or other charges imposed by the relevant Official Body) to the Administrative Agent, such Lender or the applicable Issuing Lender in the event the Administrative Agent, such Lender or the applicable Issuing Lender is required to repay such refund to such Official Body. This Section shall not be construed to require the Administrative Agent, any Lender or the applicable Issuing Lender to make available its tax returns (or any other information relating to its taxes that it deems confidential) to the Borrower or any other Person.

4.9 Indemnity. In addition to the compensation or payments required by Section 4.7 [Increased Costs] or Section 4.8 [Taxes], the Borrower shall indemnify each Lender against all liabilities, losses or expenses (including loss of anticipated profits, any foreign exchange losses and any loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain such Loan, from fees payable to terminate the deposits from which such funds were obtained or from the performance of any foreign exchange contract) which such Lender sustains or incurs as a consequence of any

(i) payment, prepayment, conversion or renewal of any Loan to which a LIBOR Rate Option applies on a day other than the last day of the corresponding Interest Period (whether or not such payment or prepayment is mandatory, voluntary or automatic and whether or not such payment or prepayment is then due),

(ii) attempt by the Borrower to revoke (expressly, by later inconsistent notices or otherwise) in whole or part any Loan Requests under Section 2.4 [Revolving Credit Loan Requests; Swing Loan Requests] or Section 3.2 [Interest Periods] or notice relating to prepayments under Section 4.6 [Voluntary Prepayments], or

(iii) default by the Borrower in the performance or observance of any covenant or condition contained in this Agreement or any other Loan Document, including any failure of the Borrower to pay when due (by acceleration or otherwise) any principal, interest, Commitment Fee or any other amount due hereunder.

If any Lender sustains or incurs any such loss or expense, it shall from time to time notify the Borrower of the amount determined in good faith by such Lender (which determination may include such assumptions, allocations of costs and expenses and averaging or attribution methods as such Lender shall deem reasonable including the assumption that each Lender shall be deemed to have funded each Loan made by it to which a LIBOR Rate Option applies by a matching deposit or other borrowing in the London offshore interbank market for a comparable amount and for a comparable period, whether or not such Loan was in fact so funded) to be necessary to indemnify such Lender for such loss or expense. Such notice shall set forth in reasonable detail the basis for such determination. Such amount shall be due and payable by the Borrower to such Lender ten (10) Business Days after such notice is given.

4.10 Settlement Date Procedures. In order to minimize the transfer of funds between the Lenders and the Administrative Agent, the Borrower may borrow, repay and reborrow Swing Loans and PNC Bank may make Swing Loans as provided in Section 2.1.2 [Swing Loans] hereof during the period between Settlement Dates. Not later than 10:00 a.m. on each Settlement Date, the Administrative Agent shall notify each Lender of its Ratable Share of the total of the Revolving Credit Loans (each, a "Required Share"). Prior to 2:00 p.m. on such Settlement Date, each Lender shall pay to the Administrative Agent the amount equal to the difference between its Required Share and its Revolving Credit Loans, and the Administrative Agent shall pay to each Lender its Ratable Share of all payments made by the Borrower to the Administrative Agent with respect to the Revolving Credit Loans. The Administrative Agent shall also effect settlement in accordance with the foregoing sentence on the proposed Borrowing Dates for Revolving Credit Loans and may at its option effect settlement on any other Business Day. These settlement procedures are established solely as a matter of administrative convenience, and nothing contained in this Section 4.10 [Settlement Date Procedures] shall relieve the Lenders of their obligations to fund Revolving Credit Loans on dates other than a Settlement Date pursuant to Section 2.1.1 [Revolving Credit Loans]. The Administrative Agent may at any time at its option for any reason whatsoever require each Lender to pay immediately to the Administrative Agent such Lender's Ratable Share of the outstanding Revolving Credit Loans and each Lender may at any time require the Administrative Agent to pay immediately to such Lender its Ratable Share of all payments made by the Borrower to the Administrative Agent with respect to the Revolving Credit Loans.

5. REPRESENTATIONS AND WARRANTIES

5.1 Representations and Warranties. The Borrower represents and warrants to the Administrative Agent and each of the Lenders as follows:

5.1.1 Organization and Qualification; Power and Authority; Compliance With Laws; Title to Properties; Event of Default. (i) The Borrower is a reciprocal insurance exchange duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, (ii) the Attorney-in-Fact is a corporation, limited partnership or limited liability company duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, (iii) the Borrower has the lawful power to own or lease its properties and to engage in the business it presently conducts or proposes to conduct, (iv) the Borrower is duly licensed or qualified and in good standing as of the Closing Date in each jurisdiction listed on Schedule 5.1.1 and in all other jurisdictions where the property owned or leased by it or the nature of the business transacted by it or both makes such licensing or qualification necessary, (v) each of the Borrower and the Attorney-in-Fact has full power to enter into, execute, deliver and carry out this Agreement and the other Loan Documents to which it is a party, (vi) the Borrower has full power to incur the Indebtedness contemplated by the Loan Documents and to perform its Obligations under the Loan Documents to which it is a party, and all such actions have been duly authorized by all necessary proceedings on its part or the part of the Attorney-in-Fact, (vii) the Borrower is in compliance in all material respects with all applicable Laws (other than Environmental Laws which are specifically addressed in Section 5.1.14 [Environmental Matters]) in all jurisdictions in which the Borrower and any Subsidiary of the Borrower is presently or will be doing business except where the failure to do so would not constitute a Material Adverse Change, and (viii) the Borrower has good and marketable title to or valid leasehold interest in all properties, assets and other rights which it purports to own or lease or which are reflected as owned or leased on its books and records, free and clear of all Liens and encumbrances except Permitted Liens. No Event of Default or Potential Default exists or is continuing.

5.1.2 Subsidiaries and Owners; Investment Companies. Schedule 5.1.2 states (i) the name of each of the Borrower's Subsidiaries (if any), its jurisdiction of organization and the amount, percentage and type of equity interests in such Subsidiary (the "Subsidiary Equity Interests"), and (ii) any options, warrants or other rights outstanding to purchase any such equity interests referred to in clause (i) (collectively, the "Equity Interests"). The Borrower and each Subsidiary of the Borrower has good and marketable title to all of the Subsidiary Equity Interests it purports to own, free and clear in each case of any Lien and all such Subsidiary Equity Interests have been validly issued, fully paid and nonassessable. Neither the Borrower nor any of its Subsidiaries is an "investment company" registered or required to be registered under the Investment Company Act of 1940 or under the "control" of an "investment company" as such terms are defined in the Investment Company Act of 1940 and shall not become such an "investment company" or under such "control".

5.1.3 Validity and Binding Effect. This Agreement and each of the other Loan Documents (i) has been duly and validly executed and delivered by the Attorney-in-Fact, and (ii) constitutes, or will constitute, legal, valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with its terms.

5.1.4 No Conflict; Material Agreements; Consents. Neither the execution and delivery of this Agreement or the other Loan Documents by the Borrower or the Attorney-in-Fact, nor the consummation of the transactions herein or therein contemplated or compliance with the terms and provisions hereof or thereof by any of them will conflict with, constitute a default under or result in any breach of (i) the terms and conditions of the certificate of incorporation, bylaws, certificate of limited partnership, partnership agreement, certificate of formation, limited liability company agreement, certificate of authority to transact insurance, Subscriber's Agreements or other organizational documents of the Borrower or the Attorney-in-

Fact or (ii) any Law or any material agreement or instrument or order, writ, judgment, injunction or decree to which the Borrower or the Attorney-in-Fact or any of their respective Subsidiaries is a party or by which the Borrower or the Attorney-in-Fact or any of their respective Subsidiaries is bound or to which the Borrower or the Attorney-in-Fact is subject, or result in the creation or enforcement of any Lien, charge or encumbrance whatsoever upon any property (now or hereafter acquired) of the Borrower or the Attorney-in-Fact or any of their respective Subsidiaries (other than Liens granted under the Loan Documents). There is no default under any such material agreement of the Borrower (referred to above) and neither the Borrower nor any of its Subsidiaries is bound by any contractual obligation, or subject to any restriction in any organizational document, or any requirement of Law which could reasonably be expected to result in a Material Adverse Change. No consent, approval, exemption, order or authorization of, or a registration or filing with, any Applicable Insurance Regulatory Authority or any other Official Body or any other Person is required by any Law or any agreement in connection with the execution, delivery and carrying out of this Agreement and the other Loan Documents.

5.1.5 Litigation. There are no actions, suits, proceedings or investigations pending or, to the knowledge of the Borrower, threatened against the Borrower or any Subsidiary of the Borrower at law or in equity before any Official Body which individually or in the aggregate could reasonably be expected to result in any Material Adverse Change. Neither the Borrower nor any Subsidiaries of the Borrower is in violation of any order, writ, injunction or any decree of any Official Body which could reasonably be expected to result in any Material Adverse Change.

5.1.6 Financial Statements.

(i) The Borrower has delivered to the Administrative Agent copies of its Annual Statement for and as of the end of the fiscal year ended December 31, 2010 (including, without limitation, the provisions made therein for Investments and the valuation thereof, reserves, policy and contract claims and statutory liabilities) as filed with the Applicable Insurance Regulatory Authority. In addition, the Borrower has delivered to the Administrative Agent copies of its Interim Statements for the fiscal year to date and as of the end of the fiscal quarter ended June 30, 2011 as filed with the Applicable Insurance Regulatory Authority (all such Annual Statements and Interim Statements being collectively referred to as the "Statements"). The Statements were compiled from the books and records maintained by the Borrower's management, are correct and complete as required by SAP and fairly represent the consolidated financial condition of the Borrower and its Subsidiaries as of the respective dates thereof and the results of operations for the fiscal periods then ended and have been prepared in accordance with SAP, consistently applied, subject (in the case of the Interim Statements) to normal year-end audit adjustments.

(ii) Neither the Borrower nor any Subsidiary of the Borrower has any liabilities, contingent or otherwise, or forward or long-term commitments that are not disclosed in the Statements or in the notes thereto, and except as disclosed therein there are no unrealized or anticipated losses from any commitments of the Borrower or any Subsidiary of the Borrower which could reasonably be expected to cause a Material Adverse Change. Since December 31, 2010, no Material Adverse Change has occurred.

(iii) The Investments of the Borrower reflected in the Statements comply in all material respects with all applicable requirements of the Pennsylvania Department of Insurance as well as those of any other Applicable Insurance Regulatory Authority relating to Investments in respect of which the Borrower may invest its funds.

(iv) The provisions made by the Borrower in the Statements for reserves, policy and contract claims and statutory liabilities are in compliance in all material respects with the requirements of the Applicable Insurance Regulatory Authority, and have been computed in accordance with SAP.

(v) The marketable securities and short term Investments reflected in the Statements are valued at cost, amortized cost or market value, as required by applicable Law.

5.1.7 Margin Stock. Neither the Borrower nor any Subsidiaries of the Borrower engages or intends to engage principally, or as one of its important activities, in the business of extending credit for the purpose, immediately, incidentally or ultimately, of purchasing or carrying margin stock (within the meaning of Regulation U, T or X as promulgated by the Board of Governors of the Federal Reserve System). No part of the proceeds of any Loan has been or will be used, immediately, incidentally or ultimately, to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock or which is inconsistent with the provisions of the regulations of the Board of Governors of the Federal Reserve System. Neither the Borrower nor any Subsidiary of the Borrower holds or intends to hold margin stock in such amounts that more than thirty-five percent (35%) of the reasonable value of the assets of the Borrower or any Subsidiary of the Borrower are or will be represented by margin stock.

5.1.8 Full Disclosure. Neither this Agreement nor any other Loan Document, nor any certificate, statement, agreement or other documents when furnished to the Administrative Agent or any Lender in connection herewith or therewith, contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein and therein, in light of the circumstances under which they were made and taken as a whole, not misleading. There is no fact known to the Borrower which materially adversely affects the business, property, assets, financial condition, results of operations or prospects of the Borrower or any Subsidiary of the Borrower which has not been set forth in this Agreement or in the certificates, statements, agreements or other documents furnished in writing to the Administrative Agent and the Lenders prior to or at the date hereof in connection with the transactions contemplated hereby.

5.1.9 Taxes. Except as set forth on Schedule 5.1.9, all federal, state premium, material local and other material tax returns required to have been filed with respect to the Borrower and each Subsidiary of the Borrower have been filed, and payment or adequate provision has been made for the payment of all taxes, fees, assessments and other governmental charges which have or may become due pursuant to said returns or to assessments received, except to the extent that such taxes, fees, assessments and other charges are being contested in good faith by appropriate proceedings diligently conducted and for which such reserves or other appropriate provisions, if any, as shall be required by SAP, shall have been made.

5.1.10 Patents, Trademarks, Copyrights, Licenses, Etc. The Borrower and each Subsidiary of the Borrower owns or possesses all the material patents, trademarks, service marks, trade names, copyrights, licenses, registrations, franchises, permits and rights necessary to own and operate its properties and to carry on its business as presently conducted and planned to be conducted by the Borrower or Subsidiary, without known possible, alleged or actual conflict with the rights of others which could reasonably be expected to result in a Material Adverse Change.

5.1.11 Liens in the Collateral. The Liens in the Collateral granted to the Administrative Agent for the benefit of the Lenders pursuant to the Pledge Agreement constitute and will continue to constitute Prior Security Interests. All filing fees and other expenses in connection with the perfection of such Liens have been or will be paid by the Borrower.

5.1.12 Insurance. The properties of the Borrower and each of its Subsidiaries are insured pursuant to policies and other bonds which are valid and in full force and effect and which provide adequate coverage from reputable and financially sound insurers, including self-insurance to the extent customary.

5.1.13 ERISA Compliance.

(i) Each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other federal or state Laws. Each Plan that is intended to qualify under Section 401(a) of the Code has received a favorable determination letter from the IRS or an application for such a letter is currently being processed by the IRS with respect thereto and, to the best knowledge of Borrower, nothing has occurred which would prevent, or cause the loss of, such qualification. Borrower and each ERISA Affiliate have made all required contributions to each Plan subject to Section 412 of the Code, and no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Code has been made with respect to any Plan.

