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

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
(NO FEE REQUIRED)
For the fiscal year ended December 31, 1997

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
[NO FEE REQUIRED]
For the transition period from to

Commission File Number 0-24000

ERIE INDEMNITY COMPANY
(Exact name of registrant as specified in its charter)

Pennsylvania	25-0466020
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 Erie Insurance Place, Erie, Pennsylvania	16530
(Address of principal executive offices)	(Zip code)

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and(2) has been subject to such filing requirements for the past 90 days.

Yes X No

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

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

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date: 67,032,000 Class A shares and 3,070 Class B shares of Common Stock outstanding on February 28, 1998.

DOCUMENTS INCORPORATED BY REFERENCE:

1. Portions of the Registrant's Annual Report to shareholders for the fiscal year ended December 31, 1997 (the "Annual Report") are incorporated by reference into Parts I, II and IV of this Form 10-K Report.
2. Portions of the Registrant's proxy statement relating to the annual meeting of shareholders to be held April 28, 1998 are incorporated by reference into Part III of this Form 10-K Report.

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PART I

Item 1. Business

Erie Indemnity Company (the "Company") is a Pennsylvania business corporation formed in 1925 to be the attorney-in-fact for Erie Insurance Exchange (the "Exchange"), a Pennsylvania-domiciled reciprocal insurance exchange. The Company's principal business activity consists of management of the Exchange, and management fees received from the Exchange accounted for approximately 75.8% of the Company's consolidated revenues in 1997. The Company is also engaged in the property/casualty insurance business through its wholly-owned subsidiaries, Erie Insurance Company (Erie Insurance Co.), Erie Insurance Company of New York (Erie NY) and Erie Insurance Property & Casualty Company (Erie P&C) and through its management of Flagship City Insurance Company (Flagship), a subsidiary of the Exchange. In addition, the Company holds investments in both affiliated and unaffiliated entities, including a 21.6% common stock interest in Erie Family Life Insurance Company (EFL), an affiliated life insurance company, accounted for under the equity method of accounting. Together with the Exchange, the Company and its subsidiaries and affiliates operate collectively under the name "Erie Insurance Group". See the chart on the following page which details the organization of the Erie Insurance Group.

As of December 31, 1997, the Company had 3,237 full-time employees. Of that total, 1,577 full-time employees provide claims-specific services exclusively for the Exchange and 81 full-time employees perform general services exclusively for EFL. Both the Exchange and EFL reimburse the Company monthly for these services. None of the Company's employees is covered by a collective bargaining agreement. The Company believes that its relationship with its employees is good.

Management Operations

The Exchange, which commenced operations in 1925, underwrites a broad line of personal and commercial property and casualty insurance coverages, including automobile, homeowners, commercial multi-peril and workers' compensation. Erie Insurance Co. was organized in 1972 as a stock casualty insurance company to supplement the lines of business written by the Exchange, and was acquired by the Company from the Exchange as of December 31, 1991. Since January 1, 1992, Erie Insurance Co. and the Exchange have participated in an intercompany reinsurance pool whereby the parties share proportionately in the results of the property/casualty insurance operations conducted by Erie Insurance Co. and the Exchange. Effective January 1, 1995, Erie NY began participating in this intercompany reinsurance pool whereby Erie Insurance Co. maintained its 5% participation in the pool and Erie NY assumed a .5% participation in the pool thus reducing the Exchange's participation in the pool from 95% to 94.5% at that date. Flagship was organized in 1992 as a stock casualty insurance company to conduct the Exchange's residual automobile market business. Erie P&C was organized in 1993 to conduct Erie Insurance Group's business in West Virginia and to write workers' compensation insurance in Pennsylvania. Erie NY was purchased in 1994 to conduct Erie Insurance Group's business in New York State together with Erie Insurance Company. At December 31, 1997, the Erie Insurance Group conducted business in nine states and the District of Columbia through approximately 1,097 agencies with approximately 4,995 agents, respectively.

CORPORATE ORGANIZATION CHART

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

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

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

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

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

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

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

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

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

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

Property/Casualty Insurance Operations

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

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

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

The property/casualty insurers managed by the Company are licensed to do business in 15 states and in the District of Columbia, and at December 31, 1997 operated in nine states and the District of Columbia. Erie Insurance Group's business consists primarily of private passenger automobile, homeowners, commercial multi-peril, workers compensation and commercial automobile insurance business written in Pennsylvania, Ohio, West Virginia, Maryland and Virginia.

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

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

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

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

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

Life Insurance Operations

EFL, which was organized in 1967 as a Pennsylvania-domiciled life insurance company, has an A.M. Best rating of A+ (Superior). EFL is primarily engaged in the business of underwriting and selling non-participating individual and group life insurance policies, including universal life and individual and group annuity products in eight states and the District of Columbia. At December 31, 1997, on a Generally Accepted Accounting Principles (GAAP) basis, EFL had assets of $833 million and shareholders' equity of $160 million. At December 31, 1997, of EFL's total liabilities of $672 million, insurance and annuity reserves accounted for $623 million and a note payable to the Company amounted to $15 million. Of EFL's investment portfolio of $703 million at December 31, 1997, available-for-sale securities accounted for $679 million, real estate was $2 million, policy loans were $5 million, mortgage loans accounted for $10 million and other invested assets were $7 million.

Financial Information About Industry Segments

Reference is made to Note 13 of the Notes to the Consolidated Financial Statements included in the Annual Report, page 41 for information as to revenues, net income and identifiable assets attributable to the three business segments (management operations, property/casualty insurance operations and life insurance operations) in which the Company is engaged.

Lines of Business

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

Commercial

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

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

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

Personal

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

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

See "Selected Market and Geographic Information" contained on page 28 of the Annual Report for direct premiums written by jurisdiction and line of business in addition to statutory loss and loss adjustment expense ratios by line of business for the Company's wholly-owned subsidiaries.

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

Combined Ratios

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

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

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(1) Source: A.M. Best

For the calendar years 1997 and 1996, the Company incurred underwriting losses from its insurance underwriting operations in the amount of $2,259,425, and $11,579,211, respectively. Underwriting results were favorably impacted by mild weather conditions and a lack of significant catastrophe losses in the Company's operating territories in 1997. The 1996 underwriting results of the Company's wholly-owned subsidiaries, Erie Insurance Company and Erie Insurance Company of New York, were impacted negatively by severe winter weather in the first quarter of 1996 and catastrophe losses experienced from Hurricane Fran in the eastern United States, particularly North Carolina, and other storm-related catastrophe losses elsewhere in our operating territories during the third quarter of 1996. Losses resulting from these catastrophes were about $8.1 million in 1996 or about $.07 per share, after federal income taxes. The majority of these losses were property losses on homeowners and commercial property lines of business.

Reserves

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

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

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

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

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

The following table sets forth the development of reserves for unpaid losses and loss adjustment expenses for the business of the Company's property/casualty subsidiaries on a GAAP basis for 1993, 1994, 1995, 1996 and 1997.

	Year Ended December 31, 1997	1996	1995	1994	1993
	(in thousands)				
Reserve for unpaid losses and loss adjustment expense	$413,409	$386,425	$357,334	$344,824	$353,939
Liability as of:					
One year later		395,308	351,684	327,283	323,996
Two years later			363,273	332,821	322,883
Three years later				351,721	332,771
Four years later					350,787
Cumulative deficiency (excess)		8,883	5,939	6,897	(3,152)
Cumulative amount of liability paid through:					
One year later		$142,425	$132,649	$134,044	$140,667
Two years later			$200,171	$200,024	$214,818
Three years later				$233,545	$247,339
Four years later					$264,557

See Note 8 of the Notes to Consolidated Financial Statements contained in the Annual Report page 39 for discussion of the development of such reserves and activity contained in the unpaid loss and loss adjustment expense reserves for the three years ended December 31, 1997, 1996 and 1995.

Reinsurance

Reference is made to Note 11 of the Notes to Consolidated Financial Statements contained in the Annual Report page 40 incorporated herein by reference for a complete discussion of the reinsurance transactions involving the Company and its affiliates.

Erie Insurance Group
Intercompany Reinsurance Chart
As of December 31, 1997

Source of Business:

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

Allocation of Business:

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

Competition

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

Regulation

Government Regulation

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

The states in which the property/casualty insurers managed by the Company operate have guaranty fund laws under which insurers doing business in such states can be assessed on the basis of premiums written by the insurer in that state in order to fund policyholder liabilities of insolvent insurance companies. Under these laws in general, an insurer is subject to assessments, depending upon its market share of a given line of business, to assist in the payment of policyholder claims against insolvent insurers. The property/casualty insurers managed by the Company have made accruals for their portion of assessments related to such insolvencies based upon the most current information furnished by the guaranty associations. During the five years ended December 31, 1997, the amount of such insolvency assessments paid by the property/casualty insurers managed by the Company was not material.

Pennsylvania regulations limit the amount of dividends EFL can pay its shareholders and limit the amount of dividends the Company's property/casualty insurance subsidiaries can pay to the Company. The limitations are fully described and reference is made herein to Note 12 of the Notes to Consolidated Financial Statements contained in the Annual Report, pages 40 and 41 incorporated by reference.

Financial Regulation

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

	Net Income Year Ended December 31, 1997	1996
	(in thousands)	
SAP amounts	$ 8,446	$ 1,806
Adjustments:		
Deferred policy acquisition costs	742	529
Deferred income taxes	1,409	677
Federal alternative minimum tax credit recoverable	(1,815)	0
Salvage and subrogation	94	(104)
Incurred premium adjustment	(742)	(529)
Amortization of goodwill	0	(619)
Bad debt write-offs - prior period	(78)	0
Consolidating eliminations and adjustments	0	(1)
GAAP amounts	$ 8,056	$ 1,759

	Shareholders' Equity As of December 31, 1997	1996	1995
	(in thousands)		
SAP amounts	$60,628	$53,154	$51,179
Adjustments:			
Deferred policy acquisition costs	10,284	9,541	9,012
Deferred income taxes	5,998	4,478	3,847
Salvage and subrogation	2,957	2,863	2,967
Statutory reserves	1,823	0	1
Incurred premium adjustment	(10,284)	(9,541)	(9,012)
Unrealized gains net of deferred taxes	6,697	3,005	4,584
Amortization of goodwill	0	(619)	(104)
Federal alternative minimum tax credit recoverable	(1,815)	0	0
Consolidating eliminations and adjustments	8	50	192
GAAP amounts	$76,296	$62,931	$62,666

Pennsylvania imposes minimum risk-based capital requirements for property/casualty insurance companies as developed by the NAIC. A full description of these requirements is included in Management's Discussion and Analysis of Financial Condition and Results of Operations under the heading "Regulatory Risk-Based Capital" on page 24 of the Annual Report incorporated herein by reference.

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995: Statements contained herein expressing the beliefs of management such as those expressed regarding the adequacy of reserves for future claim payments, the effect of the discontinuance of reinsurance treaties, and the resolution of legal proceedings and the other statements contained herein which are not historical facts, are forward looking statements that involve risks and uncertainties. These risks and uncertainties include but are not limited to: legislature, regulatory and judicial changes and pronouncements, the impact of competitive products and pricing, product development, geographic spread of risk, weather and weather-related events, other types of catastrophic events, investment increases and decreases and technological difficulties and advancements.

Item 2. Properties

The Company and its subsidiaries, the Exchange and its subsidiaries and EFL share a corporate home office complex in Erie, Pennsylvania. The complex contains 545,880 square feet, and is owned by the Exchange. At December 31, 1997, the Company also operated 19 field offices in eight states. Of these offices, 15 provide both agency support and claims services and are referred to as "Branch Offices", while the remaining four provide only claims services and are considered "Claims Offices".

The Company owns three of its field offices. Three other offices are owned by and leased from the Exchange. The rent for the home office and the three field offices paid to the Exchange totaled $11,288,401 in 1997. One office is owned by and leased from EFL at an annual rental in 1997 of $423,120. The remaining ten offices are leased from various unaffiliated parties at an aggregate annual rental in 1997 of approximately $1,226,383. The Company is reimbursed by its affiliates for a percentage of the rent for office space used by its affiliates, which reimbursement was approximately 47% in 1997.

Item 3. Legal Proceedings

The Registrant is not involved in any material pending legal proceedings other than ordinary routine litigation incidental to its business.

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

No matters were submitted to a vote of security holders during the fourth quarter of 1997.

PART II

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

Reference is made to "Market Price of and Dividends on the Common Equity and Related Shareholder Matters" on page 44 of the Annual Report for the year ended December 31, 1997, incorporated herein by reference, for information regarding the high and low sales prices for the registrant's stock and additional information regarding such stock of the Company.

As of February 27, 1998, there were approximately 1,349 beneficial shareholders of the Company's Class A non-voting common stock and 27 beneficial shareholders of the Company's Class B voting common stock.

Item 6. Selected Consolidated Financial Data

Reference is made to "Selected Consolidated Financial Data" on page 15 of the Annual Report for the year ended December 31, 1997, incorporated herein by reference.

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

Reference is made to "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 16 through 27 of the Annual Report for the year ended December 31, 1997, incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

Reference is made to the "Consolidated Financial Statements" included on pages 30 through 33 and to the "Quarterly Financial Data" contained in the Notes to Consolidated Financial Statements on page 41 of the Annual Report for the year ended December 31, 1997, incorporated herein by reference.

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

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

(a) The answer to this item, with respect to directors of the Registrant, is incorporated by reference to pages 6 through 9 of the Company's proxy statement relating to the annual meeting of shareholders to be held on April 28, 1998.

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

Name	Age as of 12/31/97	Principal Occupation for Past Five Years and Positions with Erie Insurance Group
President & Chief Executive Officer		
Stephen A. Milne	49	President, Chief Executive Officer and a Director of the Company, EFL and Erie Insurance Co. since February 12, 1996 and President and Chief Executive Officer of Flagship, Erie P&C, and Erie NY since March 19, 1996; Executive Vice President - Insurance Operations of the Company, Erie Insurance Co., Flagship, Erie P&C, and Erie NY January 11, 1994 - February 12, 1996. Owner, Bennett-Damascus Insurance Agency March 1991-December 31, 1993; Senior Vice President-Agency Division, the Company, EFL, and Erie Insurance Co. 1988 - 1991; Director Flagship and Erie P&C 1996 - present; Director, Erie NY 1994 - present.
Executive Vice Presidents		
Jan R. Van Gorder, Esq.	50	Senior Executive Vice President, Secretary and General Counsel of the Company, EFL and Erie Insurance Co. since 1990, and of Flagship and Erie P&C since 1992 and 1993, respectively, and of Erie NY since April, 1994; Senior Vice President, Secretary and General Counsel of the Company, EFL and Erie Insurance Co. for more than five years prior thereto; Director, the Company, EFL, Erie Insurance Co., Erie NY, Flagship and Erie P&C.
Philip A. Garcia	41	Executive Vice President and Chief Financial Officer since October 2, 1997; Director, the Erie NY, Flagship and Erie P&C; Senior Vice President and Controller 1993 - 1997; Vice President 1988 - 1993.

Name	Age as of 12/31/97	Principal Occupation for Past Five Years and Positions with Erie Insurance Group
Senior Vice Presidents		
John C. Bender	52	Senior Vice President since 1992; Vice President 1983 - 1992
Eugene C. Connell	43	Senior Vice President since 1990; Vice President 1988 - 1990
Dennis M. Geib	54	Senior Vice President since 1990; Vice President 1986 - 1990
Elaine A. Lamm	59	Senior Vice President since 1990; Vice President 1988 - 1990
George R. Lucore	47	Senior Vice President since March, 1995; Regional Vice President 1993 - March, 1995; Assistant Vice President 1988 - 1993
Jeffrey A. Ludrof	38	Senior Vice President since 1994; Regional Vice President 1993 - 1994; Assistant Vice President 1989 - 1993
David B. Miller	43	Senior Vice President since August 1996; Independent Insurance Agent 1991 - 1996; Vice President 1989 - 1991
Timothy G. NeCastro	37	Senior Vice President and Controller since November 10, 1997; Department Manager Internal Audit November 1996 - 1997
James R. Roehm	49	Senior Vice President since 1991; Vice President 1987 - 1991
Douglas F. Ziegler	47	Senior Vice President, Treasurer and Chief Investment Officer since 1993; Vice President and Managing Director of Treasury Administration 1988 - 1993
Regional Vice Presidents		
B. Crawford Banks	61	Regional Vice President since 1993; Vice President 1988 - 1993
Douglas N. Fitzgerald	41	Regional Vice President since 1993; Vice President 1987 - 1993
Terry L. Hamman	43	Regional Vice President since May, 1995; Assistant Vice President 1993 - May, 1995
Managing Director		
Michael S. Zavasky	45	Vice President and Managing Director of Reinsurance since 1990; Vice President 1988 - 1990

Item 11. Executive Compensation

The answer to this item is incorporated by reference to pages 10 through 13 of the Company's proxy statement dated April 1, 1998 relating to the annual meeting of shareholders to be held on April 28, 1998, except for the Performance Graph, which has not been incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The answer to this item is incorporated by reference to pages 4 through 6 of the Company's proxy dated April 1, 1998 relating to the annual meeting of shareholders to be held on April 28, 1998.

Item 13. Certain Relationships and Related Transactions

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

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

Pursuant to the Subscribers Agreement by which the Company serves as attorney-in-fact for the Exchange, the Company's Board of Directors establishes periodically an annual management fee for the Company's services as attorney-in-fact which may not exceed 25% of the direct and affiliated assumed written premiums of the Exchange. The Company's Board of Directors has the ability to establish the percentage charged at its discretion within these parameters. Such percentage was 23% from July 1, 1990 to June 30, 1991 and was 25% from July 1, 1991 through March 31, 1995. Such percentage was 24.5% from April 1,1995 through March 31, 1996. The Board elected to change such percentage to 24%for the period April 1, 1996 through December 31, 1996 and to maintain the 24% management fee rate for all of 1997. Beginning January 1, 1998 through December 31, 1998, the management fee charged the Exchange was increased to 24.25%. The activities performed by the Company as attorney-in-fact for the Exchange include insurance underwriting, policy issuance, policy exchange and cancellation, processing of invoices for premiums, the establishing and monitoring of loss reserves, oversight of reinsurance transactions, investment management, payment of insurance commissions to insurance agents, compliance with rules and regulations of supervisory authorities and monitoring of legal affairs. The Company is obligated to conduct these activities at its own expense, and realizes profits or losses depending upon whether its costs of providing such services is less than the amount it receives from the Exchange, in which case the Company has a profit from acting as attorney-in-fact, or greater, in which case the Company has a loss from such activities. The Exchange, however, bears the financial responsibility for the payment of insurance losses, loss adjustment expenses, investment expenses, legal expenses, assessments, damages, licenses, fees, establishment of reserves and taxes. For the three years ended December 31, 1997, 1996 and 1995 the management fees paid by the Exchange to the Company were $467,602,283, $442,904,376 and $420,003,739, respectively.

A service arrangement fee is charged to the Exchange to compensate the Company for its management of non-affiliated assumed reinsurance business on behalf of the Exchange. Prior to this service agreement, the Company received a management fee on assumed reinsurance premiums written and was responsible for the payment of brokerage commissions. Under the new reinsurance service arrangement, which went into effect January 1, 1995, the Company receives a fee of 7% of voluntary reinsurance premiums assumed from non-affiliated insurers and will no longer be responsible for the payment of brokerage commissions on this business. The Company will continue to be responsible for accounting and operating expenses in connection with the administration of this business. Service agreement revenue from the management of non-affiliated assumed reinsurance business was $5,015,192 in 1997, $5,069,140 in 1996 and $4,401,232 in 1995.

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

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

The Company and the Exchange periodically purchase annuities from EFL for use in connection with the structured settlement of insurance claims. The Company's share of such purchases, through its subsidiaries, Erie Insurance Co. and Erie NY, amounted to $977,932, $742,772 and $1,235,722 for the years ended December 31, 1997, 1996 and 1995, respectively, and the reserves held by EFL at December 31, 1997 for such annuities were approximately $6,117,045. In addition, the Erie Insurance Group Retirement Plan for Employees has, from time to time, purchased individual annuities from EFL for each retired vested employee or beneficiary receiving benefits. Such purchases amounted to $1,992,060, $4,894,042 and $6,024,125 for the years ended December 31, 1997, 1996 and 1995, respectively. The annuities purchased in 1994 included annuities for those individuals that retired from the Company or its subsidiaries in 1993 and 1994. The reserves held by EFL for all such annuities were approximately $33,672,000 at December 31, 1997.

On December 29, 1995, EFL issued a surplus note to the Company for $15 million. The note bears an annual interest rate of 6.45% and all payments of interest and principal of the note may be repaid only out of unassigned surplus of EFL and are subject to the prior approval of the Pennsylvania Insurance Commissioner. Interest on the surplus note is scheduled to be paid semi-annually. The note will be payable on demand on or after December 31, 2005. Payment of principal and/or interest is subordinated to payment of all other liabilities of EFL. During 1997 and 1996, EFL paid the Company interest totaling $967,500.

Information with respect to certain relationships with Company directors is incorporated by reference to pages 15 through 16 of the Company's proxy dated April 1, 1998 relating to the annual meeting of shareholders to be held on April 28, 1998.

PART IV

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

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

(1) Consolidated Financial Statements

(2) Financial Statement Schedules

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

* Refers to the respective page of Erie Indemnity Company's 1997 Annual Report to Shareholders. The Consolidated Financial Statements and Notes to Consolidated Financial Statements and Auditors' Report thereon on pages 29 to 41 are incorporated by reference. With the exception of the portions of such Annual Report specifically incorporated by reference in this Item and Items 1, 5, 6, 7 and 8, such Annual Report shall not be deemed filed as part of this Form 10-K Report or otherwise subject to the liabilities of Section 18 of the Securities Exchange Act of 1934.

(3) Exhibits

Exhibit Number	Description of Exhibit
3.1*	Articles of Incorporation of Registrant
3.2**	Amended and Restated By-laws of Registrant
4A*	Form of Registrant's Class A Common Stock certificate
4B*	Form of Registrant's Class B Common Stock certificate
10.1***	Retirement Plan for Employees of Erie Insurance Group, effective as of December 31, 1989
10.2***	Restatement of Supplemental Retirement Plan for Certain Members of the Erie Insurance Group Retirement Plan for Employees, effective as of January 1, 1990
10.3***	Deferred Compensation Plan of Registrant
10.4***	Retirement Plan for Outside Directors of Registrant, effective as of January 1, 1991
10.5***	Employee Savings Plan of Erie Insurance Group, effective as of April 1, 1992
10.6***	Amendment to Employee Savings Plan of Erie Insurance Group
10.7***	Supplemental 401(k) Plan of Erie Insurance Group effective as of Janaury 1, 1994
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10.15**	Property Catastrophe Excess of Loss Reinsurance Agreement dated January 1, 1994 between Erie Insurance Exchange and Erie Insurance Co.
10.16****	Stock Redemption Plan of Registrant as restated December 12, 1995
10.17****	Property Catastrophe Excess of Loss Reinsurance Agreement dated January 1, 1995 between Erie Insurance Exchange and Erie Insurance Company of New York
10.18****	Service Agreement dated January 1, 1995 between Registrant and Erie Insurance Company of New York
10.19*****	Consulting Agreement for Investing Services dated January 2, 1996 between Erie Indemnity Company and John M. Petersen
10.20*****	Agreement dated April 29, 1994 between Erie Indemnity Company and Thomas M. Sider
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10.22	1997 Annual Incentive Plan of Erie Indemnity Company
10.23	Erie Indemnity Company Long-Term Incentive Plan
10.24	Employment Agreement dated December 16, 1997 by and between Erie Indemnity Company and Stephen A. Milne
10.25	Employment Agreement dated December 16, 1997 by and between Erie Indemnity Company and Jan R. Van Gorder
10.26	Employment Agreement dated December 16, 1997 by and between Erie Indemnity Company and Philip A. Garcia
10.27	Employment Agreement dated December 16, 1997 by and between Erie Indemnity Company and John J. Brinling, Jr.

Exhibit Number	Description of Exhibit
11	Statement re computation of per share earnings
13	1997 Annual Report to Security Holders. Reference is made to the Annual Report furnished to the Commission, herewith.
21	Subsidiaries of Registrant
27	Financial Data Schedule
28	Information from Reports Furnished to State Insurance Regulatory Authorities
28	Analysis of Losses and Loss Expenses -- Schedule P of the 1997 Annual Statement of Erie Insurance Company
28	Analysis of Losses and Loss Expenses -- Schedule P of the 1997 Annual Statement of Erie Insurance Property & Casualty Company
28	Analysis of Losses and Loss Expenses -- Schedule P of the 1997 Annual Statement of Erie Insurance Company of New York

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

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

(b) Reports on Form 8-K:

During the quarter ended December 31, 1997, Registrant did not file any reports on Form 8-K.

SIGNATURES

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

Date: March 11, 1998 ERIE INDEMNITY COMPANY
(Registrant)

Principal Officers

/s/ Stephen A. Milne
Stephen A. Milne, President and C.E.O.

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

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

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

Board of Directors

/s/ Peter B. Bartlett
Peter B. Bartlett

/s/ Samuel P. Black, III
Samuel P.Black, III

/s/ J. Ralph Borneman
J. Ralph Borneman

/s/ Patricia A. Goldman
Patricia A. Goldman

/s/ Susan Hirt Hagen
Susan Hirt Hagen

/s/ Thomas B. Hagen
Thomas B. Hagen

/s/ F. William Hirt
F. William Hirt

/s/ Irvin H. Kochel
Dr. Irvin H. Kochel

/s/ Edmund J. Mehl
Edmund J. Mehl

/s/ Stephen A. Milne
Stephen A. Milne

/s/ John M. Petersen
John M. Petersen

/s/ Seth E. Schofield
Seth E. Schofield

/s/ Jan R. Van Gorder
Jan R. Van Gorder

/s/ Harry H. Weil
Harry H. Weil

INDEPENDENT AUDITORS' REPORT

To The Board of Directors and Shareholders
Erie Indemnity Company

We have audited the consolidated statements of financial position of Erie Indemnity Company and subsidiaries (Company) as of December 31, 1997 and 1996 and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1997, as contained in the 1997 annual report, incorporated by reference in the annual report on Form 10-K for the year ended December 31, 1997. In connection with our audits of the financial statements, we also have audited the financial statement schedules, as listed in the accompanying index. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Erie Indemnity Company and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles. Also in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ Brown Schwab Bergquist & Co.

Erie, Pennsylvania
February 17, 1998

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

DECEMBER 31, 1997

Type of Investment	Cost or Amortized Cost	Fair Value	Amount at which Shown in the Balance Sheet
(In Thousands)			
Available-for-Sale Securities			
Common Stocks			
U.S. Industrial and Miscellaneous	$ 61,553	$ 77,708	$ 77,708
Foreign Industrial and Miscellaneous	3,209	2,462	2,462
Non-Redeemable Preferred Stocks			
Public Utilities	2,619	2,646	2,646
U.S. Banks, Trusts and Insurance Companies	46,901	50,248	50,248
U.S. Industrial and Miscellaneous	25,909	27,914	27,914
Foreign Industrial and Miscellaneous	3,932	4,155	4,155
Fixed Maturities			
U.S. Treasuries	12,771	13,200	13,200
Foreign Governments - Agency	1,989	1,570	1,570
Obligations of State and Political Subdivisions	41,931	44,771	44,771
Special Revenues	116,052	123,901	123,901
Public Utilities	7,171	7,331	7,331
U.S. Industrial and Miscellaneous	150,666	156,582	156,582
Foreign Industrial and Miscellaneous	2,556	2,618	2,618
Total Available-for-Sale Securities	$ 477,259	$ 515,106	$ 515,106
Real Estate Mortgage Loans	$ 8,392	$ 8,392	$ 8,392
Other Invested Assets	7,932	7,932	$ 7,932
Total Investments	$ 493,583	$ 531,430	$ 531,430

SCHEDULE IV - REINSURANCE

	Direct	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percentage of amount Assumed to Net
December 31,1997					
Premiums for the year					
Property and Liability Insurance	$334,771,551	$340,165,100	$112,743,217	$107,349,668	105.0%
December 31,1996					
Premiums for the year					
Property and Liability Insurance	$321,735,580	$324,617,961	$104,392,140	$101,509,759	102.8%
December 31,1995					
Premiums for the year					
Property and Liability Insurance	$289,801,421	$293,132,397	$ 96,205,277	$ 92,874,301	103.6%

SCHEDULE VI - SUPPLMENTAL INFORMATION CONCERNING PROPERTY/CASUALTY INSURANCE OPERATIONS

	Deferred Policy Acquisition Costs	Reserves for Unpaid Loss & LAE Expenses	Discount, if any deducted from reserves	Unearned Premiums
@ 12/31/97				
Consolidated P&C Entities	$ 10,283	$413,409	$ 0	$219,211
Unconsolidated P&C Entities	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0
Total	$ 10,283	$413,409	$ 0	$219,211
@ 12/31/96				
Consolidated P&C Entities	$ 9,541	$386,425	$ 0	$216,938
Unconsolidated P&C Entities	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0
Total	$ 9,541	$386,425	$ 0	$216,938
@ 12/31/95				
Consolidated P&C Entities	$ 9,012	$357,334	$ 0	$202,807
Unconsolidated P&C Entities	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0
Total	$ 9,012	$357,334	$ 0	$202,807

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

	Earned Premiums	Net Investment Income	Loss and Loss Incurred (1) Current Year	Adjustment Expenses Related to (2) Prior Years
@ 12/31/97				
Consolidated P&C Entities	$107,350	$ 13,569	$ 77,345	$ 2,625
Unconsolidated P&C Entities	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0
Total	$107,350	$ 13,569	$ 77,345	$ 2,625
@ 12/31/96				
Consolidated P&C Entities	$101,510	$ 11,032	$ 85,311	$ (240)
Unconsolidated P&C Entities	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0
Total	$101,510	$ 11,032	$ 85,311	$ (240)
@ 12/31/95				
Consolidated P&C Entities	$ 92,874	$ 10,343	$ 73,145	$ (2,210)
Unconsolidated P&C Entities	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0
Total	$ 92,874	$ 10,343	$ 73,145	$ (2,210)

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

	Amortization of Deferred Policy Acquisition Costs	Net Loss & LAE Paid	Premiums Written
@ 12/31/97			
Consolidated P&C Entities	$ 20,103	$ 75,343	$110,282
Unconsolidated P&C Entities	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0
Total	$ 20,103	$ 75,343	$110,282
@ 12/31/96			
Consolidated P&C Entities	$ 18,909	$ 79,208	$105,020
Unconsolidated P&C Entities	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0
Total	$ 18,909	$ 79,208	$105,020
@ 12/31/95			
Consolidated P&C Entities	$ 17,041	$ 60,827	$100,562
Unconsolidated P&C Entities	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0
Total	$ 17,041	$ 60,827	$100,562

EXHIBIT INDEX

(Pursuant to Item 601 of Regulation S-K)

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10.22	1997 Annual Incentive Plan of Erie Indemnity Company	34-38
10.23	Erie Indemnity Company Long-Term Incentive Plan	39-48
10.24	Employment Agreement dated December 16, 1997 by and between Erie Indemnity Company and Stephen A. Milne	49-65
10.25	Employment Agreement dated December 16, 1997 by and between Erie Indemnity Company and Jan R. Van Gorder	66-82

Exhibit Number	Description of Exhibit	Sequentially Numbered Page
10.26	Employment Agreement dated December 16, 1997 by and between Erie Indemnity Company and Philip A. Garcia	83-99
10.27	Employment Agreement dated December 16, 1997 by and between Erie Indemnity Company and John J. Brinling, Jr.	100-116
11	Statement re computation of per share earnings	117
13	1997 Annual Report to Security Holders. Reference is made to the Annual Report furnished to the Commission, herewith.	118-170
21	Subsidiaries of Registrant	171
27	Financial Data Schedule	172
28	Information from Reports Furnished to State Insurance Regulatory Authorities	173
28	Analysis of Losses and Loss Expenses -- Schedule P of the 1997 Annual Statement of Erie Insurance Company	P
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Exhibit 10.22

1997 ANNUAL INCENTIVE PLAN
OF
ERIE INDEMNITY COMPANY

1. PURPOSE. The purpose of the Annual Incentive Plan (the "Plan") of Erie Indemnity Company (the "Company") is to promote the best interests of the Erie Insurance Exchange while enhancing shareholder value of the Company and to promote the attainment of significant business objectives by the Company, its subsidiaries and affiliates by basing a portion of selected employees' compensation on the performance of such employee and the Company (as defined below).