(ii) No ERISA Event has occurred or is reasonably expected to occur; (a) no qualified pension plan has any unfunded pension liability (i.e. excess of benefit liabilities over the current value of that Pension Plan's assets, determined in accordance with the assumptions used for funding the Pension Plan for the applicable plan year); (b) no Borrower nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability under Title IV of ERISA with respect to any Pension Plan (other than premiums due and not delinquent under Section 4007 of ERISA); (c) no Borrower nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Sections 4201 or 4243 of ERISA with respect to a Multiemployer Plan; and (d) no Borrower nor any ERISA Affiliate has engaged in a transaction that could be subject to Sections 4069 or 4212(c) of ERISA.

5.1.14 Environmental Matters. The Borrower is and, to the knowledge of the Borrower and each of its Subsidiaries is and has been in compliance with applicable Environmental Laws except as disclosed on Schedule 5.1.14; provided that such matters so disclosed could not reasonably be expected in the aggregate to result in a Material Adverse Change.

5.1.15 Solvency. Before and after giving effect to the initial Loans hereunder, the Borrower is and will be Solvent.

5.1.16 Insurance Licenses. (a) The Borrower has all Insurance Licenses necessary to conduct its business, (b) no Insurance License of the Borrower is the subject of a proceeding for suspension or revocation or any similar proceedings, (c) there is no sustainable basis for such a suspension or revocation, and (d) no such suspension or revocation is threatened by any Applicable Insurance Regulatory Authority.

5.2 Updates to Schedules. Should any of the information or disclosures on any of the following Schedules attached hereto be outdated or incorrect in any material respect as of the date on which Borrower delivers its Compliance Certificate for each fiscal quarter end pursuant to Section 7.3.3 [Certificate of the Borrower], Borrower shall deliver an amended and restated form of such Schedule together with such Compliance Certificate:

Schedule 5.1.1	-	Qualifications to do Business
Schedule 5.1.2	-	Subsidiaries
Schedule 5.1.14	-	Environmental Matters

provided, however, that Schedule 5.1.14 shall not be deemed to have been amended, modified or superseded by any such correction or update, nor shall any breach of warranty or representation resulting from the inaccuracy or incompleteness of Schedule 5.1.14 be deemed to have been cured thereby, unless and until the Required Lenders, in their sole and absolute discretion, shall accept in writing such revisions or updates to Schedule 5.1.14.

6. CONDITIONS OF LENDING AND ISSUANCE OF LETTERS OF CREDIT

The obligation of each Lender to make Loans and of the applicable Issuing Lender to issue Letters of Credit hereunder is subject to the performance by the Borrower of its Obligations to be performed hereunder at or prior to the making of any such Loans or issuance of such Letters of Credit and to the satisfaction of the following further conditions:

6.1 First Loans and Letters of Credit.

6.1.1 Deliveries. On the Closing Date, the Administrative Agent shall have received each of the following in form and substance satisfactory to the Administrative Agent:

(i) A certificate of the Borrower signed by an Authorized Officer, dated the Closing Date stating that the Borrower is in compliance with its representations, warranties, covenants and conditions hereunder and no Event of Default or Potential Default exists and no Material Adverse Change has occurred since the date of the last Annual Statement of the Borrower delivered to the Administrative Agent.

(ii) A certificate dated the Closing Date and signed by an Authorized Officer, certifying as to: (a) all action taken by the Attorney-in-Fact in connection with this Agreement and the other Loan Documents; (b) the names of the Authorized Officers authorized to sign the Loan Documents and their true signatures; (c) no changes to the organizational documents of the Borrower and the Attorney-in-Fact as in effect on September 30, 2009 other than the Articles of Incorporation of the Attorney-in-Fact, including, in the case of the Borrower, a copy of the Subscriber's Agreements; and (d) in the case of the Attorney-in-Fact, a copy of the Articles of Incorporation as in effect on the Closing Date certified by the Secretary of the Commonwealth of Pennsylvania.

(iii) A good standing certificate for the Attorney-in-Fact dated not more than sixty (60) days prior to the Closing Date, issued by the Secretary of State or other appropriate official of the Attorney-in-Fact's jurisdiction of formation and a Certificate of Authority to Transact Insurance of the Borrower from the Commonwealth of Pennsylvania Department of Insurance.

(iv) This Agreement and each of the other Loan Documents signed by an Authorized Officer and all appropriate Statements.

(v) A duly completed Valuation Statement calculated as of the Closing Date.

(vi) A written opinion of counsel for the Borrower and the Attorney-in-Fact, dated the Closing Date.

(vii) A duly completed Compliance Certificate as of the last day of the fiscal quarter of the Borrower most recently ended prior to the Closing Date, signed by an Authorized Officer.

(viii) Evidence that (a) no litigation, investigation or proceeding before or by any arbitrator or any Applicable Insurance Regulatory Authority or other Official Body shall be continuing or threatened against the Borrower or the Attorney-in-Fact or against the officers or directors of the Borrower or the Attorney-in-Fact (1) in connection with this Agreement, the other Loan Documents or any of the transactions contemplated hereby or thereby and which, in the reasonable opinion of the Administrative Agent, is deemed material or (2) which could, in the reasonable opinion of the Administrative Agent, result in a Material Adverse Change; and (b) no injunction, writ, restraining order or other order of any nature materially adverse to the Borrower or the Attorney-in-Fact or the conduct of its business shall have been issued by any Official Body.

(ix) All material consents required to effectuate the transactions contemplated hereby.

(x) (a) UCC Lien Searches with respect to the Borrower (at the state level only) in the Commonwealth of Pennsylvania and (b) judgment and tax lien searches with respect to the Borrower (at the state and county level) in Erie County, Pennsylvania and the Commonwealth of Pennsylvania with acceptable results.

(xi) Fully executed copies of the UCC-3 amendments and any other releases that may be necessary to satisfy any and all existing Liens on the assets of the Borrower that are not permitted hereunder (including payoff letters, if applicable).

(xii) Evidence that the Borrower has received all Insurance Licenses and all other authorizations, licenses and permits necessary for the operation of the Borrower's business.

(xiii) Such other documents in connection with such transactions as the Administrative Agent or said counsel may reasonably request.

6.1.2 Payment of Fees. The Borrower shall have paid all fees payable on or before the Closing Date as required by this Agreement, the Administrative Agent's Letter or any other Loan Document.

6.2 Each Loan or Letter of Credit. At the time of making any Loans or issuing, extending or increasing any Letters of Credit and after giving effect to the proposed extensions of credit: the representations, warranties and covenants of the Borrower shall then be true in all respects (in the case of any representation, warranty or covenant containing a materiality modification) or in all material respects (in the case of any representation, warranty or covenant not containing a materiality modification) and no Event of Default or Potential Default shall have occurred and be continuing; the making of the Loans or issuance, extension or increase of such Letter of Credit shall not contravene any Law applicable to the Borrower or any Subsidiary of the Borrower or any of the Lenders; and the Borrower shall have delivered to the Administrative Agent a duly executed and completed Loan Request or to the applicable Issuing Lender an application for a Letter of Credit, as the case may be.

7. COVENANTS

The Borrower covenants and agrees that until Payment in Full, the Borrower shall comply at all times with the following covenants:

7.1 Affirmative Covenants.

7.1.1 Preservation of Existence, Etc. The Borrower shall maintain its legal existence as a reciprocal insurance exchange domiciled in the Commonwealth of Pennsylvania. The Attorney-in-Fact shall maintain its legal existence as a corporation, limited partnership or limited liability company, as applicable in its state or organization. Each of the Borrower and the Attorney-in-Fact shall maintain its respective Insurance Licenses and its license or qualification and good standing in the Commonwealth of Pennsylvania, and the Borrower shall maintain its Insurance Licenses and its license or qualification and good standing in each other jurisdiction in which its ownership or lease of property or the nature of its business makes such license or qualification necessary and shall cause each of its Subsidiaries to maintain its legal existence as a corporation, limited partnership or limited liability company and its license or qualification and good standing in each jurisdiction in which its ownership or lease of property or the nature of its business makes such license or qualification necessary, except as otherwise expressly permitted in Section 7.2.6 [Liquidations, Mergers, Etc.].

7.1.2 Payment of Liabilities, Including Taxes, Etc. The Borrower shall, and shall cause each of its Subsidiaries to, duly pay and discharge all liabilities to which it is subject or which are asserted against it, promptly as and when the same shall become due and payable, including all taxes, assessments and governmental charges upon it or any of its properties, assets,

income or profits, prior to the date on which penalties attach thereto, except to the extent that such liabilities, including taxes, assessments or charges, are being contested in good faith and by appropriate and lawful proceedings diligently conducted and for which such reserve or other appropriate provisions, if any, as shall be required by SAP, shall have been made.

7.1.3 Maintenance of Insurance. The Borrower shall, and shall cause each of its Subsidiaries to, insure its properties and assets against loss or damage by fire and such other insurable hazards as such assets are commonly insured in such amounts as similar properties and assets are insured by prudent companies in similar circumstances carrying on similar businesses, and with reputable and financially sound insurers, including self-insurance to the extent customary .

7.1.4 Maintenance of Properties and Leases. The Borrower shall, and shall cause each of its Subsidiaries to, maintain in good repair, working order and condition (ordinary wear and tear excepted) in accordance with the general practice of other businesses of similar character and size, all of those properties useful or necessary to its business, and from time to time, the Borrower will make or cause to be made all appropriate repairs, renewals or replacements thereof.

7.1.5 Visitation Rights. The Borrower shall, and shall cause each of its Subsidiaries to, permit any of the officers or authorized employees or representatives of the Administrative Agent or any of the Lenders to visit and inspect any of its properties and to examine and make excerpts from its books and records and discuss its business affairs, finances and accounts with its officers, all in such detail and at such times and as often as any of the Lenders may reasonably request, provided that so long as no Event of Default has occurred and is continuing, each Lender shall provide the Borrower and the Administrative Agent with reasonable notice prior to any visit or inspection.

7.1.6 Keeping of Records and Books of Account. The Borrower shall, and shall cause each Subsidiary of the Borrower to, maintain and keep proper books of record and account which enable the Borrower and its Subsidiaries to issue financial statements in accordance with SAP and as otherwise required by applicable Laws of any Official Body having jurisdiction over the Borrower or any Subsidiary of the Borrower, and in which full, true and correct entries shall be made in all material respects of all its dealings and business and financial affairs.

7.1.7 Compliance with Laws; Use of Proceeds. The Borrower shall, and shall cause each of its Subsidiaries to, comply with all applicable Laws, including all Environmental Laws, in all respects; provided that it shall not be deemed to be a violation of this Section 7.1.7 [Compliance with Laws; Use of Proceeds] if any failure to comply with any Law would not result in fines, penalties, remediation costs, other similar liabilities or injunctive relief which in the aggregate would constitute a Material Adverse Change. The Borrower will use the Letters of Credit and the proceeds of the Loans only in accordance with Section 2.8 [Use of Proceeds] and as permitted by applicable Law.

7.1.8 Further Assurances. The Borrower shall, from time to time, at its expense, faithfully preserve and protect the Administrative Agent's Lien on and Prior Security Interest in the Collateral as a continuing first priority perfected Lien, subject only to Permitted Liens, and

shall do such other acts and things as the Administrative Agent in its reasonable discretion may deem necessary or advisable from time to time in order to preserve, perfect and protect the Liens granted under the Loan Documents and to exercise and enforce its rights and remedies thereunder, in accordance with the terms thereof, with respect to the Collateral.

7.1.9 Anti-Terrorism Laws. The Borrower is not and shall not be (i) a Person with whom any Lender is restricted from doing business under Executive Order No. 13224 or any other Anti-Terrorism Law, (ii) engaged in any business involved in making or receiving any contribution of funds, goods or services to or for the benefit of such a Person or in any transaction that evades or avoids, or has the purpose of evading or avoiding, the prohibitions set forth in any Anti-Terrorism Law, or (iii) otherwise in violation of any Anti-Terrorism Law. The Borrower shall provide to the Lenders any certifications or information that a Lender requests to confirm compliance by the Borrower with Anti-Terrorism Laws.

7.1.10 Collateral Value. The Borrower shall maintain at all times, subject to the next sentence, Collateral Value of not less than one hundred five percent (105%) of the Revolving Credit Commitments. If at any time the Collateral Value is less than one hundred five percent (105%) of the Revolving Credit Commitments (the amount of such shortage, the "Collateral Shortfall"), an Event of Default shall occur unless within three (3) Business Days of the date the Collateral Shortfall occurred no Collateral Shortfall exists as a result of (i) a change in the Collateral Value due to market fluctuations, (ii) a deposit of additional securities in the Collateral Account and/or (iii) a reduction of the Revolving Credit Commitments pursuant to Section 2.10 [Reduction of Credit Commitments].

7.1.11 Post-Closing Filings. The Borrower shall make all post-closing filings that may be required by any Applicable Insurance Regulatory Authority ("Post-Closing Filings").

7.1.12 Eligible Collateral Requirements. The Borrower shall cause the Eligible Collateral to consist of (i) at least fifty percent (50%) of investment property or other assets having an applicable rating at all times equal to or greater than Aa2 or AA, and (iii) the balance of investment property or other assets having an applicable rating at all times equal to or greater than A2 or A. For purposes of this Section 7.1.12, the rating of any specific investment property or other assets will be determined as follows: (i) such rating shall be based upon the higher of (a) the rating of such underlying investment property or other asset provided by Moody's and Standard & Poor's or (b) the credit enhanced rating of such investment property or other asset provided by Moody's and Standard & Poor's; (ii) if a difference exists in the ratings of Moody's and Standard & Poor's and the difference is only one level, such rating shall be based upon the higher of Moody's and Standard & Poor's (for example, if Moody's rating is Aa3 and Standard & Poor's rating is AA, Standard & Poor's rating would apply); and (iii) if a difference exists in the ratings of Moody's & Standard & Poor's and the difference is two or more levels then the rating will be based upon the lower of Moody's and Standard & Poor's (for example, if Moody's rating is A2 and Standard & Poor's rating is AA-, Moody's rating would apply). Notwithstanding anything to the contrary contained herein, at no time shall more than ten percent (10%) of the underlying investment property or other assets comprising the Eligible Collateral have an unenhanced Moody's or Standard & Poor's rating less than A3 or A-.