2. DEFINITIONS.

a. "Award Agreement" means the agreement entered into between the Company and a Participant, setting forth the terms and conditions applicable to an award granted to the Participant under this Plan.

b. "Base Salary" shall mean the annual base salary for a Participant at the end of the calendar year 1997.

c. "Combined Ratio" means the sum of the loss ratio (including loss adjustment expenses), expense ratio and policyholder dividend ratio, as determined in accordance with statutory accounting principles and reported to A.M. Best Company for the combined property casualty operations of the Erie Insurance Exchange and affiliated property casualty companies (collectively "Erie"). For Erie the Combined Ratio shall be adjusted downward to reflect the excess of management fees over actual expenses for the management operations.

d. "Company" means Erie Indemnity Company and any corporation, partnership or other organization of which the Company owns or controls, directly or indirectly, not less than 50% of the total combined voting power of all classes of stock or other equity interests. For purposes of this Plan, the term "Company" shall include any successors thereto.

e. "Committee" means the Executive Compensation Committee of the Board of Directors of the Company, or its functional successor, unless some other Board committee has been designated by the Board of Directors to administer the Plan.

f. "Participant" means any individual who has met the eligibility requirements set forth in Section 5 hereof and to whom a grant has been made and is outstanding under the Plan.

g. "Peer Group" means a group of companies selected by the Committee on an industry and line of business basis.

h. "Performance Measures" means the criteria upon which awards for 1997 will be based and, unless otherwise determined by the Committee shall be: (i) a combination of the difference between Erie's Combined Ratio for 1997 and the averaged Combined Ratio of the Peer Group for 1997 and the difference between the Erie's growth in net written premiums as compared to growth in net written premiums of the Peer Group ("Financial Performance Measure"); and (ii) the Participant's individual performance assessment under the Company's existing performance assessment system ("Individual Performance Measure"). The Financial Performance Measure and the Individual Performance Measure are collectively referred to as (the "Performance Measures").

i. "Target Award" means 25% of a Participant's Base Salary for 1997.

3. ADMINISTRATION. The Plan shall be administered by the Committee.

The Committee's determinations under the Plan need not be uniform and may be made by it selectively among persons who receive, or are eligible to receive, awards under the Plan, whether or not such persons are similarly situated. Whenever the Plan refers to a determination being made by the Committee, it shall be deemed to mean a determination by the Committee in its sole discretion.

Subject to the provisions of the Plan, the Committee shall be authorized to interpret the Plan, to make, amend and rescind such rules as it deems necessary for the proper administration of the Plan, to make all other determinations necessary or advisable for the administration of the Plan and to correct any defect or supply any omission or reconcile any inconsistency in the Plan in the manner and to the extent the Committee deems desirable to carry the Plan into effect. Any action taken or determination made by the Committee shall be conclusive on all parties.

4. WEIGHTING OF PERFORMANCE MEASURES. The Target Award shall be weighted in a manner so that 75% of the Target Award shall be based upon the Financial Performance Measure and 25% of the Target Award shall be based upon the Individual Performance Measure. Satisfaction of either of the Performance Measures shall entitle a Participant to payment with respect to that portion of the award notwithstanding the fact that the other Performance Measure is not satisfied.

5. ELIGIBLE PERSONS. Any key employee of the Company who the Committee

determines, in its sole discretion, has a significant effect on the operations of the Company shall be eligible to participate in the Plan. Any Participant in this Plan shall be deemed ineligible to participate in the Erie Insurance Group Employee Profit Sharing Bonus Plan. No employee shall have a right (a) to be selected under the Plan, or (b) having once been selected, to (i) be selected again or (ii) continue as an employee.

6. MAXIMUM AMOUNT AVAILABLE FOR AWARDS. The aggregate maximum pay-out with respect to awards for 1997 under the Plan shall be 15% of the increase in the Company's after tax earnings (as defined by the Committee) in 1997 compared to 1996. In the event that the total awards earned under the Plan exceed this limitation, each Participant's award shall be reduced on a pro rata basis until the total pay-out of awards under the Plan does not exceed the Plan maximum established in the preceding sentence.

7. DETERMINATION OF AWARDS. The Committee shall determine the actual award to each Participant for the year, based upon the following formula:

Participant Award = (.75 of Target Award x Financial Performance Percentage Earned) + (.25 of Target Award x Individual Performance Percentage Earned).

The Financial Performance Percentage Earned and Individual Performance Percentage Earned shall be determined in accordance with Appendix I and Appendix II, respectively. For the Financial Performance Percentage Earned, the amount shall be mathematically interpolated between cells in the matrix based upon Erie's actual differences in Combined Ratio and Growth in New Written Premiums. The Individual Performance Percentage Earned shall be based on the performance assessment conducted during calendar year 1997.

The total award payable to any Participant may range from zero (0) to one hundred and sixty (160) percent of the Participant's Target Award, depending upon whether, or the extent to which, the Performance Measures have been achieved. Notwithstanding anything in this Plan to the contrary, a Participant shall not be entitled to, and no amount shall be payable to, such Participant in the event that the Participant's Performance Points (as reflected in Appendix II) are below 94. All such determinations regarding the achievement of Performance Measures and the determination of actual awards will be made by the Committee.

8. DISTRIBUTION OF AWARDS. Awards under the Plan shall be paid in cash as soon as practicable after 1997 audited financial statements for Erie have been prepared and Peer Group data is available.

9. TERMINATION OF EMPLOYMENT. A Participant must be actively employed by the Company on the date his or her award is determined by the Committee ("the Payment Date") in order to be entitled to payment of any award. In the event active employment of a Participant shall be terminated before the Payment Date for any reason other than discharge for "Cause" (as defined in such employee's employment agreement with the Company or, if no such agreement exists, as defined by the Committee) or voluntary resignation, such Participant may receive such portion of his or her award as may be determined by the Committee. A Participant discharged for Cause shall not be entitled to receive any award for the year. A Participant who voluntarily resigns prior to the Payment Date shall not be entitled to receive any award unless otherwise determined by the Committee.

10. MISCELLANEOUS.

a. NONASSIGNABILITY. No award will be assignable or transferable without the written consent of the Committee in its sole discretion, except by will or by the laws of descent and distribution.

b. WITHHOLDING TAXES. Whenever payments under the Plan are to be made, the Company will withhold therefrom an amount sufficient to satisfy any applicable governmental withholding tax requirements related thereto.

c. AMENDMENT OR TERMINATION OF THE PLAN. The Board of Directors of the Company may at any time amend, suspend or discontinue the Plan, in whole or in part. The Committee may at any time alter or amend any or all Award Agreements under the Plan to the extent permitted by law.

d. OTHER PAYMENTS OR AWARDS. Nothing contained in the Plan will be deemed in any way to limit or restrict the Company from making any award or payment to any person under any other plan, arrangement or understanding, whether now existing or hereafter in effect.

e. PAYMENTS TO OTHER PERSONS. If payments are legally required to be made to any person other than the person to whom any amount is available under the Plan, payments will be made accordingly. Any such payment will be a complete discharge of the liability of the Company under this Plan.

f. LIMITS OF LIABILITY.

1. Any liability of the Company to any Participant with respect to an award shall be based solely upon contractual obligations created by the Plan and the Award Agreement.

2. Neither the Company, nor any member of its Board of Directors or of the Committee, nor any other person participating in any determination of any question under the Plan, or in the interpretation, administration or application of the Plan, shall have any liability to any party for any action taken or not taken in good faith under the Plan.

g. RIGHTS OF EMPLOYEES.

1. Status as an employee eligible to receive an award under the Plan shall not be construed as a commitment that any award will be made under this Plan to such employee or to other such employees generally.

2. Nothing contained in this Plan or in any Award Agreement (or in any other documents related to this Plan or to any award or Award Agreement) shall confer upon any employee or Participant any right to continue in the employ or other service of the Company or constitute any contract or limit in any way the right of the Company to change such person's compensation or other benefits or to terminate the employment or other service of such person with or without cause.

h. SECTION HEADINGS. The section headings contained herein are for the purposes of convenience only, and in the event of any conflict, the text of the Plan, rather than the section headings, will control.

i. INVALIDITY. If any term or provision contained herein will to any extent be invalid or unenforceable, such term or provision will be reformed so that it is valid, and such invalidity or unenforceability will not affect any other provision or part hereof.

j. APPLICABLE LAW. The Plan, the Award Agreements and all actions taken hereunder or thereunder shall be governed by, and construed in accordance with, the laws of the Commonwealth of Pennsylvania without regard to the conflict of law principles thereof.

k. EFFECTIVE DATE. The Plan shall be effective as of January 1, 1997.

/s/ Peter B. Bartlett

Peter B. Bartlett, Chairman
Executive Compensation Committee

Exhibit 10.23

ERIE INDEMNITY COMPANY
LONG-TERM INCENTIVE PLAN

1. GENERAL

1.1 Purpose.

The purposes of the Long-Term Incentive Plan (the "Plan") are: (a) to enhance the growth and profitability of Erie Indemnity Company, a Pennsylvania business corporation ("Erie"), and its subsidiaries and affiliates by providing the incentive of long-term rewards to key employees who are capable of having a significant impact on the performance of Erie and its subsidiaries and affiliates; (b) to attract and retain employees of outstanding competence and ability; (c) to further align the interests of such employees with those of shareholders of Erie.

1.2 Definitions.

For the purpose of the Plan, the following terms shall have the meanings indicated:

(a) "Board of Directors" or "Board" shall mean the Board of Directors of Erie.

(b) "Code" shall mean the Internal Revenue Code of 1986, as amended, including any successor law thereto.

(c) "Company" shall mean Erie and any corporation, partnership, or other organization of which Erie, directly or indirectly, owns or controls not less than 50% of the total combined voting power of all classes of stock or other equity interests. For purposes of this Plan, the terms "Erie" and "Company" shall include any successor thereto.

(d) "Common Stock" shall mean the Class A (non-voting) Common Stock of Erie and a "share of Common Stock" shall mean one share of Common Stock.

(e) "Disability" shall mean total and permanent disability within the meaning of Section 22(e)(3) of the Code.

(f) "Fair Market Value" of shares of Common Stock on any given date(s) shall be: (a) the daily average of the high and low sales prices on the NASDAQ National Market System of such shares on the date(s) in question, or, if the shares of Common Stock shall not have been traded on any such date(s), the closing price on the NASDAQ National Market System on the first day prior thereto on which the shares of Common Stock were so traded; or (b) if the shares of Common Stock are not traded on the NASDAQ National Market System, such other amount as may be determined by the Plan Administrator by any fair and reasonable means.

(g) "Participant" shall mean any key employee who has met the eligibility requirements set forth in Section 1.4 hereof and to whom a grant has been made and is outstanding under the Plan.

(h) "Performance Period" shall mean, in relation to Phantom Share Units, any period, for which performance objectives have been established pursuant to Article 2.

(i) "Phantom Share Unit" shall mean a right, granted to a Participant pursuant to Article 2.

(j) "Plan Administrator" shall mean: (i) the Executive Compensation Committee of the Board of Directors (the "Committee"), or its functional successor, unless some other Board committee has been designated by the Board of Directors to administer the Plan or any portion of the Plan; or (ii) in the event that the Committee is not comprised of two or more "Non-Employee Directors" within the meaning of Rule 16b-3(a)(3) promulgated under Section 16 of the Securities Exchange Act of 1934, then the Plan Administrator shall, with respect to officers and directors subject to Section 16, be the Board.

(k) "Restricted Share" shall mean a share of Common Stock, granted to a Participant pursuant to Article 3, subject to the restrictions set forth in Section 3.1 hereof.

(l) "Retirement" shall mean the cessation of employment with the Company after reaching age 55 and having completed at least 5 years of service.

(m) "Vesting Period" shall mean in relation to Restricted Shares receivable in payment for Phantom Share Units, the period of time during which such shares are subject to restrictions on transferability and may be forfeited if the Participant's employment is terminated.

1.3 Administration.

The Plan shall be administered by the Plan Administrator and the Plan Administrator shall act in accordance with the procedures established under Erie's Articles of Incorporation, By-laws and under any resolution of the Board. Subject to the provisions of the Plan, the Plan Administrator shall have sole and complete authority to: (i) subject to Section 1.4 hereof, select Participants after receiving the recommendations of the management of the Company; (ii) determine the number of Phantom Share Units or Restricted Shares subject to each grant; (iii) determine the time or times when grants are to be made or are to be effective; (iv) determine the terms and conditions, including the performance objectives, subject to which grants may be made; (v) extend the term of any grant; (vi) prescribe the form or forms of the instruments evidencing any grants made hereunder, provided that such forms are consistent with the Plan; (vii) adopt, amend, and rescind such rules and regulations as, in its opinion, may be advisable for the administration of the Plan; (viii) construe and interpret the Plan and all rules, regulations, and instruments utilized thereunder; and (ix) make all determinations deemed advisable or necessary for the administration of the Plan. All determinations by the Plan Administrator shall be final and binding.

1.4 Eligibility and Participation.

Participation in the Plan shall be limited to officers (who may also be members of the Board of Directors) and other salaried key employees of the Company as identified by the Plan Administrator to participate in the Plan.

2. PROVISIONS APPLICABLE TO PHANTOM SHARE UNITS

2.1 Performance Periods.

The Plan Administrator shall establish Performance Periods applicable to Phantom Share Units. Each such Performance Period shall commence with the beginning of a fiscal year in which performance objectives are established and have a duration of not less than three consecutive fiscal years.

2.2 Performance Objectives.

The Plan Administrator shall establish one or more performance objectives for each Performance Period , provided that such performance objectives shall be established prior to the grant of any Phantom Share Units with respect to such period. Performance objectives shall be based on one or more of the following measures: (i) retained earnings per share plus dividend, (ii) earnings or earnings per share, (iii) assets or return on assets, (iv) shareholder's equity or return on shareholder's equity, (v) revenues, (vi) costs, (vii) gross profit margin, (viii) investment earnings, (ix) loss ratio, (x) combined ratio, or (xi) any other measure determined by the Plan Administrator to be in the best interests of the Company. The Plan Administrator may, in its discretion, establish performance objectives for the Company as a whole or for only the business unit of the Company in which a given Participant is involved, or a combination thereof.

2.3 Grants of Phantom Share Units.

The Plan Administrator may select employees to become Participants (subject to the provisions of Section 1.4 hereof) and grant Phantom Share Units to such Participants at any time prior to or during the first fiscal year of a Performance Period. Before making grants, the Plan Administrator shall receive the recommendations of the Chief Executive Officer of the Company, which will take into account such factors as level of responsibility, current and past performance, and performance potential. Each grant to a Participant shall be evidenced by a written instrument stating the number of Phantom Share Units granted, the target value of each Phantom Share Unit, the Performance Period, the performance objective or objectives, the Vesting Periods and restrictions applicable to Restricted Shares receivable in payment for Phantom Share Units and any other terms, conditions and rights with respect to such grant.

2.4 Adjustment With Respect to Phantom Share Units.

Any other provision of the Plan to the contrary notwithstanding, the Plan Administrator may at any time adjust performance objectives (up or down), adjust the way performance objectives are measured, or shorten any Performance Period, if it is determined that conditions, including, but not limited to, changes in the economy, changes in competitive conditions, changes in laws or governmental regulations, changes in generally accepted accounting principles, changes in the Company's accounting policies, acquisitions or dispositions, stock redemptions, reductions or increases in the management fee rate payable to Erie by Erie Insurance Exchange, reductions to shareholders' equity due to reductions or increases in net unrealized gain on available-for-sale securities or the occurrence of other events impacting the performance objectives, so warrant; provided, however, that the Plan Administrator may not make any such adjustment that would increase the economic benefit to any "covered employee" as defined in Section 162(m) of the Code.

2.5. Maximum Annual Award.

The maximum value of Phantom Share Units that may be earned by any Participant in any year shall not exceed $500,000.

2.6 Payment for Phantom Share Units.

Within 90 days after the end of any Performance Period, the Plan Administrator shall determine the total dollar value of Phantom Share Units held by each Participant for such Performance Period. Payment for Phantom Share Units shall be in the form of Restricted Shares and shall be subject to the terms and conditions of Section 3 hereof. Such Common Stock shall be purchased in the open market, provided however, that if the Common Stock of the Company is not readily available in the marketplace, or purchase of the Common Stock for Restricted Shares would artificially affect the price of the Common Stock, in the sole discretion of the Plan Administrator, Restricted Shares shall be payable in deferred stock units equal in value to the number of shares of Common Stock that would have been paid to the Participant had the Common Stock been available in the marketplace. The number of Restricted Shares (or stock unit equivalents) granted shall be equal to the actual total value of the Phantom Share Units at the end of the Performance Period divided by the monthly average price of the Fair Market Value of the Common Stock for the month following the end of the Performance Period, rounded up to the nearest whole share.

2.7 Termination of Employment.

(a) Prior to the end of a Performance Period:

(i) Death, Disability or Normal Retirement: If a Participant ceases to be an employee of the Company prior to the end of a Performance Period by reason of death, Disability or Normal Retirement (as defined in the Company's qualified Retirement Plan for Employees), the Performance Period for outstanding Phantom Share Units shall be deemed to end as of the end of the fiscal year in which such event occurred. The total dollar value of Phantom Share Units held by such Participant shall be based upon performance during the reduced Performance Period and will be paid in the form of shares of Common Stock in the manner provided for by Section 2.6. Any shares of Common Stock payable pursuant to this Section 2.7, shall be free of any restrictions or risk of forfeiture under the Plan and shall be registered in the name of the Participant or the Participant's beneficiary or estate, as the case may be, as soon as practicable after the end of the applicable Performance Period.

(ii) Other Terminations: If a Participant ceases to be an employee prior to the end of a Performance Period for any reason other than death, Disability or Normal Retirement, the Participant shall immediately forfeit all Phantom Share Units previously granted under the Plan. The Plan Administrator may, however, in its sole discretion, permit a Participant to retain all or a portion of his Phantom Share Units if it finds that the circumstances in the particular case so warrant.

(b) After the end of a Performance Period, but prior to the end of a Vesting Period:

(i) Death or Disability: If a Participant ceases to be an employee of the Company by reason of death or Disability, the Vesting Period shall be deemed to have ended and shares of Common Stock held by the Company with respect to Restricted Shares earned by such Participant shall be paid as soon as practicable in the manner set forth in 3.4 hereof

(ii) Retirement: The Retirement of a Participant shall not constitute a termination of employment for purposes of this Section 2(b), and such Participant shall not forfeit any Common Stock held by the Company with respect to Restricted Shares earned by such Participant.

(iii) Other Terminations: If a Participant ceases to be an employee prior to the end of a Vesting Period for any reason other than death, Disability or Retirement, the Participant shall immediately forfeit all unvested Restricted Shares previously granted with respect to such Vesting Period in accordance with the provisions of Section 3.2(c) hereof, unless the Plan Administrator, in its sole discretion, finds that the circumstances in the particular case so warrant and allows a Participant whose employment has so terminated to retain any or all of the Restricted Shares granted to such Participant.

3. PROVISIONS APPLICABLE TO RESTRICTED SHARES

3.1 Vesting Periods.

At the time a Phantom Share Unit award is made, the Plan Administrator shall establish a Vesting Period applicable to Restricted Stock which shall not be more than three years. The Plan Administrator may provide for the lapse of all or a portion of such Vesting Period in installments and may accelerate or waive such Vesting Period, in whole or in part, based on such factors as the Plan Administrator may determine.

3.2 Rights and Restrictions Governing Restricted Shares.

At the time of payment in Restricted Shares, subject to the receipt by the Company of any applicable consideration for such Restricted Shares, one or more certificates representing the appropriate number of shares of Common Stock granted to a Participant shall be registered either in his name or for his benefit either individually or collectively with others, but shall be held by the Company for the account of the Participant. The Participant shall have all rights of a holder as to such shares of Common Stock, including the right to receive dividends, subject to the following restrictions: (a) the Participant shall not be entitled to delivery of certificates representing such shares of Common Stock and any other such securities until the expiration of the applicable Vesting Period; (b) none of the Restricted Shares may be sold, transferred, assigned, pledged, or otherwise encumbered or disposed of during the applicable Vesting Period; and (c) all of the Restricted Shares shall be forfeited and all rights of the Participant to such Restricted Shares shall terminate without further obligation on the part of the Company unless the Participant remains in the continuous employment of the Company for the entire Vesting Period or portion thereof in relation to which such Restricted Shares were granted, except as otherwise allowed by Section 2.7 hereof. At the time of payment in Restricted Shares, if the Common Stock of the Company is not readily available in the marketplace, or purchase of the Common stock would artificially affect the price of the Common Stock, in the sole discretion of the Plan Administrator, then in that event, the Company shall have the option to pay to the Participant in cash the Fair Market Value of the Restricted Shares on such payment date.

3.3 Adjustment with Respect to Restricted Shares.

Any other provisions of the Plan to the contrary notwithstanding, the Plan Administrator may at any time shorten any Vesting Period, if it determines that conditions, including but not limited to, changes in the economy, changes in competitive conditions, changes in laws or governmental regulations, changes in generally accepted accounting principles, changes in the Company's accounting policies, acquisitions or dispositions, or the occurrence of other unusual, unforeseen, or extraordinary events, so warrant.

3.4 Payment of Restricted Shares.

In the event that a Participant is still employed by the Company at the end of the Vesting Period or portion thereof, all applicable restrictions shall lapse as to Restricted Shares granted in relation to such Vesting Period, and one or more stock certificates for the appropriate number of shares of Common Stock, free of restrictions, shall be delivered to the Participant or such shares shall be credited to a brokerage account if the Participant so directs.

3.5 Deferral of Payment.

The Plan Administrator may, in its sole discretion, offer a Participant the right, by execution of a written agreement, to defer the receipt of all or any portion of the payment, if any, for Restricted Shares. If such an election to defer is made, the Common Stock receivable in payment for Restricted Shares shall be deferred as stock units equal in number to the number of shares of Common Stock that would have been paid to the Participant. Such stock units shall represent only a contractual right and shall not give the Participant any interest, right, or title to any Common Stock during the deferral period. The cash receivable in payment for fractional shares receivable for Restricted Shares shall be deferred as cash units. Deferred cash units may be credited annually with an appreciation factor specified in the deferred compensation agreement, which will include dividend equivalents. At the end of the deferral period, deferred stock units and cash units shall be paid in Common Stock, except that any payment attributable to fractional shares shall be paid in cash. All other terms and conditions of deferred payments shall be as contained in a written deferred compensation agreement.

4. MISCELLANEOUS

4.1 Designation of Beneficiary.

A Participant may designate, in a writing delivered to the Company before his death, a person or persons to receive, in the event of his death, any rights to which he would be entitled under the Plan. A Participant may also designate an alternate beneficiary to receive payments if the primary beneficiary does not survive the Participant. A Participant may designate more than one person as his beneficiary or alternate beneficiary, in which case such persons would receive payments as joint tenants with a right of survivorship. A beneficiary designation may be changed or revoked by a Participant at any time by filing a written statement of such change or revocation with the Company. If a Participant fails to designate a beneficiary, then his estate shall be deemed to be his beneficiary.

4.2 Employment Rights.

Neither the Plan nor any action taken hereunder shall be construed as giving any employee of the Company the right to become a Participant, and a grant under the Plan shall not be construed as giving any Participant any right to be retained in the employ of the Company.

4.3 Nontransferability.

A Participant's rights under the Plan, including the right to any amounts or shares payable, may not be assigned, pledged, or otherwise transferred except, in the event of a Participant's death, to his designated beneficiary or, in the absence of such a designation, by will or the laws of descent and distribution.

4.4 Withholding.

The Company shall have the right, before any payment is made or a certificate for any shares is delivered or any shares are credited to any brokerage account, to deduct or withhold from any payment under the Plan any Federal, state, local or other taxes, including transfer taxes, required by law to be withheld or to require the Participant or his beneficiary or estate, as the case may be, to pay any amount, or the balance of any amount, required to be withheld.

If and to the extent withholding of any Federal, state or local tax is required in connection with the lapse of restrictions with respect to Restricted Shares earned pursuant to Phantom Share Units, the Participant may elect to pay such amount in cash or: (i) have the Company hold back from the shares to be delivered, stock having a value calculated to satisfy such withholding obligations; (ii) deliver previously-owned shares of Common Stock held by the Participant having a value equal to the tax withholding obligation provided that the previously owned shares have been held for at least six months; or (iii) utilize a combination of the foregoing procedures.

4.5 Relationship to Other Benefits.

No payment under the Plan shall be taken into account in determining any benefits under any retirement, group insurance, or other employee benefit plan of the Company. The Plan shall not preclude the shareholders of Erie , the Board of Directors or any committee thereof, or the Company from authorizing or approving other employee benefit plans or forms or incentive compensation, nor shall it limit or prevent the continued operation of other incentive compensation plans or other employee benefit plans of the Company or the participation in any such plans by Participants in the Plan.

4.6 No Trust or Fund Created.

Neither the Plan nor any grant made hereunder shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company and a Participant or any other person. To the extent that any person acquires a right to receive payments from the Company pursuant to a grant under the Plan, such right shall be no greater than the right of any unsecured general creditor of the Company.

4.7 Expenses.

The expenses of administering the Plan shall be borne by the Company.

4.8 Indemnification.

Service on the Committee shall constitute service as a member of the Board of Directors so that members of the Committee shall be entitled to indemnification and reimbursement as directors of the Company pursuant to its Articles of Incorporation, By-Laws, or resolutions of its Board of Directors or shareholders.

4.9 Tax Litigation.

The Company shall have the right to contest, at its expense, any tax ruling or decision, administrative or judicial, on any issue that is related to the Plan and that the Company believes to be important to Participants in the Plan and to conduct any such contest or any litigation arising therefrom to a final decision.

4.10 Antidulution.

Phantom Share Units and Restricted Shares shall be subject to appropriate adjustment by the Plan Administrator as to the number and price of shares of Common Stock or other considerations subject to such grants in the event of changes in the outstanding shares by reason of stock dividends, stock splits, recapitalizations, reorganizations, mergers, consolidations, combinations, exchanges, or other relevant changes in capitalization occurring after the date of grant.

5. AMENDMENT AND TERMINATION

The Board of Directors may modify, amend, or terminate the Plan at any time except that, no modification, amendment, or termination of the Plan shall adversely affect the rights of a Participant under a grant previously made to him without the consent of such Participant.

6. INTERPRETATION

6.1 Governmental and Other Regulations.

The Plan and any grant hereunder shall be subject to all applicable Federal and state laws, rules, and regulations and to such approvals by any regulatory or governmental agency that may, in the opinion of the counsel for the Company, be required.

6.2 Governing Law.

The Plan shall be construed and its provisions enforced and administered in accordance with the laws of the Commonwealth of Pennsylvania applicable to contracts entered into and performed entirely in such State.

7. EFFECTIVE DATE AND SHAREHOLDER APPROVAL

The Plan shall be effective as of January 1, 1997.

Exhibit 10.24

EMPLOYMENT AGREEMENT

THIS AGREEMENT (the "Agreement") made effective as of the 16th day of December, 1997 (the "Effective Date") by and between ERIE INDEMNITY COMPANY, a Pennsylvania corporation with its principal place of business at Erie, Pennsylvania (the "Company"), and STEPHEN A. MILNE (the "Executive");

WITNESSETH:

WHEREAS, the Company has determined that it is in the best interests of the Company and its shareholders to secure the continued employment of the Executive on the terms and subject to the conditions set forth in this Agreement; and

WHEREAS, the Executive desires and is willing to accept employment with the Company on the terms and subject to the conditions set forth herein;

NOW THEREFORE, in consideration of the premises and mutual covenants contained herein, and intending to be legally bound hereby, the parties hereto agree as follows:

1. Term. The Company hereby agrees to continue the employment of the Executive and the Executive hereby agrees to continue to serve the Company pursuant to the terms and conditions of this Agreement as President and CEO of the Company, or in such other position with the Company of at least commensurate responsibility and authority in all material respects, for a term of four years commencing on the Effective Date hereof and expiring on December 15, 2001, unless earlier terminated pursuant to Section 5 hereof. Notwithstanding the foregoing, the Executive shall serve in said office(s) at the pleasure of the Company's Board of Directors (the "Board of Directors") and the Executive may be removed from said office(s) at any time with or without Cause, as hereinafter defined, pursuant to Sections 5(b) or 5(d) hereof; provided that any such removal shall be without prejudice to any contract rights the Executive may have hereunder. Subject to Section 8(a)(6) and Section 8(b) hereof, this Agreement shall expire by its terms on December 15, 2001.

2. Duties and Responsibilities. The Executive's duties hereunder shall be those which shall be prescribed by the Company's Bylaws, as amended from time to time, and by the Board of Directors or any committee thereof from time to time and shall include such executive authority, duties, powers and responsibilities as customarily attend the office as President and CEO of a company comparable to the Company. The Executive shall discharge such duties consistent with sound business practices and in accordance with law and the Company's general employment policies, in each case, as in effect from time to time, in all material respects and the Executive shall use best efforts to promote the best interests of the Company. During the term of this Agreement, the Executive's position (including the Executive's status and reporting requirements), authority, duties, powers and responsibilities shall at all times be at least commensurate in all material respects with the most significant of those held, exercised or assigned to the Executive as of the Effective Date. The Executive shall devote the Executive's knowledge, skill and all of the Executive's professional time, attention and energies (reasonable absences for vacations and illness excepted), to the business of the Company in order to perform such assigned duties faithfully, competently and diligently. It is understood and agreed between the parties that the Executive may (i) engage in charitable and community activities, including serving on boards of directors or trustees of and holding other leadership positions in non-profit organizations unless the objectives and requirements of such positions are determined by the Board of Directors to be inconsistent with the performance of the Executive's duties hereunder, and, (ii) manage personal investments, so long as such activities do not interfere or conflict with the Executive's performance of responsibilities and obligations hereunder. It is expressly agreed that any such activities engaged in by the Executive as of the Effective Date shall not thereafter be deemed to interfere with the Executive's obligations and responsibilities hereunder. The Executive agrees that the approval of the Board of Directors or a committee thereof shall be required before the Executive first accepts a position as director of any for-profit corporation after the date hereof.

3. Compensation. During the term of this Agreement, the Executive shall receive, for all services rendered to the Company hereunder, the following (hereinafter referred to collectively as "Compensation"):

(a) Salary. The Executive shall be paid an annual base salary at an annual rate at least equal to the annual rate being paid or payable to the Executive by the Company in the month in which the Effective Date occurs, with such increases thereafter as shall be determined from time to time to be fair and reasonable by the Board of Directors or by the Executive Compensation Committee of the Board of Directors (the "Committee") in its discretion after taking into account, among other things, the authority, duties, powers and responsibilities of the Executive's position, the Executive's performance, the Company's performance, the compensation of persons in comparable positions at the Company and at other comparable companies, and the effect of inflation. The Executive's annual base salary shall not be reduced after any such increase. The Executive's annual base salary shall be payable in equal installments in accordance with the Company's general salary payment policies, but no less frequently than bi-weekly.

(b) Incentive Compensation. The Executive shall be eligible for awards under the Company's incentive compensation plans, if any, applicable to senior executive officers of the Company or to key employees of the Company or its subsidiaries, including, but not limited to, management incentive plans and stock option plans, in accordance with and subject to the terms thereof (including any provisions providing for changes in the level of or termination of benefits thereunder), on a basis commensurate with the Executive's position and authorities, duties, powers and responsibilities.

(c) Employee Benefit Plans. The Executive and the Executive's "dependents," as that term may be defined under the applicable employee benefit plan(s) of the Company, shall be included, to the extent eligible thereunder and subject to the terms of the plans (including any provisions for changing the level of or termination of benefits thereunder), in all plans, programs and policies which provide benefits for Company employees and their dependents on a basis commensurate with the Executive's position and authorities, duties, powers and responsibilities including, without limitation, health care insurance, health and welfare plans, pension and retirement plans, group life insurance plans, split dollar life insurance plans, short and long-term disability plans, survivors' benefits, executive supplemental benefits, holidays and other similar or comparable benefits made available to the Company's employees and senior executive officers (hereinafter, such plans, programs and policies shall be collectively referred to as the "Erie Benefit Plans"). Such plans, programs and policies shall include, but are not limited to, the Erie Insurance Group Retirement Plan for Employees, the Erie Insurance Group Employee Savings Plan, the Erie Insurance Group Deferred Compensation Plan, the Erie Insurance Group Split Dollar Life Insurance Plan, the Erie Insurance Group Supplemental Executive Retirement Plan, and the Erie Insurance Group Health Protection, Prescription Drug, Dental Assistance and Vision Care Plans.

(d) Perquisites. The Executive shall be entitled to all perquisites which the Company from time to time makes available to senior executive officers of the Company. Such perquisites shall include, but are not limited to, parking, club dues, tax preparation assistance, and an annual physical examination.

(e) Expenses and Working Facilities. The Executive is hereby authorized to incur, and shall be reimbursed by the Company for, any and all reasonable and necessary business related expenses, including, but not limited to, expenses for business travel, entertainment, gifts and similar matters, which expenses are incurred by the Executive on behalf of the Company or any of its subsidiaries, upon presentation of itemized accounts of such expenses in accordance with Company policies. The Executive shall be furnished during the term of this Agreement with offices and other working facilities in the Company's principal executive offices located in Erie, Pennsylvania (or other location of the principal executive offices within the Erie metropolitan area) and secretarial and other assistance suitable to the Executive's position and adequate for the performance of duties hereunder.

(f) Performance Appraisal. The Executive's performance may be evaluated by the Board of Directors or the Committee from time to time. The Executive shall be entitled to such additional remuneration, including but not limited to annual bonuses based on performance, as the Board of Directors or the Committee may, in its discretion, determine from time to time.

4. Absences. The Executive shall be entitled to vacations in accordance with the Company's vacation policy in effect from time to time (but in no event shall the Executive be entitled to fewer vacation days than under the Company's vacation policy as in effect on the Effective Date) and to absences because of illness or other incapacity, and shall also be entitled to such other absences, whether for holiday, personal time, conventions, or for any other purpose, as are granted to the Company's other senior executive officers or as are approved by the Board of Directors or the Committee, which approval shall not be unreasonably withheld.