7.1.13 Collateral Value and Delinquency Proceedings. The Collateral Value requirements set forth in Section 7.1.10 [Collateral Value] must be maintained for so long as the Borrower may borrow under this Agreement and until payment in full of the Notes, interest thereon, and all fees and other Obligations of the Borrower and expiration of all Letters of Credit under this Agreement and the other Loan Documents including, but not limited to, during any Delinquency Proceeding. In the event of a Delinquency Proceeding, the parties agree that, for purposes of Section 221.43 of the Suspension of Business-Involuntary Dissolutions Article of the Insurance Act, 40 P.S. §221.1 et seq., the value of the Collateral must be equal to at least one hundred five percent (105%) of the Revolving Credit Commitments.

7.2 Negative Covenants.

7.2.1 Indebtedness. The Borrower shall not, and shall not permit any of its Subsidiaries to, at any time create, incur, assume or suffer to exist any Indebtedness, except:

(i) Indebtedness under the Loan Documents;

(ii) Existing Indebtedness as set forth on Schedule 7.2.1 (including any extensions or renewals thereof; provided there is no increase in the amount thereof or other significant change in the terms thereof unless otherwise specified on Schedule 7.2.1);

(iii) Any Lender Provided Interest Rate Hedge; provided, however, the Borrower and its Subsidiaries shall enter into a Lender Provided Interest Rate Hedge only for hedging (rather than speculative) purposes; and

(iv) Any other Indebtedness not exceeding an aggregate principal amount of Five Hundred Million and 00/100 Dollars ($500,000,000.00).

7.2.2 Liens. The Borrower shall not, and shall not permit any of its Subsidiaries to, at any time create, incur, assume or suffer to exist any Lien on any of its property or assets, tangible or intangible, now owned or hereafter acquired, or agree or become liable to do so, except the following (collectively, "Permitted Liens"):

(i) Liens for taxes, assessments, or similar charges, incurred in the ordinary course of business, (A) which are not yet due and payable or (B) the validity or amount of which is being contested in good faith by appropriate lawful proceedings diligently conducted so long as levy and execution thereon have been stayed and continue to be stayed, provided that such reserves or other appropriate provisions, if any, as shall be required by SAP, shall have been made and any such Lien does not materially impair the ability of the Borrower to perform its Obligations hereunder or under the other Loan Documents;

(ii) Pledges or deposits made in the ordinary course of business to secure payment of worker's compensation, or to participate in any fund in connection with worker's compensation, unemployment insurance, old-age pensions or other social security programs;

(iii) Liens of mechanics, materialmen, warehousemen, carriers, or other like Liens, securing obligations incurred in the ordinary course of business that are not yet due

and payable and Liens of landlords securing obligations to pay lease payments that are not yet due and payable or in default;

(iv) Good-faith pledges or deposits made in the ordinary course of business to secure performance of bids, tenders, contracts (other than for the repayment of borrowed money) or leases, not in excess of the aggregate amount due thereunder, or to secure statutory obligations, or surety, appeal, indemnity, performance or other similar bonds required in the ordinary course of business;

(v) Encumbrances consisting of zoning restrictions, easements or other restrictions on the use of real property, none of which materially impairs the use of such property or the value thereof, and none of which is violated in any material respect by existing or proposed structures or land use;

(vi) Liens, security interests and mortgages in favor of the Administrative Agent (for its benefit and for the benefit of the Lenders and their Affiliates) securing the Obligations (including Lender Provided Interest Rate Hedges);

(vii) Judgment Liens which do not constitute an Event of Default; and

(viii) Liens on assets (other than the Collateral or any Subsidiary Equity Interests) provided the amount of outstanding Indebtedness and other obligations secured thereby does not exceed One Hundred Fifty Million and 00/100 Dollars ($150,000,000.00) at any time.

7.2.3 Guarantees. The Borrower shall not, and shall not permit any of its Subsidiaries to, at any time, directly or indirectly, become or be liable in respect of any Guarantee, or assume, guarantee, become surety for, endorse or otherwise agree, become or remain directly or contingently liable upon or with respect to any obligation or liability of any other Person in an aggregate amount in excess of One Hundred Million and 00/100 Dollars ($100,000,000.00), except for a Guarantee of Indebtedness of the Borrower permitted hereunder.

7.2.4 Investments. The Borrower shall not make any Investments, except:

(a) Investments disclosed on Schedule 7.2.4;

(b) Investments maintained in the Borrower's investment portfolio in the ordinary course of business (including Investments in Subsidiaries and Joint Ventures, either directly or by way of purchase of another Person's interest in such Subsidiary or Joint Venture, which shall be deemed to be in the ordinary course of business), and in each case in compliance with applicable Law;

(c) Trade accounts receivables; and

(d) Acquisitions of assets or capital stock of any other Person to the extent permitted by Section 7.2.6 [Liquidations, Mergers, Consolidations, Acquisitions].

7.2.5 Dividends and Related Distributions. The Borrower shall not, and shall not permit any of its Subsidiaries to, make or pay, or agree to become or remain liable to make or pay, any dividend or other distribution of any nature (whether in cash, property, securities or

otherwise) on account of or in respect of its ownership interests or on account of the purchase, redemption, retirement or acquisition of its ownership interests unless prior to and after giving effect to such dividend or distribution, no Event of Default or Potential Default shall have occurred.

7.2.6 Liquidations, Mergers, Consolidations, Acquisitions. The Borrower shall not dissolve, liquidate or wind-up its affairs. The Borrower shall not fail to have at all times an Attorney-in-Fact duly authorized to act on its behalf in accordance with applicable Law. The Borrower shall not become a party to any merger or consolidation, and shall not, and shall not permit any of the Borrower's Subsidiaries to, acquire by purchase, lease or otherwise all or substantially all of the assets or capital stock of any other Person unless (i) at the time of such transaction the Borrower is able to demonstrate pro forma compliance with Section 7.2.14 [Minimum Statutory Surplus] and Section 7.2.15 [Total Adjusted Capital to Authorized Control Level Risk Based Capital], (ii) prior to and after giving effect to such transaction, no Event of Default or Potential Default shall have occurred and (iii) after giving effect to such transaction, the Borrower shall be the surviving legal entity if it is a party to such transaction.

7.2.7 Dispositions of Assets or Subsidiaries. The Borrower shall not, and shall not permit any of its Subsidiaries to, sell, convey, assign, lease, abandon or otherwise transfer or dispose of, voluntarily or involuntarily, any of its properties or assets, tangible or intangible (including sale, assignment, discount or other disposition of accounts, contract rights, chattel paper, equipment or general intangibles with or without recourse or of capital stock, shares of beneficial interest, partnership interests or limited liability company interests of a Subsidiary of the Borrower) (each, a "Disposition"), except:

(a) Dispositions of obsolete or worn out property or property no longer useful in the business of the Borrower or any of its Subsidiaries, whether now owned or hereafter acquired, in the ordinary course of business;

(b) Dispositions of Collateral to the extent that no such Disposition results in a Collateral Shortfall at any time;

(c) Dispositions of Investments held in the Borrower's investment portfolio (including Investments in Subsidiaries and Joint Ventures, either held directly or indirectly by the Borrower, but excluding the Collateral) in the ordinary course of business;

(d) Dispositions of equipment or real property to the extent that (i) such property is exchanged for credit against the purchase price of similar replacement property or (ii) the proceeds of such Disposition are promptly applied to the purchase price of such replacement property;

(e) Dispositions of property for fair market value;

(f) Leases, subleases, licenses or sublicenses of property in the ordinary course of business and which do not materially interfere with the business of the Borrower and its Subsidiaries;

(g) Transfers of property subject to casualty events upon receipt of the insurance payments with respect to such casualty events;

(h) Sales or discounts without recourse of accounts receivable arising in the ordinary course of business in connection with the compromise or collection thereof; and

(i) Dispositions by any Subsidiary of the Borrower to the Borrower or another Subsidiary of the Borrower.

7.2.8 Affiliate Transactions. The Borrower shall not, and shall not permit any of its Subsidiaries to, enter into or carry out any transaction with any Affiliates of such Person (including purchasing property or services from or selling property or services to any Affiliate of the Borrower or other Person) unless such transaction is not otherwise prohibited by this Agreement, and is entered into upon fair and reasonable terms and conditions or terms and conditions which are fully disclosed to the Administrative Agent and the Lenders, and is in accordance with all applicable Law.

7.2.9 Continuation of or Change in Business. The Borrower shall not, and shall not permit any of its Subsidiaries to, engage in any business other than the insurance business and services related to the insurance business, substantially as conducted and operated by the Borrower or Subsidiary during the present fiscal year, and the Borrower or Subsidiary shall not permit any material change in such business or services related thereto.

7.2.10 Fiscal Year. The Borrower shall not, and shall not permit any Subsidiary of the Borrower to, change its fiscal year from the twelve-month period beginning January 1 and ending December 31.

7.2.11 Issuance of Stock or Other Ownership Interests. The Borrower shall not permit any of its Subsidiaries to issue any additional shares of their capital stock or other ownership interests or any options, warrants or other rights in respect thereof, provided that the Borrower's Subsidiaries may issue shares of capital stock or other ownership interests to the Borrower or any other Subsidiary or shareholder in any Joint Venture.

7.2.12 Changes in Organizational Documents. The Borrower shall not, and shall not permit any of its Subsidiaries to, amend in any respect its certificate of incorporation (including any provisions or resolutions relating to capital stock), by-laws, certificate of limited partnership, partnership agreement, certificate of formation, limited liability company agreement or other organizational documents without providing at least thirty (30) calendar days' prior written notice to the Administrative Agent and the Lenders and, in the event such change would be adverse to the Lenders as determined by the Administrative Agent in its sole but reasonable discretion, obtaining the prior written consent of the Required Lenders.

7.2.13 Negative Pledges. The Borrower shall not directly or indirectly enter into or assume or become bound by, or permit any Subsidiary to enter into or assume or become bound by, any agreement (other than this Agreement and the other Loan Documents), or any provision of any certificate or article of incorporation, bylaws, partnership agreement, operating agreement or other organizational formation or governing document prohibiting the creation or assumption of any Lien or encumbrance upon Eligible Collateral in the Borrower's investment portfolio, whether now owned or hereafter created or acquired, which prohibits the Borrower's ability to comply with this Agreement or any of the other Loan Documents; provided that the foregoing shall not apply to (i) restrictions and conditions imposed by any Law or by any Loan

Document, (ii) restrictions or conditions imposed by any agreement relating to secured Indebtedness or other obligations permitted by this Agreement but only to the extent such restriction or condition is limited to the specific assets subject to a Permitted Lien, or (iii) customary provisions in leases or other agreements restricting assignment thereof.

7.2.14 Minimum Statutory Surplus. As of September 30, 2011 and the end of each fiscal quarter thereafter, the Borrower shall not permit the Borrower Statutory Surplus to be less than an amount equal to the sum of (i) seventy percent (70%) of $4,910,958,827.00, plus (ii) fifty percent (50%) of Borrower Statutory Net Income on a cumulative basis for the fiscal quarter ended December 31, 2011 and for each succeeding fiscal quarter thereafter.

7.2.15 Total Adjusted Capital to Authorized Control Level Risk Based Capital. As of September 30, 2011 and the end of each fiscal quarter thereafter, the Borrower shall not permit the ratio (expressed as a percentage) of Total Adjusted Capital to Authorized Control Level Risk Based Capital to be less than four hundred fifty percent (450%).

7.2.16 Management Fee. The Borrower shall not pay management fees to the Attorney-in-Fact or any other Person in excess of twenty-five percent (25%) of the direct written premiums of Erie Property & Casualty Insurance Group.

7.2.17 Successor Attorney-in-Fact. The Borrower shall not make any change in its Attorney-in-Fact unless not less than thirty (30) days prior written notice of its intention to appoint a successor Attorney-in-Fact is given to the Administrative Agent, which successor Attorney-in-Fact must be acceptable to the Administrative Agent in its sole but reasonable discretion.

7.3 Reporting Requirements. The Borrower will furnish or cause to be furnished to the Administrative Agent;

7.3.1 Quarterly Financial Statements. As soon as available and in any event within forty-five (45) calendar days after the end of each of the first three fiscal quarters in each fiscal year, Interim Statements of the Borrower, as filed with the Applicable Insurance Regulatory Authority as of the end of such fiscal quarter for the fiscal quarter then ended and the fiscal year through that date, all in reasonable detail and certified (subject to normal year-end audit adjustments) by an Authorized Officer of the Borrower as having been prepared in accordance with SAP, consistently applied, and setting forth in comparative form the respective Interim Statements for the corresponding date and period in the previous fiscal year.

7.3.2 Annual Financial Statements. As soon as available and in any event within ninety (90) days after the end of each fiscal year of the Borrower, Annual Statements of the Borrower consisting of a consolidated and consolidating balance sheet as of the end of such fiscal year, all in reasonable detail and setting forth in comparative form the Annual Statements as of the end of and for the preceding fiscal year accompanied by or including the opinion or statement of the Borrower's actuary as required to be filed with such Annual Statements, in form and substance reasonably acceptable to the Administrative Agent.

7.3.3 Certificate of the Borrower. Concurrently with the delivery of the Statements of the Borrower furnished to the Administrative Agent pursuant to Section 7.3.1

[Quarterly Financial Statements] and Section 7.3.2 [Annual Financial Statements], a certificate (each, a "Compliance Certificate") of the Borrower signed by an Authorized Officer (for purposes of this Section 7.3.3, such Authorized Officer shall be limited to the Chief Executive Officer, President or Chief Financial Officer) of the Borrower, in the form of Exhibit 7.3.3.

7.3.4 Department of Insurance Certificate of Compliance. Concurrently with the delivery of the Annual Statements of the Borrower furnished to the Administrative Agent pursuant to Section 7.3.2 [Annual Financial Statements], the Borrower's certificate of compliance procured annually from the Commissioner.

7.3.5 Valuation Statements. As soon as available and in any event within twenty (20) days after the end of each month, or more frequently if requested by the Administrative Agent, in its reasonable discretion, valuation statements from the custodian of the Collateral, in form and substance reasonably acceptable to the Administrative Agent or any Lender (each, a "Valuation Statement"); provided, however, if on any day the Revolving Credit Facility Usage is greater than or equal to 2/3 of the Revolving Credit Commitments, the Borrower shall provide to the Administrative Agent, not later than 12:00 p.m., a daily Valuation Statement calculating the Collateral Value as of the close of business on the preceding Business Day.