5. Termination. The Executive's employment hereunder may be terminated only as follows:

(a) Expiration of Term of Office. Upon the expiration of the term of the office(s) to which the Executive has been elected or appointed as set forth in Section 1 hereof, the Board of Directors may (i) determine that the Executive should not continue in such office(s) or (ii) that the Executive should not be elected or appointed to an office with duties, authorities, powers and responsibilities that are at least commensurate with those of said office(s), in either case, for reasons other than for Cause (if the reasons for such noncontinuance, nonreelection or nonreappointment constitute Cause, then Section 5(d) hereof will apply).

(b) By the Company Without Cause. The Company may at any time terminate the Executive's employment hereunder without Cause only by the affirmative vote of a majority of the entire Board of Directors, and upon no less than thirty (30) days' prior written notice to the Executive.

(c) By the Executive Without Good Reason. The Executive may at any time terminate employment hereunder for any reason upon no less than thirty (30) days' written notice to the Company. Section 5(e) shall apply to any termination of employment by the Executive for Good Reason.

(d) By the Company For Cause. The Company may terminate the Executive's employment hereunder for Cause. In such event, the Company shall give to the Executive prompt written notice (in addition to any notice which may be required by Section 5(d)(1) hereof) specifying in reasonable detail the basis for such termination. For purposes of this Agreement, "Cause" shall mean any of the following conduct by the Executive:

(1) The deliberate and intentional breach of any material provision of this Agreement, which breach Executive shall have failed to cure within thirty (30) days after Executive's receipt of written notice from the Company specifying the specific nature of the Executive's breach;

(2) The deliberate and intentional engaging by Executive in gross misconduct that is materially and demonstrably inimical to the best interests, monetary or otherwise, of the Company; or

(3) Conviction of a felony or conviction of any crime involving moral turpitude, fraud or deceit.

For purposes of this definition, no act, or failure to act, on the Executive's part shall be considered "deliberate and intentional" unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that such action or omission was in the best interest of the Company.

(e) By the Executive for Good Reason. The Executive may terminate employment hereunder for Good Reason upon providing thirty (30) days written notice to the Company after the Executive reasonably becomes aware of the circumstances giving rise to such Good Reason. For purposes of this Agreement, "Good Reason" means the following conduct of the Company, unless the Executive shall have consented thereto in writing:

(1) Material breach of any material provision of this Agreement by the Company, which breach shall not have been cured by the Company within thirty (30) days after Company's receipt from the Executive or the Executive's agent of written notice specifying in reasonable detail the nature of the Company's breach;

(2) The assignment to the Executive of any duties inconsistent in any material respect with the Executive's position (including any reduction of the Executive's status and reporting requirements), authority, duties, powers or responsibilities with the Company as contemplated by Section 2 of this Agreement, or any other action by the Company, including the removal of the Executive from or any failure to reelect or reappoint the Executive to the office(s) specified in Section 2 or a commensurate office(s) (other than for Cause), which results in a diminution of the Executive's authority, duties, position, responsibilities or status, excluding for this purpose any isolated, insubstantial and inadvertent action respecting the Executive not taken in bad faith and which is remedied by the Company within thirty (30) days after receipt of written notice from the Executive to the Company;

(3) The Company's relocation of the Executive out of the Company's principal executive offices or the relocation of the Company's principal executive offices to a location outside the Erie, Pennsylvania metropolitan area, except for required short-term travel on the Company's behalf to the extent necessary for the Executive to carry out his normal duties in the ordinary course of business;

(4) The failure of the Company to obtain the assumption in writing of its obligations to perform this Agreement by any successor as provided in Section 14 hereof not less than five days prior to a merger, consolidation or sale as contemplated in Section 14; or

(5) A reduction in the overall level of compensation of the Executive. For purposes of this subsection 5, the following shall not constitute a reduction in the overall level of compensation of the Executive: (i) changes in the cash/stock mix of compensation payable to the Executive; (ii) a reduction in the overall level of compensation of the Executive resulting from the failure to achieve corporate, business unit and/or individual performance goals established for purposes of incentive compensation for any year or other period; provided that the aggregate short-term incentive opportunity, when combined with the Executive's base salary, provides, in the aggregate, an opportunity for the Executive to realize at least the same overall level of compensation as was paid in the immediately prior year or period at target performance levels; and provided, further, that such target performance levels are reasonable at all times during the measurement period, taking into account the fact that one of the purposes of such compensation is to incent the Executive; (iii) reductions in compensation resulting from changes to any Erie Benefit Plan (provided that such changes are generally applicable to all participants in such Erie Benefit Plan); and (iv) any combination of the foregoing.

(f) Disability. In the event that the Executive shall be unable to perform the Executive's duties hereunder on a full time basis for a period of one hundred-eighty (180) consecutive calendar days by reason of incapacity due to illness, accident or other physical or mental disability, then the Company may, at its discretion, terminate the Executive's employment hereunder if the Executive, within ten (10) days after receipt of written notice of termination (which notice may be given before or after the end of the entire 180 day period), shall not have returned to the performance of all of his duties hereunder on a full-time basis.

(g) Death. The Executive's employment under this Agreement shall terminate upon the Executive's death.

(h) Mutual Written Agreement. This Agreement and the Executive's employment hereunder may be terminated at any time by the mutual written agreement of the Executive and the Company.

6. Compensation in the Event of Termination. In the event that the Executive's employment hereunder terminates prior to the expiration of this Agreement for any reason provided in Section 5 hereof, the Company shall pay the Executive, compensation and provide the Executive and the Executive's eligible dependents with benefits as follows:

(a) Executive's Nonreelection to Office; Termination By Company Without Cause; Termination By Executive for Good Reason. In the event that the Executive's employment hereunder is terminated: (i) because the Executive does not continue in office pursuant to Section 5(a) hereof; or (ii) by the Company without Cause pursuant to Section 5(b) hereof; or (iii) by the Executive for Good Reason pursuant to Section 5(e) hereof, then in any such event the Company shall pay or provide, as applicable, the following compensation and benefits to the Executive:

(1) Three (3) times the following: (A) the highest annual base salary paid or payable to the Executive in the then current year or any one (1) of the three (3) calendar years preceding Executive's termination of employment hereunder; plus (B) an amount equal to the sum of the Executive's highest award(s) under the Company's Annual Incentive Plans for any one (1) of the three (3) calendar years preceding the date of the termination of Executive's employment hereunder (such total is referred to herein as "Covered Compensation"). Such payment to the Executive by the Company shall be paid in a lump sum unless the Executive elects, and so notifies the Company in writing prior to the termination of the Executive's employment hereunder, to receive such payment in three (3) equal annual installments. The lump sum or first payment, as the case may be, shall be paid within sixty (60) days after the date of the termination of the Executive's employment hereunder;

(2) Any awards or other compensation to which the Executive is entitled under any of the Company's compensation plans or Erie Benefit Plans to the extent not covered in subsection (1) hereof;

(3) Any award to which the Executive would be entitled under the Company's Long-Term Incentive Plan as in effect on December 16, 1997, calculated under the provision of that Plan as if the Executive ceases to be an Employee of the Company by reason of death, disability or normal retirement;

(4) Continuing coverage for all purposes (including eligibility, coverage, vesting and benefit accruals, as applicable), for a period of three (3) years after the date of the termination of Executive's employment hereunder, to the extent not prohibited by law, for the Executive and the Executive's eligible dependents under all of the Erie Benefit Plans in effect and applicable to Executive and the Executive's eligible dependents as of the date of termination. In the event that the Executive and/or the Executive's eligible dependents, because of the Executive's terminated status, cannot be covered or fully covered under any or all of the Erie Benefit Plans, the Company shall continue to provide the Executive and/or the Executive's eligible dependents with the same level of such coverage in effect prior to termination, payable from the general assets of the Company if necessary. Notwithstanding the foregoing, the Executive may elect (by giving written notice to the Company prior to the termination of employment hereunder), on a benefit by benefit basis, to receive in lieu of continuing coverage, cash in an amount equal to the present value (using a 6.5% discount rate over three years) of the projected cost to the Company of providing such benefit for such three year period. The aggregate amount of cash to which the Executive is entitled pursuant to the preceding sentence shall be payable by the Company to the Executive within sixty (60) days after the date of the termination of Executive's employment hereunder; and

(5) For a period of three (3) years after the date of the termination of Executive's employment hereunder, such perquisites as are made available to the Executive as of the date of the termination of Executive's employment hereunder.

The Executive's subsequent death, disability or attainment of age 65 or any other age shall in no way affect or limit the Company's obligations under this Section 6(a).

(b) Termination By the Company for Cause. In the event that the Company shall terminate the Executive's employment hereunder for Cause pursuant to Section 5(d), this Agreement shall forthwith terminate and the obligations of the parties hereto shall be as set forth in Section 8 hereof.

(c) Termination by the Executive Without Good Reason. In the event that the Executive shall terminate employment hereunder other than for Good Reason pursuant to Section 5(c), this Agreement shall forthwith terminate and the obligations of the parties hereto shall be as set forth in Section 8 hereof.

(d) Disability. In the event that the Company elects to terminate the Executive's employment hereunder pursuant to Section 5(f), the Executive shall continue to receive from the date of such termination through the expiration date of this Agreement, sixty percent (60%) of the then current annual base salary to which the Executive was entitled pursuant to Section 3(a) hereof immediately preceding such termination, in accordance with the payroll practices of the Company for senior executive officers, reduced, however, by the amount of any proceeds from Social Security and disability insurance policies provided by and at the expense of the Company.

(e) Death. In the event of the death of the Executive during the term of this Agreement, the then current annual base salary to which the Executive was entitled pursuant to Section 3(a) hereof immediately preceding the Executive's death shall be paid, in twelve (12) equal monthly installments following the date of death, to the last beneficiary designated by the Executive under the Company's group life insurance policy maintained by the Company or such other written designation expressly provided to the Company for the purposes hereof or, failing either such designation, to the Executive's estate.

(f) Mutual Written Consent. In the event that the Executive and the Company shall terminate the Executive's employment by mutual written agreement, the Company shall pay such compensation and provide such benefits, if any, as the parties may mutually agree upon in writing.

The Executive shall not be required to mitigate the amount of any payment provided for in this Section 6 by seeking employment or otherwise, nor shall any amounts received from employment or otherwise by the Executive offset in any manner the obligations of the Company hereunder except as specifically provided in Section 6(d) hereof.

7. Certain Additional Payments by the Company. Notwithstanding anything in this Agreement to the contrary, in the event it is determined that any payment or distribution by the Company to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (a "Payment"), is subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), or any successor provision, on excess parachute payments, as that term is used and defined in Sections 4999 and 280G of the Code, then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount equal to the then current rate of tax under said Section 4999 multiplied by the total of the amounts so paid or payable, including the Gross-Up Payment, which are deemed to be a part of an excess parachute payment.

8. Effect of Expiration of Agreement or Termination of Executive's Employment. Upon the expiration of this Agreement by its terms or the termination of the Executive's employment hereunder, neither the Company nor the Executive shall have any remaining duties or obligations hereunder except that:

(a) The Company shall:

(1) Pay the Executive's accrued salary and any other accrued benefits under Sections 3(a), (b), and (c) hereof;

(2) Reimburse the Executive for expenses already incurred in accordance with Section 3(e) hereof;

(3) Pay or otherwise provide for any benefits, payments or continuation or conversion rights in accordance with the provisions of any Erie Benefit Plan of which the Executive or any of the Executive's dependents is or was a participant or as otherwise required by law;

(4) Pay the Executive and the Executive's beneficiaries any compensation and/or provide the Executive or the Executive's eligible dependents any benefits, as the case may be, due pursuant to Section 6 or Section 7 hereof; and

(5) Unless the employment of the Executive is terminated by the Company for Cause, pay the Executive or the Executive's beneficiaries the full amount or amounts accrued under the Supplemental Executive Retirement Plan of the Company (the "SERP") as in effect on the Effective Date (or as such benefits may be enhanced by subsequent amendments or supplements to such SERP), as though, solely for purposes of determining any otherwise applicable actuarial reduction

factors, the event of the termination of Executive's employment hereunder or expiration of this Agreement occurred on the Executive's Normal Retirement Date as defined in such SERP. Accrued benefits under the SERP shall be fully vested and nonforfeitable upon such termination (including termination on account of the Executive's death) or expiration. Any reductions in SERP benefits that would otherwise apply pursuant to Section 10.1 of the Company's Retirement Plan for Employees (or pursuant to any successor provision of such plan or any successor plan) relating to Section 415(b) of the Code shall not be applicable for purposes hereof. No further approval by the Board of Directors or the Committee with respect to payments under the SERP in accordance with the preceding sentences shall be required. Unreduced payments may begin at age 55, but in no event would payments be made under this Section 8(a)(5) before the Executive reaches age fifty-five (55). The Company shall purchase for the Executive, naming the Executive and/or the Executive's designee the owner, a paid up annuity, from an insurer reasonably acceptable to the Executive but in any event having an A.M. Best rating of A+ or better (or other comparable rating), that will pay to the Executive an amount equal to the benefit to which the Executive would otherwise be entitled under the SERP and payable at the times such SERP benefit would be payable in accordance with the provisions hereof. Upon the purchase and delivery to the Executive of such an annuity, the Executive shall release the Company from any further obligation under the SERP. The Company further agrees to pay the Executive immediately upon termination, a cash payment (the "Tax Gross-up") equal to the sum of the following: (i) all taxes (federal, state, local, and payroll taxes) incurred and due and owing by the Executive, arising from the cost of the annuity purchased by the Company to meet the requirements of this Section 8(a)(5), and (ii) any such taxes incurred and due and owing with respect to the amount paid in (i).

(6) Continue to remain bound by the terms of Section 12 hereof.

(b) The Executive shall remain bound by the terms of Sections 9 and 13 hereof for a period of thirty six (36) months after the expiration of the Agreement by its terms; provided, that the Executive shall not be bound by the terms of Section 9(b) after the termination of employment (other than a termination of the Executive by the Company for Cause) if such termination occurs after the expiration of this Agreement by its terms.

9. Covenants as to Confidential Information and Competitive Conduct. The Executive hereby acknowledges and agrees as follows: (i) this Section 9 is necessary for the protection of the legitimate business interests of the Company, (ii) the restrictions contained in this Section 9 with regard to geographical scope, length of term and types of restricted activities are reasonable; (iii) the Executive has received adequate and valuable new consideration for entering into this Agreement, and (iv) the Executive's expertise and capabilities are such that this obligation hereunder and the enforcement hereof by injunction or otherwise will not adversely affect the Executive's ability to earn a livelihood.

(a) Confidentiality of Information and Nondisclosure. The Executive acknowledges and agrees that the Executive's employment by the Company under this Agreement necessarily involves knowledge of and access to confidential and proprietary information pertaining to the business of the Company and its subsidiaries. Accordingly, the Executive agrees that at all times during the term of this Agreement and at any time thereafter, the Executive will not, directly or indirectly, without the express written approval of the Company, unless directed by applicable legal authority (including any court of competent jurisdiction, governmental agency having supervisory authority over the business of the Company or the subsidiaries, or any legislative or administrative body having supervisory authority over the business of the Company or its subsidiaries) having jurisdiction over the Executive, disclose to or use, or knowingly permit to be so disclosed or used, for the benefit of himself, any person, corporation or other entity other than the Company, (i) any information concerning any financial matters, customer relationships, competitive status, supplier matters, internal organizational matters, current or future plans, or other business affairs of or relating to the Company or its subsidiaries, (ii) any management, operational, trade, technical or other secrets or any other proprietary information or other data of the Company or its subsidiaries, or (iii) any other information related to the Company or its subsidiaries or which the Executive should reasonably believe will be damaging to the Company or its subsidiaries which has not been published and is not generally known outside of the Company. The Executive acknowledges that all of the foregoing constitutes confidential and proprietary information, which is the exclusive property of the Company.

(b) Restrictive Covenant. During the term of, and for a period of one (1) year (the "Restrictive Period") after the termination of the Executive's employment hereunder for any reason (other than a termination of the Executive hereunder pursuant to Section 5(a), 5(b) or 5(e), hereof), the Executive shall not render, directly, or indirectly, services to any person, firm, corporation, association or other entity which conducts the same or similar business as the Company or its subsidiaries at the date of the Executive's termination of employment hereunder within the states in which the Company or any of its subsidiaries is then licensed and doing business at the date of the Executive's termination of employment hereunder without the prior written consent of the Board of Directors, which may be withheld in its discretion. In the event the Executive violates any of the provisions contained in this Section 9(b) hereof, the Restrictive Period shall be increased by the period of time from the commencement by the Executive of any violation until such violation has been cured to the satisfaction of the Company. The Executive further agrees that at no time during the Restrictive Period will the Executive attempt to directly or indirectly solicit or hire employees of Company or its subsidiaries or induce any of them to terminate their employment with the Company or any of the subsidiaries. Notwithstanding the foregoing, the performance by the Executive of rights and duties under an agency agreement with the Company shall not constitute a breach of this Section 9(b).

(c) Company Remedies. The Executive acknowledges and agrees that any breach of this Section 9 will result in immediate and irreparable harm to the Company, and that the Company cannot be reasonably or adequately compensated by damages in an action at law. In the event of a breach by the Executive of the provisions of this Section 9, the Company shall be entitled, to the extent permitted by law, immediately to cease to pay or provide the Executive or the Executive's dependents any compensation or benefit being, or to be, paid or provided to the Executive pursuant to Section 3, Section 6 or Section 8 of this Agreement, and also to obtain immediate injunctive relief restraining the Executive from conduct in breach of the covenants contained in this Section 9. Nothing herein shall be construed as prohibiting the Company from pursuing any other remedies available to it for such breach, including the recovery of damages from the Executive.

10. Resolution of Differences Over Breaches of Agreement. Except as otherwise provided herein, in the event of any controversy, dispute or claim arising out of, or relating to, this Agreement, or the breach thereof, or arising out of any other matter relating to the Executive's employment with the Company, the parties may seek recourse only for temporary or preliminary injunctive relief to the courts having jurisdiction thereof and if any relief other than injunctive relief is sought, the Company and the Executive agree that such underlying controversy, dispute or claim shall be settled by arbitration conducted in Erie, Pennsylvania in accordance with this Section 10 and the Commercial Arbitration Rules of the American Arbitration Association ("AAA"). The matter shall be heard and decided, and awards rendered by a panel of three (3) arbitrators (the "Arbitration Panel"). The Company and the Executive shall each select one arbitrator from the AAA National Panel of Commercial Arbitrators (the "Commercial Panel") and AAA shall select a third arbitrator from the Commercial Panel. The award rendered by the Arbitration Panel shall be final and binding as between the parties hereto and their heirs, executors, administrators, successors and assigns, and judgment on the award may be entered by any court having jurisdiction thereof. Except as provided in Section 11 hereof, each party shall bear sole responsibility for all expenses and costs incurred by such party in connection with the resolution of any controversy, dispute or claim in accordance with this Section 10.

11. Payment of Executive's Legal Fees. If the Executive is required to bring any action to enforce rights or to collect moneys due under this Agreement, the Company shall pay to the Executive the fees and expenses incurred by the Executive in bringing and pursuing such action if the Executive is successful, in whole or in part, on the merits or otherwise (including by way of a settlement involving a payment of money by the Company to the Executive), in such action. The Company shall pay such fees and expenses in advance of the final disposition of such action upon receipt of an undertaking from the Executive to repay to the Company such advances if the Executive is not ultimately successful, in whole or in part, on the merits or otherwise, in such action.

12. Severance Pay upon Termination of Employment after Expiration of the Agreement. Notwithstanding the expiration of this Agreement by its terms and notwithstanding the terms of any corporate severance policy then in effect and applicable to the Executive, if the employment of the Executive is terminated without Cause by the Company, by the Executive for Good Reason or upon the expiration of the term of the office(s) to which the Executive has been elected or appointed as set forth in Section 1 hereof (for reasons other than for Cause), in any case, within thirty-six (36) months after the expiration of this Agreement by its terms, then (i) the Company shall pay to the Executive severance compensation in an amount equal to two (2) times the Executive's Covered Compensation as determined on the date of such termination, and (ii) the Executive and the Executive's eligible dependents shall be entitled to continuing coverage under the Company's then-existing group health plans (including medical, dental, prescription drug and vision plans, if any) for a period of two (2) years after the date of the termination of the Executive's employment, to the extent not prohibited by law and subject to the terms of such plans including provisions as to deductibles and copayments and changes in levels of coverage that are generally applicable to employees. The payment to the Executive by the Company pursuant to subsection (i) of the preceding sentence shall be paid in a lump sum unless the Executive elects, and so notifies the Company in writing prior to the Executive's termination of employment, to receive such payment in two (2) equal annual installments. The lump sum or first payment, as the case may be, shall be paid within thirty (30) days after the date of termination of the Executive's employment.

13. Release. The Executive hereby acknowledges and agrees that neither the Company nor any of its representatives or agents will be obligated to pay any compensation or benefit which the Executive has a right to be paid or provided to the Executive or the Executive's dependents pursuant to Section 6, Section 8 or Section 12 of this Agreement, unless the Executive, if requested by the Company in its sole discretion, executes a release in a form reasonably acceptable to the Company, which releases any and all claims the Executive has or may have against the Company or its subsidiaries, agents, officers, directors, successors or assigns.

14. Waiver. The waiver by a party hereto of any breach by the other party hereto of any provision of this Agreement shall not operate or be construed as a waiver of any other or subsequent breach by a party hereto.

15. Assignment. This Agreement shall be binding upon and inure to the benefit of the successors and assigns of the Company, and the Company shall be obligated to require any successor to expressly acknowledge and assume its obligations hereunder. This Agreement shall inure to the extent provided hereunder to the benefit of and be enforceable by the Executive or the Executive's legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. The Executive may not delegate any of the Executive's duties, responsibilities, obligations or positions hereunder to any person and any such purported delegation shall be void and of no force and effect.

16. Notices. Any notices required or permitted to be given under this Agreement shall be sufficient if in writing, and if personally delivered or when sent by first class certified or registered mail, postage prepaid, return receipt requested--in the case of the Executive, to his residence address as set forth below, and in the case of the Company, to the address of its principal place of business as set forth below, to the attention of the Chairman of the Board, or in case the Executive is the Chairman of the Board, to the Chairman of the Compensation Committee of the Board -- or to such other person or at such other address with respect to each party as such party shall notify the other in writing.

17. Construction of Agreement.

(a) Governing Law. This Agreement shall be governed by and construed under the laws of the Commonwealth of Pennsylvania.

(b) Severability. In the event that any one or more of the provisions of this Agreement shall be held to be invalid, illegal or unenforceable, the validity, legality or enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

(c) Headings. The descriptive headings of the several paragraphs of this Agreement are inserted for convenience of reference only and shall not constitute a part of this Agreement.

18. Entire Agreement. This Agreement contains the entire agreement of the parties concerning the Executive's employment and all promises, representations, understandings, arrangements and prior agreements on such subject are merged herein and superseded hereby, including the Employment Agreement effective November 20, 1995 which is expressly superseded hereby. The provisions of this Agreement may not be amended, modified, repealed, waived, extended or discharged except by an agreement in writing signed by the party against whom enforcement of any amendment, modification, repeal, waiver, extension or discharge is sought. No person acting other than pursuant to a resolution of the Board of Directors or the Committee shall have authority on behalf of the Company to agree to amend, modify, repeal, waive, extend or discharge any provision of this Agreement or anything in reference thereto or to exercise any of the Company's rights to terminate or to fail to extend this Agreement.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its officers thereunto duly authorized, and the Executive has hereunto set his hand all as of the day and year first above written.

ATTEST: ERIE INDEMNITY COMPANY

/s/ J. R. Van Gorder

J. R. Van Gorder
Secretary

By: /s/ F. William Hirt

F. William Hirt
Chairman of the Board

WITNESS:

/s/ Sheila M. Hirsch

/s/ Stephen A. Milne (SEAL)

Stephen A. Milne
100 Culbertson Drive
Lake City, PA 16423

Exhibit 10.25

EMPLOYMENT AGREEMENT

THIS AGREEMENT (the "Agreement") made effective as of the 16th day of December, 1997 (the "Effective Date") by and between ERIE INDEMNITY COMPANY, a Pennsylvania corporation with its principal place of business at Erie, Pennsylvania (the "Company"), and JAN R. VAN GORDER (the "Executive");

WITNESSETH:

WHEREAS, the Company has determined that it is in the best interests of the Company and its shareholders to secure the continued employment of the Executive on the terms and subject to the conditions set forth in this Agreement; and

WHEREAS, the Executive desires and is willing to accept employment with the Company on the terms and subject to the conditions set forth herein;

NOW THEREFORE, in consideration of the premises and mutual covenants contained herein, and intending to be legally bound hereby, the parties hereto agree as follows:

1. Term. The Company hereby agrees to continue the employment of the Executive and the Executive hereby agrees to continue to serve the Company pursuant to the terms and conditions of this Agreement as Senior Executive Vice President of the Company, or in such other position with the Company of at least commensurate responsibility and authority in all material respects, for a term of two years commencing on the Effective Date hereof and expiring on December 15, 1999, unless earlier terminated pursuant to Section 5 hereof. Notwithstanding the foregoing, the Executive shall serve in said office(s) at the pleasure of the Company's Board of Directors (the "Board of Directors") and the Executive may be removed from said office(s) at any time with or without Cause, as hereinafter defined, pursuant to Sections 5(b) or 5(d) hereof; provided that any such removal shall be without prejudice to any contract rights the Executive may have hereunder. Subject to Section 8(a)(6) and Section 8(b) hereof, this Agreement shall expire by its terms on December 15, 1999.

2. Duties and Responsibilities. The Executive's duties hereunder shall be those which shall be prescribed by the Company's Bylaws, as amended from time to time, and by the Board of Directors or any committee thereof from time to time and shall include such executive authority, duties, powers and responsibilities as customarily attend the office as Senior Executive Vice President of a company comparable to the Company. The Executive shall discharge such duties consistent with sound business practices and in accordance with law and the Company's general employment policies, in each case, as in effect from time to time, in all material respects and the Executive shall use best efforts to promote the best interests of the Company. During the term of this Agreement, the Executive's position (including the Executive's status and reporting requirements), authority, duties, powers and responsibilities shall at all times be at least commensurate in all material respects with the most significant of those held, exercised or assigned

to the Executive as of the Effective Date. The Executive shall devote the Executive's knowledge, skill and all of the Executive's professional time, attention and energies (reasonable absences for vacations and illness excepted), to the business of the Company in order to perform such assigned duties faithfully, competently and diligently. It is understood and agreed between the parties that the Executive may (i) engage in charitable and community activities, including serving on boards of directors or trustees of and holding other leadership positions in non-profit organizations unless the objectives and requirements of such positions are determined by the Board of Directors to be inconsistent with the performance of the Executive's duties hereunder, and, (ii) manage personal investments, so long as such activities do not interfere or conflict with the Executive's performance of responsibilities and obligations hereunder. It is expressly agreed that any such activities engaged in by the Executive as of the Effective Date shall not thereafter be deemed to interfere with the Executive's obligations and responsibilities hereunder. The Executive agrees that the approval of the Board of Directors or a committee thereof shall be required before the Executive first accepts a position as director of any for-profit corporation after the date hereof.

3. Compensation. During the term of this Agreement the Executive shall receive, for all services rendered to the Company hereunder, the following (hereinafter referred to collectively as "Compensation"):

(a) Salary. The Executive shall be paid an annual base salary at an annual rate at least equal to the annual rate being paid or payable to the Executive by the Company in the month in which the Effective Date occurs, with such increases thereafter as shall be determined from time to time to be fair and reasonable by the Board of Directors or by the Executive Compensation Committee of the Board of Directors (the "Committee") in its discretion after taking into account, among other things, the authority, duties, powers and responsibilities of the Executive's position, the Executive's performance, the Company's performance, the compensation of persons in comparable positions at the Company and at other comparable companies, and the effect of inflation. The Executive's annual base salary shall not be reduced after any such increase. The Executive's annual base salary shall be payable in equal installments in accordance with the Company's general salary payment policies, but no less frequently than bi-weekly.

(b) Incentive Compensation. The Executive shall be eligible for awards under the Company's incentive compensation plans, if any, applicable to senior executive officers of the Company or to key employees of the Company or its subsidiaries, including, but not limited to, management incentive plans and stock option plans, in accordance with and subject to the terms thereof (including any provisions providing for changes in the level of or termination of benefits thereunder), on a basis commensurate with the Executive's position and authorities, duties, powers and responsibilities.

(c) Employee Benefit Plans. The Executive and the Executive's "dependents," as that term may be defined under the applicable employee benefit plan(s) of the Company, shall be included, to the extent eligible thereunder and subject to the terms of the plans (including any provisions for changing the level of or termination of benefits thereunder), in all plans, programs and policies which provide benefits for Company employees and their dependents on a basis commensurate with the Executive's position and authorities, duties, powers and responsibilities including, without limitation, health care insurance, health and welfare plans, pension and retirement plans, group life insurance plans, split dollar life insurance plans, short and long-term disability plans, survivors' benefits, executive supplemental benefits, holidays and other similar or comparable benefits made available to the Company's employees and senior executive officers (hereinafter, such plans, programs and policies shall be collectively referred to as the "Erie Benefit Plans"). Such plans, programs and policies shall include, but are not limited to, the Erie Insurance Group Retirement Plan for Employees, the Erie Insurance Group Employee Savings Plan, the Erie Insurance Group Deferred Compensation Plan, the Erie Insurance Group Split Dollar Life Insurance Plan, the Erie Insurance Group Supplemental Executive Retirement Plan, and the Erie Insurance Group Health Protection, Prescription Drug, Dental Assistance and Vision Care Plans.

(d) Perquisites. The Executive shall be entitled to all perquisites which the Company from time to time makes available to senior executive officers of the Company. Such perquisites shall include, but are not limited to, parking, club dues, tax preparation assistance, and an annual physical examination.

(e) Expenses and Working Facilities. The Executive is hereby authorized to incur, and shall be reimbursed by the Company for, any and all reasonable and necessary business related expenses, including, but not limited to, expenses for business travel, entertainment, gifts and similar matters, which expenses are incurred by the Executive on behalf of the Company or any of its subsidiaries, upon presentation of itemized accounts of such expenses in accordance with Company policies. The Executive shall be furnished during the term of this Agreement with offices and other working facilities in the Company's principal executive offices located in Erie, Pennsylvania (or other location of the principal executive offices within the Erie metropolitan area) and secretarial and other assistance suitable to the Executive's position and adequate for the performance of duties hereunder.

(f) Performance Appraisal. The Executive's performance may be evaluated by the Board of Directors or the Committee from time to time. The Executive shall be entitled to such additional remuneration, including but not limited to annual bonuses based on performance, as the Board of Directors or the Committee may, in its discretion, determine from time to time.

4. Absences. The Executive shall be entitled to vacations in accordance with the Company's vacation policy in effect from time to time (but in no event shall the Executive be entitled to fewer vacation days than under the Company's vacation policy as in effect on the Effective Date) and to absences because of illness or other incapacity, and shall also be entitled to such other absences, whether for holiday, personal time, conventions, or for any other purpose, as are granted to the Company's other senior executive officers or as are approved by the Board of Directors or the Committee, which approval shall not be unreasonably withheld.

5. Termination. The Executive's employment hereunder may be terminated only as follows:

(a) Expiration of Term of Office. Upon the expiration of the term of the office(s) to which the Executive has been elected or appointed as set forth in Section 1 hereof, the Board of Directors may (i) determine that the Executive should not continue in such office(s) or (ii) that the Executive should not be elected or appointed to an office with duties, authorities, powers and responsibilities that are at least commensurate with those of said office(s), in either case, for reasons other than for Cause (if the reasons for such noncontinuance, nonreelection or nonreappointment constitute Cause, then Section 5(d) hereof will apply).

(b) By the Company Without Cause. The Company may at any time terminate the Executive's employment hereunder without Cause only by the affirmative vote of a majority of the entire Board of Directors, and upon no less than thirty (30) days' prior written notice to the Executive.

(c) By the Executive Without Good Reason. The Executive may at any time terminate employment hereunder for any reason upon no less than thirty (30) days' written notice to the Company. Section 5(e) shall apply to any termination of employment by the Executive for Good Reason.

(d) By the Company For Cause. The Company may terminate the Executive's employment hereunder for Cause. In such event, the Company shall give to the Executive prompt written notice (in addition to any notice which may be required by Section 5(d)(1) hereof) specifying in reasonable detail the basis for such termination. For purposes of this Agreement, "Cause" shall mean any of the following conduct by the Executive:

(1) The deliberate and intentional breach of any material provision of this Agreement, which breach Executive shall have failed to cure within thirty (30) days after Executive's receipt of written notice from the Company specifying the specific nature of the Executive's breach;

(2) The deliberate and intentional engaging by Executive in gross misconduct that is materially and demonstrably inimical to the best interests, monetary or otherwise, of the Company; or

(3) Conviction of a felony or conviction of any crime involving moral turpitude, fraud or deceit.

For purposes of this definition, no act, or failure to act, on the Executive's part shall be considered "deliberate and intentional" unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that such action or omission was in the best interest of the Company.