7.3.6 Certificates; Other Information.

(a) within fifteen (15) days after receipt by the Borrower, any final Report on Examination issued by the Applicable Insurance Regulatory Authority or the NAIC that results in material adjustments to the Statements;

(b) within fifteen (15) days after receipt by the Borrower, a copy of any "Statement of Actuarial Opinion" and "Management Discussion and Analysis" for the Borrower which is required to be provided to the Applicable Insurance Regulatory Authority as to the adequacy of loss reserves of the Borrower;

(c) within fifteen (15) days of receipt, a copy of any financial examination reports by any Applicable Insurance Regulatory Authority with respect to the Borrower relating to the insurance business of the Borrower (when, and if, prepared);

(d) within five (5) Business Days of such notice, notice of actual suspension, termination or revocation of any material Insurance License of the Borrower by any Applicable Insurance Regulatory Authority;

(e) promptly upon notice thereof, any change in the A.M. Best Rating financial strength rating of the Borrower;

(f) promptly, such additional information regarding the business, financial or corporate affairs of the Borrower or any Subsidiary, or compliance with the terms of the Loan Documents, as the Administrative Agent or any Lender may from time to time reasonably request; and

(g) promptly after filing, a copy of the Post-Closing Filings, if any.

7.3.7 Notices.

7.3.7.1 Default. Promptly after any officer of the Borrower has learned of the occurrence of an Event of Default or Potential Default, a certificate signed by an Authorized Officer setting forth the details of such Event of Default or Potential Default and the action which the Borrower proposes to take with respect thereto.

7.3.7.2 Litigation. Promptly after the commencement thereof, notice of all actions, suits, proceedings or investigations before or by any Official Body or any other Person against the Borrower or any Subsidiary of the Borrower which relate to the Collateral, involve a claim or series of claims in excess of Fifty Million and 00/100 Dollars ($50,000,000.00) or which if adversely determined would constitute a Material Adverse Change.

7.3.7.3 Organizational Documents. Within the time limits set forth in Section 7.2.12 [Changes in Organizational Documents], any amendment to the organizational documents of the Borrower.

7.3.7.4 Erroneous Financial Information. Immediately in the event that the Borrower or its accountants conclude or advise that any previously issued financial statement, audit report or interim review should no longer be relied upon or that disclosure should be made or action should be taken to prevent future reliance, notice thereof.

7.3.7.5 ERISA Event. Immediately upon the occurrence of any ERISA Event, notice thereof.

7.3.7.6 Other Reports. Promptly upon request, such other reports and information as the Administrative Agent or any of the Lenders may from time to time reasonably request.

8. DEFAULT

8.1 Events of Default. An Event of Default shall mean the occurrence or existence of any one or more of the following events or conditions (whatever the reason therefor and whether voluntary, involuntary or effected by operation of Law):

8.1.1 Payments Under Loan Documents.

(i) The Borrower shall fail to pay any principal of any Loan (including scheduled installments, mandatory prepayments or the payment due at maturity), Reimbursement Obligation or any interest on any Loan, Reimbursement Obligation or any other amount owing hereunder or under the other Loan Documents on the date on which such principal, interest or other amount becomes due in accordance with the terms hereof;

(ii) The Borrower shall fail to pay any other Obligation within five (5) days of the date on which such other Obligation becomes due in accordance with the terms hereof;

8.1.2 Breach of Warranty. Any representation or warranty made at any time by the Borrower herein or by the Borrower in any other Loan Document, or in any certificate, other instrument or statement furnished pursuant to the provisions hereof or thereof, shall prove to have been false or misleading in any material respect as of the time it was made or furnished;

8.1.3 Breach of Negative Covenants or Visitation Rights. The Borrower shall default in the observance or performance of any covenant contained in Section 7.1.1 [Preservation of Existence, Etc.], Section 7.1.5 [Visitation Rights], Section 7.1.7 [Compliance with Laws; Use of Proceeds], Section 7.1.10 [Collateral Value] or Section 7.2 [Negative Covenants];

8.1.4 Breach of Other Covenants. The Borrower shall default in the observance or performance of any other covenant, condition or provision hereof or of any other Loan Document and such default shall continue unremedied for a period of twenty (20) Business Days;

8.1.5 Defaults in Other Agreements or Indebtedness. A default or event of default shall occur at any time under the terms of any other agreement involving borrowed money or the extension of credit or any other Indebtedness under which the Borrower or any Subsidiary of the Borrower may be obligated as a borrower or guarantor in excess of Fifty Million and 00/100 Dollars ($50,000,000.00) in the aggregate, and such breach, default or event of default consists of the failure to pay (beyond any period of grace permitted with respect thereto, whether waived or not) any Indebtedness when due (whether at stated maturity, by acceleration or otherwise) or if such breach or default permits or causes the acceleration of any Indebtedness (whether or not such right shall have been waived) or the termination of any commitment to lend;

8.1.6 Final Judgments or Orders. Any final judgments or orders for the payment of money in excess of Fifty Million and 00/100 Dollars ($50,000,000.00) in the aggregate shall be entered against the Borrower by a court having jurisdiction in the premises, which judgment is not discharged, vacated, bonded or stayed pending appeal within a period of thirty (30) days from the date of entry;

8.1.7 Loan Document Unenforceable. Any of the Loan Documents shall cease to be legal, valid and binding agreements enforceable against the party executing the same or such party's successors and assigns (as permitted under the Loan Documents) in accordance with the respective terms thereof or shall in any way be terminated (except in accordance with its terms) or become or be declared ineffective or inoperative or shall in any way be challenged or contested or cease to give or provide the respective Liens, security interests, rights, titles, interests, remedies, powers or privileges intended to be created thereby;

8.1.8 Proceedings Against Assets. Any assets (other than the Collateral) valued in excess of Ten Million and 00/100 Dollars ($10,000,000.00) or the Collateral of the Borrower or any of its Subsidiaries are attached, seized, levied upon or subjected to a writ or distress warrant; or such come within the possession of the Commissioner (except as set forth in Section 8.2.2 [Bankruptcy, Insolvency or Reorganization Proceedings]) or any other receiver, trustee,

custodian or assignee for the benefit of creditors and the same is not cured within thirty (30) days thereafter;

8.1.9 Events Relating to Plans and Benefit Arrangements. An ERISA Event occurs with respect to a Pension Plan or Multiemployer Plan which has resulted or could reasonably be expected to result in liability of the Borrower under Title IV of ERISA to the Pension Plan, Multiemployer Plan or the PBGC in an aggregate amount in excess of Ten Million and 00/100 Dollars ($10,000,000.00), or (ii) the Borrower or any ERISA Affiliate fails to pay when due, after the expiration of any applicable grace period, any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan in an aggregate amount in excess of Ten Million and 00/100 Dollars ($10,000,000.00);

8.1.10 Change of Control. Within a period of twelve (12) consecutive calendar months, individuals who were directors of the Attorney-in-Fact on the first day of such period, or directors approved by them, shall cease to constitute a majority of the board of directors of the Attorney-in-Fact;

8.1.11 Relief Proceedings.

(i) A Relief Proceeding shall have been instituted against the Borrower or any Subsidiary of the Borrower and such Relief Proceeding shall remain undismissed or unstayed and in effect for a period of thirty (30) consecutive days or such court shall enter a decree or order granting any of the relief sought in such Relief Proceeding, (ii) the Borrower or any Subsidiary of the Borrower institutes, or takes any action in furtherance of, a Relief Proceeding, or (iii) the Borrower or any Subsidiary of the Borrower ceases to be solvent or admits in writing its inability to pay its debts as they mature or ceases operation of its present business; and

8.1.12 Revocation of Certificate of Compliance. The Borrower's certificate of compliance shall have been revoked by the Commissioner.

8.2 Consequences of Event of Default.

8.2.1 Events of Default Other Than Bankruptcy, Insolvency or Reorganization Proceedings. If an Event of Default specified under Sections 8.1.1 [Payments Under Loan Documents] through 8.1.10 [Change of Control] and 8.1.12 [Revocation of Certificate of Compliance] shall occur and be continuing, the Lenders and the Administrative Agent shall be under no further obligation to make Loans and the applicable Issuing Lender shall be under no obligation to issue Letters of Credit and the Administrative Agent may, and upon the request of the Required Lenders, shall (i) by written notice to the Borrower, declare the unpaid principal amount of the Notes then outstanding and all interest accrued thereon, any unpaid fees and all other Indebtedness of the Borrower to the Lenders hereunder and thereunder to be forthwith due and payable, and the same shall thereupon become and be immediately due and payable to the Administrative Agent for the benefit of each Lender without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived, and (ii) require the Borrower to, and the Borrower shall thereupon, deposit in a non-interest-bearing account with the Administrative Agent, as cash collateral for its Obligations under the Loan Documents, an

amount equal to the maximum amount currently or at any time thereafter available to be drawn on all outstanding Letters of Credit, and the Borrower hereby pledges to the Administrative Agent and the Lenders, and grants to the Administrative Agent and the Lenders a security interest in, all such cash as security for such Obligations; and

8.2.2 Bankruptcy, Insolvency or Reorganization Proceedings. If an Event of Default specified under Section 8.1.12 [Relief Proceedings] shall occur, the Lenders shall be under no further obligations to make Loans hereunder and the applicable Issuing Lender shall be under no obligation to issue Letters of Credit and the unpaid principal amount of the Loans then outstanding and all interest accrued thereon, any unpaid fees and all other Indebtedness of the Borrower to the Lenders hereunder and thereunder shall be immediately due and payable, without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived; and

8.2.3 Set-off. If an Event of Default shall have occurred and be continuing, each Lender, the applicable Issuing Lender, and each of their respective Affiliates and any participant of such Lender or Affiliate which has agreed in writing to be bound by the provisions of Section 4.3 [Sharing of Payments by Lenders] is hereby authorized at any time and from time to time, to the fullest extent permitted by applicable Law, to set off and apply any and all deposits (general or special, time or demand, provisional or final, in whatever currency) at any time held and other obligations (in whatever currency) at any time owing by such Lender, the applicable Issuing Lender or any such Affiliate or participant to or for the credit or the account of the Borrower against any and all of the Obligations of the Borrower now or hereafter existing under this Agreement or any other Loan Document to such Lender, the applicable Issuing Lender, Affiliate or participant, irrespective of whether or not such Lender, applicable Issuing Lender, Affiliate or participant shall have made any demand under this Agreement or any other Loan Document and although such Obligations of the Borrower or the Borrower may be contingent or unmatured or are owed to a branch or office of such Lender or the applicable Issuing Lender different from the branch or office holding such deposit or obligated on such Indebtedness. The rights of each Lender, the applicable Issuing Lender and their respective Affiliates and participants under this Section 8.2.3 [Set-Off] are in addition to other rights and remedies (including other rights of setoff) that such Lender, the applicable Issuing Lender or their respective Affiliates and participants may have. Each Lender and the applicable Issuing Lender agrees to notify the Borrower and the Administrative Agent promptly after any such setoff and application; provided that the failure to give such notice shall not affect the validity of such setoff and application; and

8.2.4 Suits, Actions, Proceedings. If an Event of Default shall occur and be continuing, and whether or not the Administrative Agent shall have accelerated the maturity of the Loans pursuant to any of the foregoing provisions of this Section 8.2 [Consequences of an Event of Default], the Administrative Agent or any Lender, if owed any amount with respect to the Loans, may proceed to protect and enforce its rights by suit in equity, action at law and/or other appropriate proceeding, whether for the specific performance of any covenant or agreement contained in this Agreement or the other Loan Documents, including as permitted by applicable Law the obtaining of the ex parte appointment of a receiver, and, if such amount shall have become due, by declaration or otherwise, proceed to enforce the payment thereof or any other legal or equitable right of the Administrative Agent or such Lender; and

8.2.5 Application of Proceeds. From and after the date on which the Administrative Agent has taken any action pursuant to this Section 8.2 [Consequences of an Event of Default] and until all Obligations of the Borrower have been paid in full, any and all proceeds received by the Administrative Agent from any sale or other disposition of the Collateral, or any part thereof, or the exercise of any other remedy by the Administrative Agent, shall be applied as follows:

(i) first, to reimburse the Administrative Agent and the Lenders for out-of-pocket costs, expenses and disbursements, including reasonable attorneys' and paralegals' fees and legal expenses, incurred by the Administrative Agent or the Lenders in connection with realizing on the Collateral or collection of any Obligations of the Borrower under any of the Loan Documents, including advances made by the Lenders or any one of them or the Administrative Agent for the reasonable maintenance, preservation, protection or enforcement of, or realization upon, the Collateral, including advances for taxes, insurance, repairs and the like and reasonable expenses incurred to sell or otherwise realize on, or prepare for sale or other realization on, any of the Collateral;

(ii) second, to the repayment of all Obligations then due and unpaid of the Borrower to the Lenders or their Affiliates incurred under this Agreement or any of the other Loan Documents, whether of principal, interest, fees, expenses or otherwise and to cash collateralize the Letter of Credit Obligations, in such manner as the Administrative Agent may determine in its discretion;

(iii) third, to repayment of all Obligations then due and unpaid of the Borrower to the Lender or their Affiliates incurred under any agreements evidencing any Lender Provided Interest Rate Hedge, whether of fees, expenses or otherwise; and

(iv) the balance, if any, as required by Law.

9. THE ADMINISTRATIVE AGENT

9.1 Appointment and Authority. Each of the Lenders and each Issuing Lender hereby irrevocably appoints PNC Bank to act on its behalf as the Administrative Agent hereunder and under the other Loan Documents and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms hereof or thereof, together with such actions and powers as are reasonably incidental thereto. The provisions of this Section 9 [The Administrative Agent] are solely for the benefit of the Administrative Agent, the Lenders and the Issuing Lenders, and the Borrower shall not have rights as a third party beneficiary of any of such provisions.

9.2 Rights as a Lender. The Person serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent and the term "Lender" or "Lenders" shall, unless otherwise expressly indicated or unless the context otherwise requires, include the Person serving as the Administrative Agent hereunder in its individual capacity. Such Person and its Affiliates may accept deposits from, lend money to, act as the financial advisor or in any other advisory capacity for and generally engage in any kind of business with

the Borrower or any Subsidiary or other Affiliate thereof as if such Person were not the Administrative Agent hereunder and without any duty to account therefor to the Lenders.