(e) By the Executive for Good Reason. The Executive may terminate employment hereunder for Good Reason upon providing thirty (30) days written notice to the Company after the Executive reasonably becomes aware of the circumstances giving rise to such Good Reason. For purposes of this Agreement, "Good Reason" means the following conduct of the Company, unless the Executive shall have consented thereto in writing:

(1) Material breach of any material provision of this Agreement by the Company, which breach shall not have been cured by the Company within thirty (30) days after Company's receipt from the Executive or the Executive's agent of written notice specifying in reasonable detail the nature of the Company's breach;

(2) The assignment to the Executive of any duties inconsistent in any material respect with the Executive's position (including any reduction of the Executive's status and reporting requirements), authority, duties, powers or responsibilities with the Company as contemplated by Section 2 of this Agreement, or any other action by the Company, including the removal of the Executive from or any failure to reelect or reappoint the Executive to the office(s) specified in Section 2 or a commensurate office(s) (other than for Cause), which results in a diminution of the Executive's authority, duties, position, responsibilities or status, excluding for this purpose any isolated, insubstantial and inadvertent action respecting the Executive not taken in bad faith and which is remedied by the Company within thirty (30) days after receipt of written notice from the Executive to the Company;

(3) The Company's relocation of the Executive out of the Company's principal executive offices or the relocation of the Company's principal executive offices to a location outside the Erie, Pennsylvania metropolitan area, except for required short-term travel on the Company's behalf to the extent necessary for the Executive to carry out his normal duties in the ordinary course of business;

(4) The failure of the Company to obtain the assumption in writing of its obligations to perform this Agreement by any successor as provided in Section 14 hereof not less than five days prior to a merger, consolidation or sale as contemplated in Section 14; or

(5) A reduction in the overall level of compensation of the Executive. For purposes of this subsection 5, the following shall not constitute a reduction in the overall level of compensation of the Executive: (i) changes in the cash/stock mix of compensation payable to the Executive; (ii) a reduction in the overall level of compensation of the Executive resulting from the failure to achieve corporate, business unit and/or individual performance goals established for purposes of incentive compensation for any year or other period; provided that the aggregate short-term incentive opportunity, when combined with the Executive's base salary, provides, in the aggregate, an opportunity for the Executive to realize at least the same overall level of compensation as was paid in the immediately prior year or period at target performance levels; and provided, further, that such target performance levels are reasonable at all times during the measurement period, taking into account the fact that one of the purposes of such compensation is to incent the Executive; (iii) reductions in compensation resulting from changes to any Erie Benefit Plan (provided that such changes are generally applicable to all participants in such Erie Benefit Plan); and (iv) any combination of the foregoing.

(f) Disability. In the event that the Executive shall be unable to perform the Executive's duties hereunder on a full time basis for a period of one hundred-eighty (180) consecutive calendar days by reason of incapacity due to illness, accident or other physical or mental disability, then the Company may, at its discretion, terminate the Executive's employment hereunder if the Executive, within ten (10) days after receipt of written notice of termination (which notice may be given before or after the end of the entire 180 day period), shall not have returned to the performance of all of his duties hereunder on a full-time basis.

(g) Death. The Executive's employment under this Agreement shall terminate upon the Executive's death.

(h) Mutual Written Agreement. This Agreement and the Executive's employment hereunder may be terminated at any time by the mutual written agreement of the Executive and the Company.

6. Compensation in the Event of Termination. In the event that the Executive's employment hereunder terminates prior to the expiration of this Agreement for any reason provided in Section 5 hereof, the Company shall pay the Executive, compensation and provide the Executive and the Executive's eligible dependents with benefits as follows:

(a) Executive's Nonreelection to Office; Termination By Company Without Cause; Termination By Executive for Good Reason. In the event that the Executive's employment hereunder is terminated: (i) because the Executive does not continue in office pursuant to Section 5(a) hereof; or (ii) by the Company without Cause pursuant to Section 5(b) hereof; or (iii) by the Executive for Good Reason pursuant to Section 5(e) hereof, then in any such event the Company shall pay or provide, as applicable, the following compensation and benefits to the Executive:

(1) Three (3) times the following: (A) the highest annual base salary paid or payable to the Executive in the then current year or any one (1) of the three (3) calendar years preceding Executive's termination of employment hereunder; plus (B) an amount equal to the sum of the Executive's highest award(s) under the Company's Annual Incentive Plans for any one (1) of the three (3) calendar years preceding the date of the termination of Executive's employment hereunder (such total is referred to herein as "Covered Compensation"). Such payment to the Executive by the Company shall be paid in a lump sum unless the Executive elects, and so notifies the Company in writing prior to the termination of the Executive's employment hereunder, to receive such payment in three (3) equal annual installments. The lump sum or first payment, as the case may be, shall be paid within sixty (60) days after the date of the termination of the Executive's employment hereunder;

(2) Any awards or other compensation to which the Executive is entitled under any of the Company's compensation plans or Erie Benefit Plans to the extent not covered in subsection (1) hereof;

(3) Any award to which the Executive would be entitled under the Company's Long-Term Incentive Plan as in effect on December 16, 1997, calculated under the provision of that Plan as if the Executive ceases to be an Employee of the Company by reason of death, disability or normal retirement;

(4) Continuing coverage for all purposes (including eligibility, coverage, vesting and benefit accruals, as applicable), for a period of three (3) years after the date of the termination of Executive's employment hereunder, to the extent not prohibited by law, for the Executive and the Executive's eligible dependents under all of the Erie Benefit Plans in effect and applicable to Executive and the Executive's eligible dependents as of the date of termination. In the event that the Executive and/or the Executive's eligible dependents, because of the Executive's terminated status, cannot be covered or fully covered under any or all of the Erie Benefit Plans, the Company shall continue to provide the Executive and/or the Executive's eligible dependents with the same level of such coverage in effect prior to termination, payable from the general assets of the Company if necessary. Notwithstanding the foregoing, the Executive may elect (by giving written notice to the Company prior to the termination of employment hereunder), on a benefit by benefit basis, to receive in lieu of continuing coverage, cash in an amount equal to the present value (using a 6.5% discount rate over three years) of the projected cost to the Company of providing such benefit for such three year period. The aggregate amount of cash to which the Executive is entitled pursuant to the preceding sentence shall be payable by the Company to the Executive within sixty (60) days after the date of the termination of Executive's employment hereunder; and

(5) For a period of three (3) years after the date of the termination of Executive's employment hereunder, such perquisites as are made available to the Executive as of the date of the termination of Executive's employment hereunder.

The Executive's subsequent death, disability or attainment of age 65 or any other age shall in no way affect or limit the Company's obligations under this Section 6(a).

(b) Termination By the Company for Cause. In the event that the Company shall terminate the Executive's employment hereunder for Cause pursuant to Section 5(d), this Agreement shall forthwith terminate and the obligations of the parties hereto shall be as set forth in Section 8 hereof.

(c) Termination by the Executive Without Good Reason. In the event that the Executive shall terminate employment hereunder other than for Good Reason pursuant to Section 5(c), this Agreement shall forthwith terminate and the obligations of the parties hereto shall be as set forth in Section 8 hereof.

(d) Disability. In the event that the Company elects to terminate the Executive's employment hereunder pursuant to Section 5(f), the Executive shall continue to receive from the date of such termination through the expiration date of this Agreement, sixty percent (60%) of the then current annual base salary to which the Executive was entitled pursuant to Section 3(a) hereof immediately preceding such termination, in accordance with the payroll practices of the Company for senior executive officers, reduced, however, by the amount of any proceeds from Social Security and disability insurance policies provided by and at the expense of the Company.

(e) Death. In the event of the death of the Executive during the term of this Agreement, the then current annual base salary to which the Executive was entitled pursuant to Section 3(a) hereof immediately preceding the Executive's death shall be paid, in twelve (12) equal monthly installments following the date of death, to the last beneficiary designated by the Executive under the Company's group life insurance policy maintained by the Company or such other written designation expressly provided to the Company for the purposes hereof or, failing either such designation, to the Executive's estate.

(f) Mutual Written Consent. In the event that the Executive and the Company shall terminate the Executive's employment by mutual written agreement, the Company shall pay such compensation and provide such benefits, if any, as the parties may mutually agree upon in writing.

The Executive shall not be required to mitigate the amount of any payment provided for in this Section 6 by seeking employment or otherwise, nor shall any amounts received from employment or otherwise by the Executive offset in any manner the obligations of the Company hereunder except as specifically provided in Section 6(d) hereof.

7. Certain Additional Payments by the Company. Notwithstanding anything in this Agreement to the contrary, in the event it is determined that any payment or distribution by the Company to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (a "Payment"), is subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), or any successor provision, on excess parachute payments, as that term is used and defined in Sections 4999 and 280G of the Code, then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount equal to the then current rate of tax under said Section 4999 multiplied by the total of the amounts so paid or payable, including the Gross-Up Payment, which are deemed to be a part of an excess parachute payment.

8. Effect of Expiration of Agreement or Termination of Executive's Employment. Upon the expiration of this Agreement by its terms or the termination of the Executive's employment hereunder, neither the Company nor the Executive shall have any remaining duties or obligations hereunder except that:

(a) The Company shall:

(1) Pay the Executive's accrued salary and any other accrued benefits under Sections 3(a), (b), and (c) hereof;

(2) Reimburse the Executive for expenses already incurred in accordance with Section 3(e) hereof;

(3) Pay or otherwise provide for any benefits, payments or continuation or conversion rights in accordance with the provisions of any Erie Benefit Plan of which the Executive or any of the Executive's dependents is or was a participant or as otherwise required by law;

(4) Pay the Executive and the Executive's beneficiaries any compensation and/or provide the Executive or the Executive's eligible dependents any benefits, as the case may be, due pursuant to Section 6 or Section 7 hereof; and

(5) Unless the employment of the Executive is terminated by the Company for Cause, pay the Executive or the Executive's beneficiaries the full amount or amounts accrued under the Supplemental Executive Retirement Plan of the Company (the "SERP") as in effect on the Effective Date (or as such benefits may be enhanced by subsequent amendments or supplements to such SERP), as though, solely for purposes of determining any otherwise applicable actuarial reduction factors, the event of the termination of Executive's employment hereunder or expiration of this Agreement occurred on the Executive's Normal Retirement Date as defined in such SERP. Accrued benefits under the SERP shall be fully vested and nonforfeitable upon such termination (including termination on account of the Executive's death) or expiration. Any reductions in SERP benefits that would otherwise apply pursuant to Section 10.1 of the Company's Retirement Plan for Employees (or pursuant to any successor provision of such plan or any successor plan) relating to Section 415(b) of the Code shall not be applicable for purposes hereof. No further approval by the Board of Directors or the Committee with respect to payments under the SERP in accordance with the preceding sentences shall be required. Unreduced payments may begin at age 55, but in no event would payments be made under this Section 8(a)(5) before the Executive reaches age fifty-five (55). The Company shall purchase for the Executive, naming the Executive and/or the Executive's designee the owner, a paid up annuity, from an insurer reasonably acceptable to the Executive but in any event having an A.M. Best rating of A+ or better (or other comparable rating), that will pay to the Executive an amount equal to the benefit to which the Executive would otherwise be entitled under the SERP and payable at the times such SERP benefit would be payable in accordance with the provisions hereof. Upon the purchase and delivery to the Executive of such an annuity, the Executive shall release the Company from any further obligation under the SERP. The Company further agrees to pay the Executive immediately upon termination, a cash payment (the "Tax Gross-up") equal to the sum of the following: (i) all taxes (federal, state, local, and payroll taxes) incurred and due and owing by the Executive, arising from the cost of the annuity purchased by the Company to meet the requirements of this Section 8(a)(5), and (ii) any such taxes incurred and due and owing with respect to the amount paid in (i).

(6) Continue to remain bound by the terms of Section 12 hereof.

(b) The Executive shall remain bound by the terms of Sections 9 and 13 hereof for a period of thirty six (36) months after the expiration of the Agreement by its terms; provided, that the Executive shall not be bound by the terms of Section 9(b) after the termination of employment (other than a termination of the Executive by the Company for Cause) if such termination occurs after the expiration of this Agreement by its terms.

9. Covenants as to Confidential Information and Competitive Conduct. The Executive hereby acknowledges and agrees as follows: (i) this Section 9 is necessary for the protection of the legitimate business interests of the Company, (ii) the restrictions contained in this Section 9 with regard to geographical scope, length of term and types of restricted activities are reasonable; (iii) the Executive has received adequate and valuable new consideration for entering into this Agreement, and (iv) the Executive's expertise and capabilities are such that this obligation hereunder and the enforcement hereof by injunction or otherwise will not adversely affect the Executive's ability to earn a livelihood.

(a) Confidentiality of Information and Nondisclosure. The Executive acknowledges and agrees that the Executive's employment by the Company under this Agreement necessarily involves knowledge of and access to confidential and proprietary information pertaining to the business of the Company and its subsidiaries. Accordingly, the Executive agrees that at all times during the term of this Agreement and at any time thereafter, the Executive will not, directly or indirectly, without the express written approval of the Company, unless directed by applicable legal authority (including any court of competent jurisdiction, governmental agency having supervisory authority over the business of the Company or the subsidiaries, or any legislative or administrative body having supervisory authority over the business of the Company or its subsidiaries) having jurisdiction over the Executive, disclose to or use, or knowingly permit to be so disclosed or used, for the benefit of himself, any person, corporation or other entity other than the Company, (i) any information concerning any financial matters, customer relationships, competitive status, supplier matters, internal organizational matters, current or future plans, or other business affairs of or relating to the Company or its subsidiaries, (ii) any management, operational, trade, technical or other secrets or any other proprietary information or other data of the Company or its subsidiaries, or (iii) any other information related to the Company or its subsidiaries or which the Executive should reasonably believe will be damaging to the Company or its subsidiaries which has not been published and is not generally known outside of the Company. The Executive acknowledges that all of the foregoing constitutes confidential and proprietary information, which is the exclusive property of the Company.

(b) Restrictive Covenant. During the term of, and for a period of one (1) year (the "Restrictive Period") after the termination of the Executive's employment hereunder for any reason (other than a termination of the Executive hereunder pursuant to Section 5(a), 5(b) or 5(e), hereof), the Executive shall not render, directly, or indirectly, services to any person, firm, corporation, association or other entity which conducts the same or similar business as the Company or its subsidiaries at the date of the Executive's termination of employment hereunder within the states in which the Company or any of its subsidiaries is then licensed and doing business at the date of the Executive's termination of employment hereunder without the prior written consent of the Board of Directors, which may be withheld in its discretion. In the event the Executive violates any of the provisions contained in this Section 9(b) hereof, the Restrictive Period shall be increased by the period of time from the commencement by the Executive of any violation until such violation has been cured to the satisfaction of the Company. The Executive further agrees that at no time during the Restrictive Period will the Executive attempt to directly or indirectly solicit or hire employees of Company or its subsidiaries or induce any of them to terminate their employment with the Company or any of the subsidiaries. Notwithstanding the foregoing, the performance by the Executive of rights and duties under an agency agreement with the Company shall not constitute a breach of this Section 9(b).

(c) Company Remedies. The Executive acknowledges and agrees that any breach of this Section 9 will result in immediate and irreparable harm to the Company, and that the Company cannot be reasonably or adequately compensated by damages in an action at law. In the event of a breach by the Executive of the provisions of this Section 9, the Company shall be entitled, to the extent permitted by law, immediately to cease to pay or provide the Executive or the Executive's dependents any compensation or benefit being, or to be, paid or provided to the Executive pursuant to Section 3, Section 6 or Section 8 of this Agreement, and also to obtain immediate injunctive relief restraining the Executive from conduct in breach of the covenants contained in this Section 9. Nothing herein shall be construed as prohibiting the Company from pursuing any other remedies available to it for such breach, including the recovery of damages from the Executive.

10. Resolution of Differences Over Breaches of Agreement. Except as otherwise provided herein, in the event of any controversy, dispute or claim arising out of, or relating to, this Agreement, or the breach thereof, or arising out of any other matter relating to the Executive's employment with the Company, the parties may seek recourse only for temporary or preliminary injunctive relief to the courts having jurisdiction thereof and if any relief other than injunctive relief is sought, the Company and the Executive agree that such underlying controversy, dispute or claim shall be settled by arbitration conducted in Erie, Pennsylvania in accordance with this Section 10 and the Commercial Arbitration Rules of the American Arbitration Association ("AAA"). The matter shall be heard and decided, and awards rendered by a panel of three (3) arbitrators (the "Arbitration Panel"). The Company and the Executive shall each select one arbitrator from the AAA National Panel of Commercial Arbitrators (the "Commercial Panel") and AAA shall select a third arbitrator from the Commercial Panel. The award rendered by the Arbitration Panel shall be final and binding as between the parties hereto and their heirs, executors, administrators, successors and assigns, and judgment on the award may be entered by any court having jurisdiction thereof. Except as provided in Section 11 hereof, each party shall bear sole responsibility for all expenses and costs incurred by such party in connection with the resolution of any controversy, dispute or claim in accordance with this Section 10.

11. Payment of Executive's Legal Fees. If the Executive is required to bring any action to enforce rights or to collect moneys due under this Agreement, the Company shall pay to the Executive the fees and expenses incurred by the Executive in bringing and pursuing such action if the Executive is successful, in whole or in part, on the merits or otherwise (including by way of a settlement involving a payment of money by the Company to the Executive), in such action. The Company shall pay such fees and expenses in advance of the final disposition of such action upon receipt of an undertaking from the Executive to repay to the Company such advances if the Executive is not ultimately successful, in whole or in part, on the merits or otherwise, in such action.