9.3 Exculpatory Provisions. The Administrative Agent shall not have any duties or obligations except those expressly set forth herein and in the other Loan Documents. Without limiting the generality of the foregoing, the Administrative Agent:

(a) shall not be subject to any fiduciary or other implied duties, regardless of whether a Potential Default or Event of Default has occurred and is continuing;

(b) shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby or by the other Loan Documents that the Administrative Agent is required to exercise as directed in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be expressly provided for herein or in the other Loan Documents); provided that the Administrative Agent shall not be required to take any action that, in its opinion or the opinion of its counsel, may expose the Administrative Agent to liability or that is contrary to any Loan Document or applicable Law; and

(c) shall not, except as expressly set forth herein and in the other Loan Documents, have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Borrower or any of its Affiliates that is communicated to or obtained by the Person serving as the Administrative Agent or any of its Affiliates in any capacity.

The Administrative Agent shall not be liable for any action taken or not taken by it (i) with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary, or as the Administrative Agent shall believe in good faith shall be necessary, under the circumstances as provided in Sections 10.1 [Modifications, Amendments or Waivers] and 8.2 [Consequences of Event of Default]) or (ii) in the absence of its own gross negligence or willful misconduct. The Administrative Agent shall be deemed not to have knowledge of any Potential Default or Event of Default unless and until notice describing such Potential Default or Event of Default is given to the Administrative Agent by the Borrower, a Lender or the applicable Issuing Lender.

The Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with this Agreement or any other Loan Document, (ii) the contents of any certificate, report or other document delivered hereunder or thereunder or in connection herewith or therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein or therein or the occurrence of any Potential Default or Event of Default, (iv) the validity, enforceability, effectiveness or genuineness of this Agreement, any other Loan Document or any other agreement, instrument or document or (v) the satisfaction of any condition set forth in Article 6 [Conditions of Lending and Issuance of Letters of Credit] or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

9.4 Reliance by Administrative Agent. The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing (including any electronic message, Internet or intranet website posting or other distribution) believed by it to be genuine and to have been signed, sent or otherwise authenticated by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to have been made by the proper Person, and shall not incur any liability for relying thereon. In determining compliance with any condition hereunder to the making of a Loan, or the issuance of a Letter of Credit, that by its terms must be fulfilled to the satisfaction of a Lender or the applicable Issuing Lender, the Administrative Agent may presume that such condition is satisfactory to such Lender or the applicable Issuing Lender unless the Administrative Agent shall have received notice to the contrary from such Lender or the applicable Issuing Lender prior to the making of such Loan or the issuance of such Letter of Credit. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

9.5 Delegation of Duties. The Administrative Agent may perform any and all of its duties and exercise its rights and powers hereunder or under any other Loan Document by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all of its duties and exercise its rights and powers by or through their respective Related Parties. The exculpatory provisions of this Section 9 shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

9.6 Resignation of Administrative Agent. The Administrative Agent may at any time give notice of its resignation to the Lenders, the applicable Issuing Lender and the Borrower. Upon receipt of any such notice of resignation, the Required Lenders shall have the right, with approval from the Borrower (so long as no Event of Default has occurred and is continuing), to appoint a successor, such approval not to be unreasonably withheld or delayed. If no such successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may on behalf of the Lenders and the applicable Issuing Lender, appoint a successor Administrative Agent meeting the qualifications set forth above; provided that if the Administrative Agent shall notify the Borrower and the Lenders that no qualifying Person has accepted such appointment, then such resignation shall nonetheless become effective in accordance with such notice and (i) the retiring Administrative Agent shall be discharged from its duties and obligations hereunder and under the other Loan Documents (except that in the case of any collateral security held by the Administrative Agent on behalf of the Lenders or the applicable Issuing Lender under any of the Loan Documents, the retiring Administrative Agent shall continue to hold such collateral security until such time as a successor Administrative Agent is appointed) and (ii) all payments, communications and determinations provided to be made by, to or through the Administrative Agent shall instead be made by or to each Lender and the applicable Issuing Lender directly, until such time as the Required Lenders appoint a successor Administrative Agent as provided for above in this

Section 9.6 [Resignation of Administrative Agent]. Upon the acceptance of a successor's appointment as Administrative Agent hereunder, such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring (or retired) Administrative Agent, and the retiring Administrative Agent shall be discharged from all of its duties and obligations hereunder or under the other Loan Documents (if not already discharged therefrom as provided above in this Section 9 [The Administrative Agent]). The fees payable by the Borrower to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After the retiring Administrative Agent's resignation hereunder and under the other Loan Documents, the provisions of this Section 9 [The Administrative Agent] and Section 10.3 [Expenses; Indemnity; Damage Waiver] shall continue in effect for the benefit of such retiring Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while the retiring Administrative Agent was acting as Administrative Agent.

If PNC Bank resigns as Administrative Agent under this Section 9.6 [Resignation of Administrative Agent], PNC Bank shall also resign as an Issuing Lender. Upon the appointment of a successor Administrative Agent hereunder, such successor shall (i) succeed to all of the rights, powers, privileges and duties of PNC Bank as a retiring Issuing Lender and Administrative Agent and PNC Bank shall be discharged from all of its respective duties and obligations as Issuing Lender and Administrative Agent under the Loan Documents, and (ii) issue letters of credit in substitution for the Letters of Credit issued by PNC Bank, if any, outstanding at the time of such succession or make other arrangement satisfactory to PNC Bank to effectively assume the obligations of PNC Bank with respect to such Letters of Credit.

9.7 Non-Reliance on Administrative Agent and Other Lenders. Each Lender and each Issuing Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender or any of their Related Parties and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender and each Issuing Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender or any of their Related Parties and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or any related agreement or any document furnished hereunder or thereunder.

9.8 No Other Duties, No Advisory or Fiduciary Responsibility, etc. Anything herein to the contrary notwithstanding, neither the syndication agent nor any joint lead arranger listed on the cover page hereof shall have any powers, duties or responsibilities under this Agreement or any of the other Loan Documents, except in its capacity, as applicable, as the Administrative Agent, a Lender or an Issuing Lender hereunder. In connection with all aspects of each transaction contemplated hereby (including in connection with any amendment, waiver or other modification hereof or of any other Loan Document), the Borrower acknowledges and agrees that: (i) (A) the arranging and other services regarding this Agreement provided by the Administrative Agent, the parties identified on the cover page as Joint Lead Arrangers and the Issuing Lenders (collectively, the "Applicable Parties"), are arm's-length commercial transactions between the Borrower and its Affiliates, on the one hand, and the Applicable Parties,

on the other hand, (B) the Borrower has consulted its own legal, accounting, regulatory and tax advisors to the extent it has deemed appropriate, and (C) the Borrower is capable of evaluating, and understands and accepts, the terms, risks and conditions of the transactions contemplated hereby and by the other Loan Documents; (ii) (A) each Applicable Party is and has been acting solely as a principal and, except as expressly agreed in writing by the relevant parties, has not been, is not, and will not be acting as an advisor, agent or fiduciary for the Borrower or any of its Affiliates, or any other Person and (B) none of the Applicable Parties has any obligation to the Borrower or any of its Affiliates with respect to the transactions contemplated hereby except those obligations expressly set forth herein and in the other Loan Documents; and (iii) the Applicable Parties and their respective Affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Borrower and its Affiliates, and none of the Applicable Parties has any obligation to disclose any of such interests to the Borrower or any of its Affiliates. To the fullest extent permitted by law, the Borrower hereby waives and releases any claims that it may have against the Applicable Parties with respect to any breach or alleged breach of agency or fiduciary duty in connection with any aspect of any transaction contemplated hereby.

9.9 Administrative Agent's Fee. The Borrower shall pay to the Administrative Agent a nonrefundable fee (the "Administrative Agent's Fee") under the terms of a letter (the "Administrative Agent's Letter") between the Borrower and Administrative Agent, as amended from time to time.

9.10 Authorization to Release Collateral. The Lenders and Issuing Lenders authorize the Administrative Agent to release any Collateral consisting of assets or equity interests sold or otherwise disposed of in a sale or other disposition or transfer permitted under Section 7.2.7 [Disposition of Assets or Subsidiaries].

9.11 No Reliance on Administrative Agent's Customer Identification Program. Each Lender acknowledges and agrees that neither such Lender, nor any of its Affiliates, participants or assignees, may rely on the Administrative Agent to carry out such Lender's, Affiliate's, participant's or assignee's customer identification program, or other obligations required or imposed under or pursuant to the USA Patriot Act or the regulations thereunder, including the regulations contained in 31 CFR 103.121 (as hereafter amended or replaced, the "CIP Regulations"), or any other Anti-Terrorism Law, including any programs involving any of the following items relating to or in connection with the Borrower, its Affiliates or its agents, the Loan Documents or the transactions hereunder or contemplated hereby: (i) any identity verification procedures, (ii) any recordkeeping, (iii) comparisons with government lists, (iv) customer notices or (v) other procedures required under the CIP Regulations or such other Laws.

Each Issuing Lender shall act on behalf of the Lenders with respect to any Letters of Credit issued by it and the documents associated therewith, and each Issuing Lender shall have all of the benefits and immunities (A) provided to the Administrative Agent in Sections 9.3, 9,4, 9,5 and 9.11 with respect to any acts taken or omissions suffered by such Issuing Lender in connection with Letters of Credit issued by it or proposed to be issued by it and documents pertaining to such Letters of Credit as fully as if the term "Administrative Agent" as used in this

Sections 9.3, 9.4, 9.5 and 9.11 included the Issuing Lenders with respect to such acts or omissions, and (B) as additionally provided herein with respect to the Issuing Lenders.

10. MISCELLANEOUS

10.1 Modifications, Amendments or Waivers. With the written consent of the Required Lenders, the Administrative Agent, acting on behalf of all the Lenders, and the Borrower, on behalf of the Borrower, may from time to time enter into written agreements amending or changing any provision of this Agreement or any other Loan Document or the rights of the Lenders or the Borrower hereunder or thereunder, or may grant written waivers or consents hereunder or thereunder. Any such agreement, waiver or consent made with such written consent shall be effective to bind all the Lenders and the Borrower; provided, that no such agreement, waiver or consent may be made which will:

10.1.1 Increase of Commitment. Increase the amount of the Revolving Credit Commitment of any Lender hereunder without the consent of such Lender;

10.1.2 Extension of Payment; Reduction of Principal Interest or Fees; Modification of Terms of Payment. Whether or not any Loans are outstanding, extend the Expiration Date or the time for payment of principal or interest of any Loan (excluding the due date of any mandatory prepayment of a Loan), the Commitment Fee or any other fee payable to any Lender, or reduce the principal amount of or the rate of interest borne by any Loan or reduce the Commitment Fee or any other fee payable to any Lender, without the consent of each Lender directly affected thereby;

10.1.3 Release of Collateral or Borrower. Release (i) any Collateral that would result in a Collateral Shortfall, (ii) the Borrower from its Obligations under this Agreement without the consent of all of the Lenders (other than Defaulting Lenders) or (iii) any Person who may Guarantee the Obligations without the consent of all of the Lenders (other than the Defaulting Lenders); or

10.1.4 Miscellaneous. Amend Section 4.2 [Pro Rata Treatment of Lenders], Section 7.1.10 [Collateral Value], Section 8.2.5 [Application of Proceeds], Section 9.3 [Exculpatory Provisions, Etc.], Section 4.3 [Sharing of Payments by Lenders] or this Section 10.1 [Modifications, Amendments or Waivers], alter the definition of Eligible Collateral, alter any provision regarding the pro rata treatment of the Lenders or requiring all Lenders to authorize the taking of any action or reduce any percentage specified in the definition of Required Lenders, or consent to a subordinate Lien with respect to the Collateral, in each case without the consent of all of the Lenders (other than Defaulting Lenders);

provided that no agreement, waiver or consent which would modify the interests, rights or obligations of the Administrative Agent or the applicable Issuing Lender may be made without the written consent of such Administrative Agent or applicable Issuing Lender, as applicable, and provided, further that, if in connection with any proposed waiver, amendment or modification referred to in Sections 10.1.1 [Increase of Commitment] through 10.1.4 [Miscellaneous] above, the consent of the Required Lenders is obtained but the consent of one (1) or more of such other Lenders whose consent is required is not obtained (each, a "Non-

Consenting Lender"), then the Borrower shall have the right to replace any such Non-Consenting Lender with one (1) or more replacement Lenders pursuant to Section 4.6.2 [Replacement of a Lender].

10.2 No Implied Waivers; Cumulative Remedies. No course of dealing and no delay or failure of the Administrative Agent or any Lender in exercising any right, power, remedy or privilege under this Agreement or any other Loan Document shall affect any other or future exercise thereof or operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any further exercise thereof or of any other right, power, remedy or privilege. The rights and remedies of the Administrative Agent and the Lenders under this Agreement and any other Loan Documents are cumulative and not exclusive of any rights or remedies which they would otherwise have.

10.3 Expenses; Indemnity; Damage Waiver.

10.3.1 Costs and Expenses. The Borrower shall pay (i) all reasonable and documented out-of-pocket expenses incurred by the Administrative Agent or PNC Capital Markets LLC (including the reasonable fees, charges and disbursements of counsel for the Administrative Agent and PNC Capital Markets LLC), and shall pay all reasonable and documented fees and time charges and disbursements for attorneys who may be employees of the Administrative Agent, in connection with the syndication of the credit facilities provided for herein, the preparation, negotiation, execution, delivery and administration of this Agreement and the other Loan Documents or any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), (ii) all reasonable and documented out-of-pocket expenses incurred by the applicable Issuing Lender in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder, and (iii) all reasonable and documented out-of-pocket expenses incurred by the Administrative Agent, any Lender or any Issuing Lender (including the fees, charges and disbursements of any counsel for the

Administrative Agent, any Lender or any Issuing Lender), and shall pay all reasonable and documented fees and time charges for attorneys who may be employees of the Administrative Agent, any Lender or any Issuing Lender, in connection with the enforcement or protection of its rights (A) in connection with this Agreement and the other Loan Documents, including its rights under this Section, or (B) in connection with the Loans made or Letters of Credit issued hereunder, including all such reasonable and documented out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans or Letters of Credit.

10.3.2 Indemnification by the Borrower. The Borrower shall indemnify the Administrative Agent (and any sub-agent thereof), each Lender and each Issuing Lender, and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnitee") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses (including the fees, charges and disbursements of any counsel for any Indemnitee), and shall indemnify and hold harmless each Indemnitee from all fees and time charges and disbursements for attorneys who may be employees of any Indemnitee, incurred by any Indemnitee or asserted against any Indemnitee by any third party or by the Borrower arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement, any other Loan Document or any agreement or instrument contemplated

hereby or thereby, the performance or nonperformance by the parties hereto of their respective obligations hereunder or thereunder or the consummation of the transactions contemplated hereby or thereby, (ii) any Loan or Letter of Credit or the use or proposed use of the proceeds therefrom (including any refusal by the applicable Issuing Lender to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), (iii) breach of representations, warranties or covenants of the Borrower under the Loan Documents, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, including any such items or losses relating to or arising under Environmental Laws or pertaining to environmental matters, whether based on contract, tort or any other theory, whether brought by a third party or by the Borrower, and regardless of whether any Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses (x) are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee or (y) result from a claim brought by the Borrower against an Indemnitee for breach in bad faith of such Indemnitees obligations hereunder or under any other Loan Document, if the Borrower has obtained a final and nonappealable judgment in its favor on such claim as determined by a court of competent jurisdiction.

10.3.3 Reimbursement by Lenders. To the extent that the Borrower for any reason fails to indefeasibly pay any amount required under Section 10.3.1 [Costs and Expenses] or Section 10.3.2 [Indemnification by the Borrower] to be paid by it to the Administrative Agent (or any sub-agent thereof), the applicable Issuing Lenders or any Related Party of any of the foregoing, each Lender severally agrees to pay to the Administrative Agent (or any such sub-agent), the applicable Issuing Lender or such Related Party, as the case may be, such Lender's Ratable Share (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount, provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent (or any such sub-agent) or the Issuing Lenders in their capacity as such, or against any Related Party of any of the foregoing acting for the Administrative Agent (or any such sub-agent) or Issuing Lenders in connection with such capacity.

10.3.4 Waiver of Consequential Damages, Etc. To the fullest extent permitted by applicable Law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or Letter of Credit or the use of the proceeds thereof. No Indemnitee referred to in Section 10.3.2 [Indemnification by the Borrower] shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby.

10.3.5 Payments. All amounts due under this Section shall be payable not later than ten (10) days after demand therefor.

10.4 Holidays. Whenever payment of a Loan to be made or taken hereunder shall be due on a day which is not a Business Day such payment shall be due on the next Business Day (except as provided in Section 3.2 [Interest Periods]) and such extension of time shall be included in computing interest and fees, except that the Loans shall be due on the Business Day preceding the Expiration Date if the Expiration Date is not a Business Day. Whenever any payment or action to be made or taken hereunder (other than payment of the Loans) shall be stated to be due on a day which is not a Business Day, such payment or action shall be made or taken on the next following Business Day, and such extension of time shall not be included in computing interest or fees, if any, in connection with such payment or action.

10.5 Notices; Effectiveness; Electronic Communication.

10.5.1 Notices Generally. Except in the case of notices and other communications expressly permitted to be given by telephone (and except as provided in Section 10.5.2 [Electronic Communications]), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopier (i) if to a Lender, to it at its address set forth in its administrative questionnaire, or (ii) if to any other Person, to it at its address set forth on Schedule 1.1(B).

Notices sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received; notices sent by telecopier shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next Business Day for the recipient). Notices delivered through electronic communications to the extent provided in Section 10.5.2 [Electronic Communications], shall be effective as provided in such Section 10.5 [Notices; Effectiveness; Electronic Communication].

10.5.2 Electronic Communications. Notices and other communications to the Lenders and the applicable Issuing Lender hereunder may be delivered or furnished by electronic communication (including e-mail and Internet or intranet websites) pursuant to procedures approved by the Administrative Agent; provided that the foregoing shall not apply to notices to any Lender or the applicable Issuing Lender if such Lender or the applicable Issuing Lender, as applicable, has notified the Administrative Agent that it is incapable of receiving notices under such Article by electronic communication. The Administrative Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it; provided that approval of such procedures may be limited to particular notices or communications. Unless the Administrative Agent otherwise prescribes, (i) notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgement); provided that if such notice or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next Business Day for the recipient, and (ii) notices

or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient at its e-mail address as described in the foregoing clause (i) of notification that such notice or communication is available and identifying the website address therefor.

10.5.3 Change of Address, Etc. Any party hereto may change its address or telecopier number for notices and other communications hereunder by notice to the other parties hereto.

10.6 Severability. The provisions of this Agreement are intended to be severable. If any provision of this Agreement shall be held invalid or unenforceable in whole or in part in any jurisdiction, such provision shall, as to such jurisdiction, be ineffective to the extent of such invalidity or unenforceability without in any manner affecting the validity or enforceability thereof in any other jurisdiction or the remaining provisions hereof in any jurisdiction.

10.7 Duration; Survival. All representations and warranties of the Borrower contained herein or made in connection herewith shall survive the execution and delivery of this Agreement, the completion of the transactions hereunder and Payment in Full. All covenants and agreements of the Borrower contained herein relating to the payment of principal, interest, premiums, additional compensation or expenses and indemnification, including those set forth in the Notes, Section 4 [Payments] and Section 10.3 [Expenses; Indemnity; Damage Waiver], shall survive Payment in Full. All other covenants and agreements of the Borrower shall continue in full force and effect from and after the date hereof and until Payment in Full.

10.8 Successors and Assigns.

10.8.1 Successors and Assigns Generally. The provisions of this Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns permitted hereby, except that the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of the Administrative Agent and each Lender and no Lender may assign or otherwise transfer any of its rights or obligations hereunder except (i) to an assignee in accordance with the provisions of Section 10.8.2 [Assignments by Lenders], (ii) by way of participation in accordance with the provisions of Section 10.8.4 [Participations], or (iii) by way of pledge or assignment of a security interest subject to the restrictions of Section 10.8.6 [Certain Pledges; Successors and Assigns Generally] (and any other attempted assignment or transfer by any party hereto shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, Participants to the extent provided in Section 10.8.4 [Participations] and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

10.8.2 Assignments by Lenders. Any Lender may at any time assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it); provided that any such assignment shall be subject to the following conditions:

(i) Minimum Amounts.

(A) in the case of an assignment of the entire remaining amount of the assigning Lender's Commitment and the Loans at the time owing to it or in the case of an assignment to a Lender, an Affiliate of a Lender or an Approved Fund, no minimum amount need be assigned; and

(B) in any case not described in clause (i)(A) of this Section 10.8.2 [Assignments by Lenders], the aggregate amount of the Commitment (which for this purpose includes Loans outstanding thereunder) or, if the applicable Commitment is not then in effect, the principal outstanding balance of the Loans of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Assumption Agreement with respect to such assignment is delivered to the Administrative Agent or, if "Trade Date" is specified in the Assignment and Assumption Agreement, as of the Trade Date) shall not be less than Five Million and 00/100 Dollars ($5,000,000.00), in the case of any assignment in respect of the Revolving Credit Commitment of the assigning Lender, unless each of the Administrative Agent and, so long as no Event of Default has occurred and is continuing, the Borrower otherwise consents.

(ii) Proportionate Amounts. Each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement with respect to the Loan or the Commitment assigned.

(iii) Required Consents. No consent shall be required for any assignment except for the consent of the Administrative Agent (which shall not be unreasonably withheld or delayed) and:

(A) the consent of the Borrower (such consent not to be unreasonably withheld or delayed) shall be required unless (x) an Event of Default has occurred and is continuing at the time of such assignment or (y) such assignment is to a Lender, an Affiliate of a Lender or an Approved Fund; provided that the Borrower shall be deemed to have consented to any such assignment unless it shall object thereto by written notice to the Administrative Agent within ten (10) Business Days after having received notice thereof; and

(B) the consent of each Issuing Lender (such consent not to be unreasonably withheld or delayed) shall be required for any assignment that increases the obligation of the assignee to participate in exposure under one or more Letters of Credit (whether or not then outstanding).

(iv) Assignment and Assumption Agreement. The parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption Agreement, together with a processing and recordation fee of Three Thousand Five Hundred and 00/100 Dollars ($3,500.00), and the assignee, if it is not a Lender, shall deliver to the Administrative Agent an administrative questionnaire provided by the Administrative Agent.

(v) No Assignment to the Borrower. No such assignment shall be made to the Borrower or any of the Borrower's Affiliates or Subsidiaries.

(vi) No Assignment to Natural Persons. No such assignment shall be made to a natural person.

Subject to acceptance and recording thereof by the Administrative Agent pursuant to Section 10.8.3 [Register], from and after the effective date specified in each Assignment and Assumption Agreement, the assignee thereunder shall be a party to this Agreement and, to the extent of the interest assigned by such Assignment and Assumption Agreement, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption Agreement, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption Agreement covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto) but shall continue to be entitled to the benefits and subject to the obligations of Section 3.4 [LIBOR Rate Unascertainable; Illegality; Increased Costs; Deposits Not Available], Section 4.7 [Increased Costs], and Section 10.3 [Expenses, Indemnity; Damage Waiver] with respect to facts and circumstances occurring prior to the effective date of such assignment. Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this Section 10.8.2 [Assignments by Lenders] shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with Section 10.8.4 [Participations].

10.8.3 Register. The Administrative Agent, acting solely for this purpose as an agent of the Borrower, shall maintain a record of the names and addresses of the Lenders, and the Commitments of, and principal amounts of the Loans owing to, each Lender pursuant to the terms hereof from time to time. Such register shall be conclusive, and the Borrower, the Administrative Agent and the Lenders may treat each Person whose name is in such register pursuant to the terms hereof as a

Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. Such register shall be available for inspection by the Borrower and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

10.8.4 Participations. Any Lender may at any time, without the consent of, or notice to, the Borrower or the Administrative Agent, sell participations to any Person (other than a natural person or the Borrower or any of the Borrower's Affiliates or Subsidiaries) (each, a "Participant") in all or a portion of such Lender's rights and/or obligations under this Agreement (including all or a portion of its Commitment and/or the Loans owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Borrower, the Administrative Agent, the Lenders and the applicable Issuing Lender shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement.

Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver with respect to Section 10.1.1 [Increase of Commitment, Etc.], Section 10.1.2 [Extension of Payment, Etc.], or

Section 10.1.3 [Release of Collateral or Borrower]). Subject to Section 10.8.5 [Limitations upon Participant Rights Successors and Assigns Generally], the Borrower agrees that each Participant shall be entitled to the benefits of Section 3.4 [LIBOR Rate Unascertainable; Illegality; Increased Costs; Deposits Not Available] and Section 4.7 [Increased Costs] to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to Section 10.8.2 [Assignments by Lenders]. To the extent permitted by Law, each Participant also shall be entitled to the benefits of Section 8.2.3 [Setoff] as though it were a Lender; provided such Participant agrees to be subject to Section 4.3 [Sharing of Payments by Lenders] as though it were a Lender.

10.8.5 Limitations upon Participant Rights Successors and Assigns Generally. A Participant shall not be entitled to receive any greater payment under Section 4.7 [Increased Costs], Section 4.8 [Taxes] or Section 10.3 [Expenses; Indemnity; Damage Waiver] than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 4.8 [Taxes] unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 4.8.6 [Status of Lenders] as though it were a Lender.

10.8.6 Certain Pledges; Successors and Assigns Generally. Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

10.9 Confidentiality.

10.9.1 General. Each of the Administrative Agent, the Lenders and the applicable Issuing Lender agrees to maintain the confidentiality of the Information, except that Information may be disclosed (i) to its Affiliates and to its and its Affiliates' respective partners, directors, officers, employees, agents, advisors and other representatives (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (ii) to the extent requested by any regulatory authority purporting to have jurisdiction over it (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (iii) to the extent required by applicable Laws or regulations or by any subpoena or similar legal process, (iv) to any other party hereto, (v) in connection with the exercise of any remedies hereunder or under any other Loan Document or any action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (vi) subject to an agreement containing provisions substantially the same as those of this Section 10.9.1 [General], to (A) any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement or (B) any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to the Borrower and its obligations, (vii) with the consent of the Borrower or (viii) to the extent such Information (A) becomes publicly available other than as a result of a breach of this Section 10.9.1 [General] or (B) becomes available to the Administrative Agent, any Lender, the applicable Issuing Lender or

any of their respective Affiliates on a nonconfidential basis from a source other than the Borrower. Any Person required to maintain the confidentiality of Information as provided in this Section 10.9.1 [General] shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

10.9.2 Sharing Information With Affiliates of the Lenders. The Borrower acknowledges that from time to time financial advisory, investment banking and other services may be offered or provided to the Borrower or one or more of its Affiliates (in connection with this Agreement or otherwise) by any Lender or by one or more Subsidiaries or Affiliates of such Lender and the Borrower hereby authorizes each Lender to share any information delivered to such Lender by the Borrower and its Subsidiaries pursuant to this Agreement to any such Subsidiary or Affiliate subject to the provisions of Section 10.9.1 [General].

10.10 Counterparts; Integration; Effectiveness.

10.10.1 Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and the other Loan Documents, and any separate letter agreements with respect to fees payable to the Administrative Agent, constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof including any prior confidentiality agreements and commitments. Except as provided in Section 6 [Conditions of Lending and Issuance of Letters of Credit], this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof that, when taken together, bear the signatures of each of the other parties hereto. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement.

10.11 CHOICE OF LAW; SUBMISSION TO JURISDICTION; WAIVER OF VENUE; SERVICE OF PROCESS; WAIVER OF JURY TRIAL.

10.11.1 Governing Law. This Agreement shall be deemed to be a contract under the Laws of the Commonwealth of Pennsylvania without regard to its conflict of laws principles. Each Standby Letter of Credit issued under this Agreement shall be subject either to the rules of the Uniform Customs and Practice for Documentary Credits, as most recently published by the International Chamber of Commerce (the "ICC") at the time of issuance ("UCP") or the rules of the International Standby Practices (ICC Publication Number 590) ("ISP98"), as determined by the applicable Issuing Lender, to the extent not inconsistent therewith, the Laws of the Commonwealth of Pennsylvania without regard to is conflict of laws principles.

10.11.2 SUBMISSION TO JURISDICTION. THE BORROWER IRREVOCABLY AND UNCONDITIONALLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE NONEXCLUSIVE JURISDICTION OF THE COURTS OF THE COMMONWEALTH OF PENNSYLVANIA SITTING IN ALLEGHENY COUNTY AND OF

THE UNITED STATES DISTRICT COURT FOR THE WESTERN DISTRICT OF PENNSYLVANIA, AND ANY APPELLATE COURT FROM ANY THEREOF, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, OR FOR RECOGNITION OR ENFORCEMENT OF ANY JUDGMENT, AND EACH OF THE PARTIES HERETO IRREVOCABLY AND UNCONDITIONALLY AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH PENNSYLVANIA STATE COURT OR, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, IN SUCH FEDERAL COURT. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS AGREEMENT OR IN ANY OTHER LOAN DOCUMENT SHALL AFFECT ANY RIGHT THAT THE ADMINISTRATIVE AGENT, ANY LENDER OR THE APPLICABLE ISSUING LENDER MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AGAINST THE BORROWER OR ITS PROPERTIES IN THE COURTS OF ANY JURISDICTION.

10.11.3 WAIVER OF VENUE. THE BORROWER IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT IN ANY COURT REFERRED TO IN THIS SECTION 10.11 [CHOICE OF LAW, ETC.]. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING IN ANY SUCH COURT AND AGREES NOT ASSERT ANY SUCH DEFENSE.

10.11.4 SERVICE OF PROCESS. EACH PARTY HERETO IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN THE MANNER PROVIDED FOR NOTICES IN SECTION 10.5 [NOTICES; EFFECTIVENESS; ELECTRONIC COMMUNICATION]. NOTHING IN THIS AGREEMENT WILL AFFECT THE RIGHT OF ANY PARTY HERETO TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY APPLICABLE LAW.

10.11.5 WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR

ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER

AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

10.12 USA Patriot Act Notice. Each Lender that is subject to the USA Patriot Act and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies Borrower that pursuant to the requirements of the USA Patriot Act, it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of Borrower and other information that will allow such Lender or Administrative Agent, as applicable, to identify the Borrower in accordance with the USA Patriot Act.

10.13 Amendment and Restatement.

This Agreement amends and restates in its entirety the Existing Credit Agreement. All references to the “Agreement” contained in the Loan Documents delivered in connection with the Existing Credit Agreement or this Agreement shall, and shall be deemed to, refer to this Agreement. Notwithstanding the amendment and restatement of the Existing Credit Agreement by this Agreement, the Obligations of the Borrower outstanding under the Existing Credit Agreement and the Loan Documents as of the Closing Date shall remain outstanding and shall constitute continuing Obligations without novation and shall continue as such to be secured by the Collateral. Such Obligations shall in all respects be continuing and this Agreement shall not be deemed to evidence or result in a novation or repayment and reborrowing of such Obligations. The Liens securing payment of the Obligations under the Existing Credit Agreement, as amended and restated in the form of this Agreement, shall in all respects be continuing, securing the payment of all Obligations.

[INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto, by their officers thereunto duly authorized, have executed this Agreement as of the day and year first above written as a document under seal.

BORROWER:

WITNESS:

/s/ Robert W. McNutt

Erie Insurance Exchange

By: Erie Indemnity Company, a Pennsylvania corporation, its Attorney-in-Fact

By: /s/ Douglas F. Ziegler (SEAL)
Name: Douglas F. Ziegler
Title: Senior Vice President, Treasurer and Chief Investment Officer

ADMINISTRATIVE AGENT AND LENDERS:

WITNESS:

____

PNC BANK, NATIONAL ASSOCIATION, as a Lender and as Administrative Agent

By: /s/ James F. Stevenson
Name: James F. Stevenson
Title: Senior Vice President

JPMORGAN CHASE BANK, N.A., as a Lender

By: /s/ Thomas A. Kiepura
Name: Thomas A. Kiepura
Title: Vice President

WELLS FARGO BANK, NATIONAL ASSOCIATION, as a Lender

By: /s/ David Bendel
Name: David Bendel
Title: Director

BANK OF AMERICA, N.A., as a Lender

By: /s/ Debra Basler
Name: Debra Basler
Title: Managing Director

U.S. BANK NATIONAL ASSOCIATION, as a Lender

By: /s/ Inna Kotsubey
Name: Inna Kotsubey
Title: Vice President

THE BANK OF NEW YORK MELLON, as a Lender

By: /s/ Adim Offurum
Name: Addim Offurum
Title: Vice President

First Amended and Restated Pledge Agreement

THIS FIRST AMENDED AND RESTATED PLEDGE AGREEMENT, dated as of this 28th day of October, 2011 (the "**Pledge Agreement**"), is made by **ERIE INDEMNITY COMPANY AS ATTORNEY IN FACT FOR ERIE INSURANCE EXCHANGE** (the "**Pledgor**"), with an address at 100 Erie Insurance Place, Erie, Pennsylvania 16530, in favor of **PNC BANK, NATIONAL ASSOCIATION** ("**PNC**"), as administrative agent for itself and certain other Lenders (as hereinafter defined) (in such capacity, the "**Secured Party**"), with an address at 901 State Street, P.O. Box 8480, Erie, Pennsylvania 16553 ("**Pledge Agreement**").

1. <u>**Pledge**</u>. In order to induce the Secured Party and the other Lenders to enter into the Credit Agreement (as defined below), the Pledgor hereby grants a security interest in and pledges to the Secured Party (as administrative agent for itself and the other Lenders) all of the Pledgor's right, title and interest in and to the investment property and other assets of the Pledgor in the following investment account and all security entitlements of the Pledgor with respect thereto, whether now owned or hereafter acquired, together with all additions, substitutions, replacements and proceeds thereof and all income, interest, dividends and other distributions thereon (collectively, the "**Collateral**"): Account No.: EIRF 1221052; Name: Erie Insurance Exchange Collateral Account; Custodian: The Bank of New York Mellon; Custodian's Address: One Mellon Center, Pittsburgh, Pennsylvania 15258, which investment account contains as of the Closing Date the investment property and other assets set forth in <u>Exhibit A</u> attached hereto and made a part hereof. If the Collateral includes certificated securities, documents or instruments, such certificates are herewith delivered to the Secured Party accompanied by duly executed blank stock or bond powers or assignments as applicable. The Pledgor hereby authorizes the transfer of possession of all certificates, instruments, documents and other evidence of the Collateral to the Secured Party.

2. <u>**Obligations Secured**</u>. Reference is hereby made to that certain First Amended and Restated Credit Agreement, dated as of even date herewith, by and among the Pledgor, PNC and various other financial institutions from time to time party thereto (PNC and such other financial institutions are each, a "**Lender**" and collectively, the "**Lenders**"), and the Secured Party (as further amended, restated, modified or supplemented from time to time, the "**Credit Agreement**"; unless otherwise defined herein, terms defined in the Credit Agreement shall have such defined meaning when used herein). The Collateral secures payment of the Obligations in accordance with the terms of the Obligations and of the Credit Agreement and the full and timely payment and performance of the obligations of the Pledgor under this Pledge Agreement, and the Loan Parties under the Credit Agreement and the other Loan Documents (hereinafter referred to collectively as the "**Obligations**").

3. <u>**Representations and Warranties**</u>. The Pledgor represents and warrants to the Secured Party as follows:

3.1 This Pledge Agreement and the Control Agreement (as hereinafter defined) have been duly executed and delivered by the Pledgor, constitute valid and legally binding obligations and are enforceable in accordance with their respective terms against the Pledgor.

3.2 The execution, delivery and performance of this Pledge Agreement, the grant of the security interest in the Collateral hereunder and the consummation of the transactions contemplated hereby will not, with or without the giving of notice or the lapse of time, (i) violate any law applicable to the Pledgor; (ii) violate any judgment, writ, injunction or order of any court or Official Body applicable to the Pledgor; (iii) violate or result in the breach of any agreement to which the Pledgor is a party or by which any of its properties, including the Collateral, is bound; nor (iv) violate any restriction on the transfer of any of the Collateral.

3.3 There are no restrictions on the pledge or transfer of any of the Collateral.

3.4 The Pledgor is the legal owner of the Collateral, which is registered in the name of the Pledgor, the Custodian (as hereinafter defined) or a nominee.

3.5 The Collateral is free and clear of any security interests, pledges, liens, encumbrances, charges, agreements, claims or other arrangements or restrictions of any kind, except as referenced in Section 3.3 above; and the Pledgor will not incur, create, assume or permit to exist any pledge, security interest, lien, charge or other encumbrance of any nature whatsoever on any of the Collateral or assign, pledge or otherwise encumber any right to receive income from the Collateral, other than in favor of the Secured Party.

3.6 The Pledgor has the right to transfer the Collateral free of any encumbrances and the Pledgor will defend the Pledgor's title to the Collateral against the claims of all Persons, and any registration with, or consent or approval of, or other action by, any federal, state or other governmental authority or regulatory body which was or is necessary for the validity of the pledge of and grant of the security interest in the Collateral has been obtained.

3.7 The pledge of and grant of the security interest in the Collateral is effective to vest in the Secured Party a valid and perfected first priority security interest, superior to the rights of any other person, in and to the Collateral as set forth herein.

3.8 None of the information, documents, or financial statements that have been furnished by the Pledgor to the Secured Party in connection with the transactions contemplated by this Pledge Agreement or the other Loan Documents contains, as of the date furnished, any untrue statement of material fact or omits any material fact required to be stated hereby or thereby to make such statements not misleading.

3.9 The Collateral described in Exhibit A is a complete and accurate list of the securities and other investment property and assets maintained in the Collateral Account as of the Closing Date.

4. Covenants.

4.1 The Pledgor agrees to maintain Collateral Value in accordance with Section 7.1.10 of the Credit Agreement.

4.2 The Pledgor agrees that Eligible Collateral maintained in the Collateral Account shall consist of investment property and other assets in accordance with Section 7.1.12 of the Credit Agreement.

4.3 The Pledgor agrees that trading and withdrawals with respect to the assets maintained in the Collateral Account are permitted provided that no Event of Default has occurred and is continuing, and further provided that (i) the Pledgor shall maintain Collateral Value in accordance with Section 7.1.10 of the Credit Agreement, (ii) the Pledgor shall maintain in the Collateral Account investment property and other assets in accordance with Section 7.1.12 of the Credit Agreement, (iii) not later than 12:00 noon, eastern time, on the day in which the Pledgor intends to make any trade or withdrawal, the Pledgor shall deliver to the Secured Party an executed Notification of Change in Collateral, substantially in the form attached to and made a part of this Pledge Agreement as Exhibit B, together with Exhibit A attached thereto, and (iv) unless the Pledgor is solely trading Collateral in the Collateral Account and the Custodian will retain the proceeds from the trade of such Collateral in the Collateral Account, prior to making any trade or withdrawal, the Pledgor shall have received the Notification of Change in Collateral executed by the Secured Party indicating its agreement to the terms thereof. The Secured Party will use its commercially reasonable efforts to execute and deliver to the Custodian and Pledgor each approved Notification of Change in Collateral within one (1) Business Day after receipt from the Pledgor.

4.4 If all or part of the Collateral constitutes “margin stock” within the meaning of Regulation U of the Federal Reserve Board, the Pledgor agrees to execute and deliver Form U-1 to the Secured Party and, unless otherwise agreed in writing between the Pledgor and the Secured Party, no part of the proceeds of the Obligations may be used to purchase or carry margin stock.

4.5 Pledgor agrees not to invoke, and hereby waives its rights under, any statute under any state or federal law which permits the recharacterization of any portion of the Collateral to be interest or income.

5. Default.

5.1 If any of the following occur and are continuing (each an “**Event of Default**”): (i) any Event of Default (as defined in the Credit Agreement), (ii) the failure of the Secured Party to have a perfected first priority security interest in the Collateral, (iii) any restriction is imposed on the pledge or transfer of any of the Collateral after the date of this Pledge Agreement without the Secured Party’s prior written consent, or (iv) the breach of the Control Agreement (referred to in Section 8 below), or receipt of notice of termination of the Control Agreement if no successor custodian acceptable to the Secured Party has executed a Control Agreement in form and substance acceptable to the Secured Party on or before ten (10) days prior to the effective date of the termination, then the Secured Party is authorized in its

discretion to declare any or all of the Obligations to be immediately due and payable without demand or notice, which are expressly waived, and may exercise any one or more of the rights and remedies granted pursuant to this Pledge Agreement or given to a secured party under the Uniform Commercial Code of the applicable state, as it may be amended from time to time, or otherwise at law or in equity, including without limitation the right to issue a Notice of Exclusive Control (as defined in the Control Agreement) to the Custodian, and/or to sell or otherwise dispose of any or all of the Collateral at public or private sale, with or without advertisement thereof upon such terms and conditions as it may deem advisable and at such prices as it may deem best.

5.2 (a) At any bona fide public sale, and to the extent permitted by law, at any private sale, the Secured Party shall be free to purchase all or any part of the Collateral, free of any right or equity of redemption in the Pledgor, which right or equity is hereby waived and released. Any such sale may be on cash or credit. The Secured Party shall be authorized at any such sale (if it deems it advisable to do so) to restrict the prospective bidders or purchasers to persons who will represent and agree that they are purchasing the Collateral for their own account in compliance with Regulation D of the Securities Act of 1933 (the "**Act**") or any other applicable exemption available under such Act. The Secured Party will not be obligated to make any sale if it determines not to do so, regardless of the fact that notice of the sale may have been given. The Secured Party may adjourn any sale and sell at the time and place to which the sale is adjourned. If the Collateral is customarily sold on a recognized market or threatens to decline speedily in value, the Secured Party may sell such Collateral at any time without giving prior notice to the Pledgor. Whenever notice is otherwise required by law to be sent by the Secured Party to the Pledgor of any sale or other disposition of the Collateral, ten (10) days written notice sent to the Pledgor at its address specified above will be reasonable.

(b) The Pledgor recognizes that the Secured Party may be unable to effect or cause to be effected a public sale of the Collateral by reason of certain prohibitions contained in the Act, so that the Secured Party may be compelled to resort to one or more private sales to a restricted group of purchasers who will be obligated to agree, among other things, to acquire the Collateral for their own account, for investment and without a view to the distribution or resale thereof. The Pledgor understands that private sales so made may be at prices and on other terms less favorable to the seller than if the Collateral were sold at public sales, and agrees that the Secured Party has no obligation to delay or agree to delay the sale of any of the Collateral for the period of time necessary to permit the issuer of the securities which are part of the Collateral (even if the issuer would agree), to register such securities for sale under the Act. The Pledgor agrees that private sales made under the foregoing circumstances shall be deemed to have been made in a commercially reasonable manner.

5.3 The net proceeds arising from the disposition of the Collateral after deducting expenses incurred by the Secured Party will be applied to the Obligations in the order determined by the Secured Party. If any excess remains after the discharge of all of the Obligations, the same will be paid to the Pledgor. If after exhausting all of the Collateral there is a deficiency, the Pledgor will be liable therefor to the Secured Party; provided, however, that nothing contained herein will obligate the Secured Party to proceed against the Pledgor or any other party obligated under the Obligations or against any other collateral for the Obligations prior to proceeding against the Collateral.

5.4 If any demand is made at any time upon the Secured Party for the repayment or recovery of any amount received by it in payment or on account of any of the Obligations and if the Secured Party repays all or any part of such amount by reason of any judgment, decree or order of any court or administrative body or by reason of any settlement or compromise of any such demand, the Pledgor will be and remain liable for the amounts so repaid or recovered to the same extent as if such amount had never been originally received by the Secured Party. The provisions of this section will be and remain effective notwithstanding the release of any of the Collateral by the Secured Party in reliance upon such payment (in which case the Pledgor's liability will be limited to an amount equal to the fair market value of the Collateral determined as of the date such Collateral was released) and any such release will be without prejudice to the Secured Party's rights hereunder and will be deemed to have been conditioned upon such payment having become final and irrevocable. This Section shall survive the termination of this Pledge Agreement.

6. **Voting Rights and Transfer**. Prior to the occurrence of an Event of Default which is continuing, the Pledgor will have the right to exercise all voting rights with respect to the Collateral. At any time after the occurrence of an Event of Default which is continuing, the Secured Party may transfer any or all of the Collateral into its name or that of its nominee and may exercise all voting rights with respect to the Collateral to the exclusion of the Pledgor, but no such transfer shall constitute a taking of such Collateral in satisfaction of any or all of the Obligations unless the Secured Party expressly so indicates by written notice to the Pledgor.

7. **Dividends, Interest and Premiums**. The Pledgor will have the right to receive all cash dividends, interest and premiums declared and paid on the Collateral prior to the occurrence of any Event of Default which is continuing. In the event any additional shares are issued to the Pledgor as a stock dividend or in lieu of interest on any of the Collateral, as a result of any split of any of the Collateral, by reclassification or otherwise, any certificates evidencing any such additional shares will be immediately delivered to the Secured Party and such shares will be subject to this Pledge Agreement and a part of the Collateral to the same extent as the original Collateral. At any time after the occurrence of an Event of Default which is continuing, the Secured Party shall be entitled to receive all cash or stock dividends, interest and premiums declared or paid on the Collateral, all of which shall be subject to the Secured Party's rights under Section 5 above.

8. **Securities Account**. The Pledgor and the securities intermediary on whose books and records the ownership interest of the Pledgor in the Collateral appears (the "**Custodian**") have entered into that certain Notification and Control Agreement, dated September 30, 2009 (as amended, modified or supplemented from time to time, the "**Control Agreement**"), in order to perfect and protect the Secured Party's security interest in the Collateral.

9. **Further Assurances**. By its signature hereon, the Pledgor hereby irrevocably authorizes the Secured Party, at any time and from time to time, to execute (on behalf of the Pledgor), file and record against the Pledgor any notice, financing statement, continuation statement, amendment statement, instrument, document or agreement under the UCC that the Secured Party may consider necessary or advisable to create, preserve, continue, perfect or validate any security interest granted hereunder or to enable the Secured Party to exercise or enforce its rights hereunder with respect to such security interest. Without limiting the generality

of the foregoing, the Pledgor hereby irrevocably appoints the Secured Party as the Pledgor's attorney-in-fact to do all acts and things in the Pledgor's name that the Secured Party may deem necessary or advisable to create, preserve, continue, perfect or validate any security interest granted hereunder or to enable the Secured Party to exercise or enforce its rights hereunder with respect to such security interest. This power of attorney is coupled with an interest with full power of substitution and is irrevocable. The Pledgor hereby ratifies all that said attorney shall lawfully do or cause to be done by virtue hereof.

10. **Release of Collateral**. Subject to any sale or other disposition by the Secured Party of the Collateral in accordance with the terms hereof, upon payment in full and the satisfaction of all of the Obligations and the termination of the Credit Agreement, this Pledge Agreement shall terminate, the Pledgor and its assigns are authorized to file or the Secured Party, upon request from the Pledgor, shall file, if applicable, UCC-3 financing statements to evidence the release of the Liens granted hereunder and the Collateral shall within thirty (30) days following payment in full and the satisfaction of all of the Obligations and the termination of the Credit Agreement be returned to the Pledgor.

11. **Notices**. All notices, demands, requests, consents, approvals and other communications required or permitted hereunder ("**Notices**") must be in writing and will be effective upon receipt. Notices may be given in any manner to which the parties may separately agree, including electronic mail. Without limiting the foregoing, first-class mail, facsimile transmission and commercial courier service are hereby agreed to as acceptable methods for giving Notices. Regardless of the manner in which provided, Notices may be sent to a party's address as set forth above or to such other address as either the Pledgor or the Secured Party may give to the other for such purpose in accordance with this section.

12. **Preservation of Rights**. (a) No delay or omission on the Secured Party's part to exercise any right or power arising hereunder will impair any such right or power or be considered a waiver of any such right or power, nor will the Secured Party's action or inaction impair any such right or power. The Secured Party's rights and remedies hereunder are cumulative and not exclusive of any other rights or remedies which the Secured Party may have under other agreements, at law or in equity.

(b) The Secured Party may, at any time and from time to time, without notice to or the consent of the Pledgor unless otherwise expressly required pursuant to the terms of the Obligations, and without impairing or releasing, discharging or modifying the Pledgor's liabilities hereunder, (i) change the manner, place, time or terms of payment or performance of or interest rates on, or other terms relating to, any of the Obligations; (ii) renew, substitute, modify, amend or alter, or grant consents or waivers relating to any of the Obligations, any other pledge or security agreements, or any security for any Obligations; (iii) apply any and all payments by whomever paid or however realized including any proceeds of any collateral, to any Obligations of the Pledgor in such order, manner and amount as the Secured Party may determine in its sole discretion; (iv) deal with any other Person with respect to any Obligations in such manner as the Secured Party deems appropriate in its sole discretion; (v) substitute, exchange or release any security or guaranty; or (vi) take such actions and exercise such remedies hereunder as provided herein. The Pledgor hereby waives (a) presentment, demand, protest, notice of dishonor and

notice of non-payment and all other notices to which the Pledgor might otherwise be entitled, and (b) all defenses based on suretyship or impairment of collateral.

13. **Illegality**. In case any one or more of the provisions contained in this Pledge Agreement should be invalid, illegal or unenforceable in any respect, it shall not affect or impair the validity, legality and enforceability of the remaining provisions in this Pledge Agreement.

14. **Changes in Writing**. No modification, amendment or waiver of or consent to any departure by the Pledgor from, any provision of this Pledge Agreement will be effective unless made in a writing signed by the Secured Party, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on the Pledgor in any case will entitle the Pledgor to any other or further notice or demand in the same, similar or other circumstance.

15. **Entire Agreement**. This Pledge Agreement (including the documents and instruments referred to herein) constitutes the entire agreement and supersedes all other prior agreements and understandings, both written and oral, between the Pledgor and the Secured Party with respect to the subject matter hereof.

16. **Successors and Assigns**. This Pledge Agreement will be binding upon and inure to the benefit of the Pledgor and the Secured Party and their respective heirs, executors, administrators, successors and assigns; provided, however, that the Pledgor may not assign this Pledge Agreement in whole or in part without the Secured Party's prior written consent and the Secured Party at any time may assign this Pledge Agreement in whole or in part.

17. **Interpretation**. In this Pledge Agreement, unless the Secured Party and the Pledgor otherwise agree in writing, the singular includes the plural and the plural the singular; references to statutes are to be construed as including all statutory provisions consolidating, amending or replacing the statute referred to; the word "or" shall be deemed to include "and/or", the words "including", "includes" and "include" shall be deemed to be followed by the words "without limitation"; and references to agreements and other contractual instruments shall be deemed to include all subsequent amendments and other modifications to such instruments, but only to the extent such amendments and other modifications are not prohibited by the terms of this Pledge Agreement. Section headings in this Pledge Agreement are included for convenience of reference only and shall not constitute a part of this Pledge Agreement for any other purpose. If this Pledge Agreement is executed by more than one party as Pledgor, the obligations of such persons or entities will be joint and several.

18. **Indemnity**. The Pledgor agrees to indemnify each of the Secured Party, each legal entity, if any, who controls, is controlled by or is under common control with the Secured Party, and each of their respective directors, officers and employees (the "**Indemnified Parties**"), and to hold each Indemnified Party harmless from and against, any and all claims, damages, losses, liabilities and expenses (including all reasonable fees and charges of internal or external counsel with whom any Indemnified Party may consult and all expenses of litigation or preparation therefor) which any Indemnified Party may incur, or which may be asserted against any Indemnified Party by any person, entity or governmental authority (including any person or entity claiming derivatively on behalf of the Pledgor), in connection with or arising out of or

relating to the matters referred to in this Pledge Agreement or under any Control Agreement, whether (a) arising from or incurred in connection with any breach of a representation, warranty or covenant by the Pledgor, or (b) arising out of or resulting from any suit, action, claim, proceeding or governmental investigation, pending or threatened, whether based on statute, regulation or order, or tort, or contract or otherwise, before any court or governmental authority; provided, however, that the foregoing indemnity agreement shall not apply to claims, damages, losses, liabilities and expenses solely attributable to an Indemnified Party's gross negligence or willful misconduct. The indemnity agreement contained in this Section shall survive the termination of this Pledge Agreement. The Pledgor may participate at its expense in the defense of any such action or claim.

19. **Governing Law and Jurisdiction**. This Pledge Agreement has been delivered to and accepted by the Secured Party and will be deemed to be made in the Commonwealth of Pennsylvania. **THIS PLEDGE AGREEMENT WILL BE INTERPRETED AND THE RIGHTS AND LIABILITIES OF THE PLEDGOR AND THE SECURED PARTY DETERMINED IN ACCORDANCE WITH THE LAWS OF THE COMMONWEALTH OF PENNSYLVANIA, EXCLUDING ITS CONFLICT OF LAWS RULES**. The Pledgor hereby irrevocably consents to the exclusive jurisdiction of the courts of the Commonwealth of Pennsylvania sitting in Allegheny County and of the United States District Court for the Western District of Pennsylvania, and any appellate court from any thereof; provided that nothing contained in this Pledge Agreement will prevent the Secured Party from bringing any action, enforcing any award or judgment or exercising any rights against the Pledgor individually, against any security or against any property of the Pledgor within any other county, state or other foreign or domestic jurisdiction. The Pledgor acknowledges and agrees that the venue provided above is the most convenient forum for both the Secured Party and the Pledgor. The Pledgor waives any objection to venue and any objection based on a more convenient forum in any action instituted under this Pledge Agreement.

20. **Amendment and Restatement**. This Pledge Agreement amends and restates that certain Pledge Agreement, dated September 30, 2009, made by the Pledgor for the benefit of the Secured Party (the "**Existing Pledge Agreement**"). This Pledge Agreement is issued in substitution for the Existing Pledge Agreement and is not a novation thereof.

21. **WAIVER OF JURY TRIAL. THE PLEDGOR IRREVOCABLY WAIVES ANY AND ALL RIGHT THE PLEDGOR MAY HAVE TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR CLAIM OF ANY NATURE RELATING TO THIS PLEDGE AGREEMENT, ANY DOCUMENTS EXECUTED IN CONNECTION WITH THIS PLEDGE AGREEMENT OR ANY TRANSACTION CONTEMPLATED IN ANY OF SUCH DOCUMENTS. THE PLEDGOR ACKNOWLEDGES THAT THE FOREGOING WAIVER IS KNOWING AND VOLUNTARY.**

The Pledgor acknowledges that it has read and understood all the provisions of this Pledge Agreement, including the waiver of jury trial, and has been advised by counsel as necessary or appropriate.

WITNESS the due execution hereof as a document under seal, as of the date first written above, with the intent to be legally bound hereby.

WITNESS: **Erie Insurance Exchange**

By: Erie Indemnity Company, a Pennsylvania corporation, its Attorney-in-Fact

/s/ Robert W. McNutt	By: /s/ Douglas F. Ziegler (SEAL)
	Print Name: Douglas F. Ziegler
	Title: Senior Vice President, Treasurer and Chief Investment Officer

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-148705) pertaining to the Erie Indemnity Company 2004 Long-Term Incentive Plan, the Erie Indemnity Company 1997 Long-Term Incentive Plan, as amended, and the Erie Indemnity Company Deferred Compensation Plan for Outside Directors, as amended of our reports dated February 27, 2012, with respect to the consolidated financial statements and schedules of Erie Indemnity Company, and the effectiveness of internal control over financial reporting of Erie Indemnity Company, included in this Annual Report (Form 10-K) for the year ended December 31, 2011.

/s/ Ernst & Young LLP

Cleveland, Ohio
February 27, 2012

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Terrence W. Cavanaugh, certify that:

1. I have reviewed this annual report on Form 10-K of Erie Indemnity Company for the year ended December 31, 2011;

2. Based upon my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based upon my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based upon our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2012

/s/ Terrence W. Cavanaugh
Terrence W. Cavanaugh
President & CEO

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Marcia A. Dall, certify that:

1. I have reviewed this annual report on Form 10-K of Erie Indemnity Company for the year ended December 31, 2011;

2. Based upon my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based upon my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based upon our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2012

/s/ Marcia A. Dall
Marcia A. Dall
Executive Vice President & CFO

Exhibit 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

We, Terrence W. Cavanaugh, Chief Executive Officer of the Erie Indemnity Company (Company), and Marcia A. Dall, Chief Financial Officer of the Company, certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. § 1350, that:

(1) The Annual Report on Form 10-K of the Company for the annual period December 31, 2011 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Terrence W. Cavanaugh
Terrence W. Cavanaugh
President & CEO

/s/ Marcia A. Dall
Marcia A. Dall
Executive Vice President & CFO

February 27, 2012

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Erie Indemnity Company and will be retained by Erie Indemnity Company and furnished to the Securities and Exchange Commission or its staff upon request.