12. Severance Pay upon Termination of Employment after Expiration of the Agreement. Notwithstanding the expiration of this Agreement by its terms and notwithstanding the terms of any corporate severance policy then in effect and applicable to the Executive, if the employment of the Executive is terminated without Cause by the Company, by the Executive for Good Reason or upon the expiration of the term of the office(s) to which the Executive has been elected or appointed as set forth in Section 1 hereof (for reasons other than for Cause), in any case, within thirty-six (36) months after the expiration of this Agreement by its terms, then (i) the Company shall pay to the Executive severance compensation in an amount equal to two (2) times the Executive's Covered Compensation as determined on the date of such termination, and (ii) the Executive and the Executive's eligible dependents shall be entitled to continuing coverage under the Company's then-existing group health plans (including medical, dental, prescription drug and vision plans, if any) for a period of two (2) years after the date of the termination of the Executive's employment, to the extent not prohibited by law and subject to the terms of such plans including provisions as to deductibles and copayments and changes in levels of coverage that are generally applicable to employees. The payment to the Executive by the Company pursuant to subsection (i) of the preceding sentence shall be paid in a lump sum unless the Executive elects, and so notifies the Company in writing prior to the Executive's termination of employment, to receive such payment in two (2) equal annual installments. The lump sum or first payment, as the case may be, shall be paid within thirty (30) days after the date of termination of the Executive's employment.

13. Release. The Executive hereby acknowledges and agrees that neither the Company nor any of its representatives or agents will be obligated to pay any compensation or benefit which the Executive has a right to be paid or provided to the Executive or the Executive's dependents pursuant to Section 6, Section 8 or Section 12 of this Agreement, unless the Executive, if requested by the Company in its sole discretion, executes a release in a form reasonably acceptable to the Company, which releases any and all claims the Executive has or may have against the Company or its subsidiaries, agents, officers, directors, successors or assigns.

14. Waiver. The waiver by a party hereto of any breach by the other party hereto of any provision of this Agreement shall not operate or be construed as a waiver of any other or subsequent breach by a party hereto.

15. Assignment. This Agreement shall be binding upon and inure to the benefit of the successors and assigns of the Company, and the Company shall be obligated to require any successor to expressly acknowledge and assume its obligations hereunder. This Agreement shall inure to the extent provided hereunder to the benefit of and be enforceable by the Executive or the Executive's legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. The Executive may not delegate any of the Executive's duties, responsibilities, obligations or positions hereunder to any person and any such purported delegation shall be void and of no force and effect.

16. Notices. Any notices required or permitted to be given under this Agreement shall be sufficient if in writing, and if personally delivered or when sent by first class certified or registered mail, postage prepaid, return receipt requested--in the case of the Executive, to his residence address as set forth below, and in the case of the Company, to the address of its principal place of business as set forth below, to the attention of the Chairman of the Board, or in case the Executive is the Chairman of the Board, to the Chairman of the Compensation Committee of the Board -- or to such other person or at such other address with respect to each party as such party shall notify the other in writing.

17. Construction of Agreement.

(a) Governing Law. This Agreement shall be governed by and construed under the laws of the Commonwealth of Pennsylvania.

(b) Severability. In the event that any one or more of the provisions of this Agreement shall be held to be invalid, illegal or unenforceable, the validity, legality or enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

(c) Headings. The descriptive headings of the several paragraphs of this Agreement are inserted for convenience of reference only and shall not constitute a part of this Agreement.

18. Entire Agreement. This Agreement contains the entire agreement of the parties concerning the Executive's employment and all promises, representations, understandings, arrangements and prior agreements on such subject are merged herein and superseded hereby, including the Employment Agreement effective November 20, 1995 which is expressly superseded hereby. The provisions of this Agreement may not be amended, modified, repealed, waived, extended or discharged except by an agreement in writing signed by the party against whom enforcement of any amendment, modification, repeal, waiver, extension or discharge is sought. No person acting other than pursuant to a resolution of the Board of Directors or the Committee shall have authority on behalf of the Company to agree to amend, modify, repeal, waive, extend or discharge any provision of this Agreement or anything in reference thereto or to exercise any of the Company's rights to terminate or to fail to extend this Agreement.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its officers thereunto duly authorized, and the Executive has hereunto set his hand all as of the day and year first above written.

ATTEST: ERIE INDEMNITY COMPANY

/s/ Mark T. Torok
____
Mark T. Torok
Assistant Secretary

By: /s/ F. William Hirt
____
F. William Hirt
Chairman of the Board

WITNESS:

/s/ Sheila M. Hirsch
____

/s/ Jan R. Van Gorder
______________________________(SEAL)
Jan R. Van Gorder
6796 Manchester Beach Rd.
Fairview, PA 16415

Exhibit 10.26

EMPLOYMENT AGREEMENT

THIS AGREEMENT (the "Agreement") made effective as of the 16th day of December, 1997 (the "Effective Date") by and between ERIE INDEMNITY COMPANY, a Pennsylvania corporation with its principal place of business at Erie, Pennsylvania (the "Company"), and PHILIP A. GARCIA (the "Executive");

WITNESSETH:

WHEREAS, the Company has determined that it is in the best interests of the Company and its shareholders to secure the continued employment of the Executive on the terms and subject to the conditions set forth in this Agreement; and

WHEREAS, the Executive desires and is willing to accept employment with the Company on the terms and subject to the conditions set forth herein;

NOW THEREFORE, in consideration of the premises and mutual covenants contained herein, and intending to be legally bound hereby, the parties hereto agree as follows:

1. Term. The Company hereby agrees to continue the employment of the Executive and the Executive hereby agrees to continue to serve the Company pursuant to the terms and conditions of this Agreement as Executive Vice President of the Company, or in such other position with the Company of at least commensurate responsibility and authority in all material respects, for a term of two years commencing on the Effective Date hereof and expiring on December 15, 1999, unless earlier terminated pursuant to Section 5 hereof. Notwithstanding the foregoing, the Executive shall serve in said office(s) at the pleasure of the Company's Board of Directors (the "Board of Directors") and the Executive may be removed from said office(s) at any time with or without Cause, as hereinafter defined, pursuant to Sections 5(b) or 5(d) hereof; provided that any such removal shall be without prejudice to any contract rights the Executive may have hereunder. Subject to Section 8(a)(6) and Section 8(b) hereof, this Agreement shall expire by its terms on December 15, 1999.

2. Duties and Responsibilities. The Executive's duties hereunder shall be those which shall be prescribed by the Company's Bylaws, as amended from time to time, and by the Board of Directors or any committee thereof from time to time and shall include such executive authority, duties, powers and responsibilities as customarily attend the office as Executive Vice President of a company comparable to the Company. The Executive shall discharge such duties consistent with sound business practices and in accordance with law and the Company's general employment policies, in each case, as in effect from time to time, in all material respects and the Executive shall use best efforts to promote the best interests of the Company. During the term of this Agreement, the Executive's position (including the Executive's status and reporting requirements), authority, duties, powers and responsibilities shall at all times be at least commensurate in all material respects with the most significant of those held, exercised or assigned

to the Executive as of the Effective Date. The Executive shall devote the Executive's knowledge, skill and all of the Executive's professional time, attention and energies (reasonable absences for vacations and illness excepted), to the business of the Company in order to perform such assigned duties faithfully, competently and diligently. It is understood and agreed between the parties that the Executive may (i) engage in charitable and community activities, including serving on boards of directors or trustees of and holding other leadership positions in non-profit organizations unless the objectives and requirements of such positions are determined by the Board of Directors to be inconsistent with the performance of the Executive's duties hereunder, and, (ii) manage personal investments, so long as such activities do not interfere or conflict with the Executive's performance of responsibilities and obligations hereunder. It is expressly agreed that any such activities engaged in by the Executive as of the Effective Date shall not thereafter be deemed to interfere with the Executive's obligations and responsibilities hereunder. The Executive agrees that the approval of the Board of Directors or a committee thereof shall be required before the Executive first accepts a position as director of any for-profit corporation after the date hereof.

3. Compensation. During the term of this Agreement, the Executive shall receive, for all services rendered to the Company hereunder, the following (hereinafter referred to collectively as "Compensation"):

(a) Salary. The Executive shall be paid an annual base salary at an annual rate at least equal to the annual rate being paid or payable to the Executive by the Company in the month in which the Effective Date occurs, with such increases thereafter as shall be determined from time to time to be fair and reasonable by the Board of Directors or by the Executive Compensation Committee of the Board of Directors (the "Committee") in its discretion after taking into account, among other things, the authority, duties, powers and responsibilities of the Executive's position, the Executive's performance, the Company's performance, the compensation of persons in comparable positions at the Company and at other comparable companies, and the effect of inflation. The Executive's annual base salary shall not be reduced after any such increase. The Executive's annual base salary shall be payable in equal installments in accordance with the Company's general salary payment policies, but no less frequently than bi-weekly.

(b) Incentive Compensation. The Executive shall be eligible for awards under the Company's incentive compensation plans, if any, applicable to senior executive officers of the Company or to key employees of the Company or its subsidiaries, including, but not limited to, management incentive plans and stock option plans, in accordance with and subject to the terms thereof (including any provisions providing for changes in the level of or termination of benefits thereunder), on a basis commensurate with the Executive's position and authorities, duties, powers and responsibilities.

(c) Employee Benefit Plans. The Executive and the Executive's "dependents," as that term may be defined under the applicable employee benefit plan(s) of the Company, shall be included, to the extent eligible thereunder and subject to the terms of the plans (including any provisions for changing the level of or termination of benefits thereunder), in all plans, programs and policies which provide benefits for Company employees and their dependents on a basis commensurate with the Executive's position and authorities, duties, powers and responsibilities including, without limitation, health care insurance, health and welfare plans, pension and retirement plans, group life insurance plans, split dollar life insurance plans, short and long-term disability plans, survivors' benefits, executive supplemental benefits, holidays and other similar or comparable benefits made available to the Company's employees and senior executive officers (hereinafter, such plans, programs and policies shall be collectively referred to as the "Erie Benefit Plans"). Such plans, programs and policies shall include, but are not limited to, the Erie Insurance Group Retirement Plan for Employees, the Erie Insurance Group Employee Savings Plan, the Erie Insurance Group Deferred Compensation Plan, the Erie Insurance Group Split Dollar Life Insurance Plan, the Erie Insurance Group Supplemental Executive Retirement Plan, and the Erie Insurance Group Health Protection, Prescription Drug, Dental Assistance and Vision Care Plans.

(d) Perquisites. The Executive shall be entitled to all perquisites which the Company from time to time makes available to senior executive officers of the Company. Such perquisites shall include, but are not limited to, parking, club dues, tax preparation assistance, and an annual physical examination.

(e) Expenses and Working Facilities. The Executive is hereby authorized to incur, and shall be reimbursed by the Company for, any and all reasonable and necessary business related expenses, including, but not limited to, expenses for business travel, entertainment, gifts and similar matters, which expenses are incurred by the Executive on behalf of the Company or any of its subsidiaries, upon presentation of itemized accounts of such expenses in accordance with Company policies. The Executive shall be furnished during the term of this Agreement with offices and other working facilities in the Company's principal executive offices located in Erie, Pennsylvania (or other location of the principal executive offices within the Erie metropolitan area) and secretarial and other assistance suitable to the Executive's position and adequate for the performance of duties hereunder.

(f) Performance Appraisal. The Executive's performance may be evaluated by the Board of Directors or the Committee from time to time. The Executive shall be entitled to such additional remuneration, including but not limited to annual bonuses based on performance, as the Board of Directors or the Committee may, in its discretion, determine from time to time.

4. Absences. The Executive shall be entitled to vacations in accordance with the Company's vacation policy in effect from time to time (but in no event shall the Executive be entitled to fewer vacation days than under the Company's vacation policy as in effect on the Effective Date) and to absences because of illness or other incapacity, and shall also be entitled to such other absences, whether for holiday, personal time, conventions, or for any other purpose, as are granted to the Company's other senior executive officers or as are approved by the Board of Directors or the Committee, which approval shall not be unreasonably withheld.

5. Termination. The Executive's employment hereunder may be terminated only as follows:

(a) Expiration of Term of Office. Upon the expiration of the term of the office(s) to which the Executive has been elected or appointed as set forth in Section 1 hereof, the Board of Directors may (i) determine that the Executive should not continue in such office(s) or (ii) that the Executive should not be elected or appointed to an office with duties, authorities, powers and responsibilities that are at least commensurate with those of said office(s), in either case, for reasons other than for Cause (if the reasons for such noncontinuance, nonreelection or nonreappointment constitute Cause, then Section 5(d) hereof will apply).

(b) By the Company Without Cause. The Company may at any time terminate the Executive's employment hereunder without Cause only by the affirmative vote of a majority of the entire Board of Directors, and upon no less than thirty (30) days' prior written notice to the Executive.

(c) By the Executive Without Good Reason. The Executive may at any time terminate employment hereunder for any reason upon no less than thirty (30) days' written notice to the Company. Section 5(e) shall apply to any termination of employment by the Executive for Good Reason.

(d) By the Company For Cause. The Company may terminate the Executive's employment hereunder for Cause. In such event, the Company shall give to the Executive prompt written notice (in addition to any notice which may be required by Section 5(d)(1) hereof) specifying in reasonable detail the basis for such termination. For purposes of this Agreement, "Cause" shall mean any of the following conduct by the Executive:

(1) The deliberate and intentional breach of any material provision of this Agreement, which breach Executive shall have failed to cure within thirty (30) days after Executive's receipt of written notice from the Company specifying the specific nature of the Executive's breach;

(2) The deliberate and intentional engaging by Executive in gross misconduct that is materially and demonstrably inimical to the best interests, monetary or otherwise, of the Company; or

(3) Conviction of a felony or conviction of any crime involving moral turpitude, fraud or deceit.

For purposes of this definition, no act, or failure to act, on the Executive's part shall be considered "deliberate and intentional" unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that such action or omission was in the best interest of the Company.

(e) By the Executive for Good Reason. The Executive may terminate employment hereunder for Good Reason upon providing thirty (30) days written notice to the Company after the Executive reasonably becomes aware of the circumstances giving rise to such Good Reason. For purposes of this Agreement, "Good Reason" means the following conduct of the Company, unless the Executive shall have consented thereto in writing:

(1) Material breach of any material provision of this Agreement by the Company, which breach shall not have been cured by the Company within thirty (30) days after Company's receipt from the Executive or the Executive's agent of written notice specifying in reasonable detail the nature of the Company's breach;

(2) The assignment to the Executive of any duties inconsistent in any material respect with the Executive's position (including any reduction of the Executive's status and reporting requirements), authority, duties, powers or responsibilities with the Company as contemplated by Section 2 of this Agreement, or any other action by the Company, including the removal of the Executive from or any failure to reelect or reappoint the Executive to the office(s) specified in Section 2 or a commensurate office(s) (other than for Cause), which results in a diminution of the Executive's authority, duties, position, responsibilities or status, excluding for this purpose any isolated, insubstantial and inadvertent action respecting the Executive not taken in bad faith and which is remedied by the Company within thirty (30) days after receipt of written notice from the Executive to the Company;

(3) The Company's relocation of the Executive out of the Company's principal executive offices or the relocation of the Company's principal executive offices to a location outside the Erie, Pennsylvania metropolitan area, except for required short-term travel on the Company's behalf to the extent necessary for the Executive to carry out his normal duties in the ordinary course of business;

(4) The failure of the Company to obtain the assumption in writing of its obligations to perform this Agreement by any successor as provided in Section 14 hereof not less than five days prior to a merger, consolidation or sale as contemplated in Section 14; or

(5) A reduction in the overall level of compensation of the Executive. For purposes of this subsection 5, the following shall not constitute a reduction in the overall level of compensation of the Executive: (i) changes in the cash/stock mix of compensation payable to the Executive; (ii) a reduction in the overall level of compensation of the Executive resulting from the failure to achieve corporate, business unit and/or individual performance goals established for purposes of incentive compensation for any year or other period; provided that the aggregate short-term incentive opportunity, when combined with the Executive's base salary, provides, in the aggregate, an opportunity for the Executive to realize at least the same overall level of compensation as was paid in the immediately prior year or period at target performance levels; and provided, further, that such target performance levels are reasonable at all times during the measurement period, taking into account the fact that one of the purposes of such compensation is to incent the Executive; (iii) reductions in compensation resulting from changes to any Erie Benefit Plan (provided that such changes are generally applicable to all participants in such Erie Benefit Plan); and (iv) any combination of the foregoing.

(f) Disability. In the event that the Executive shall be unable to perform the Executive's duties hereunder on a full time basis for a period of one hundred-eighty (180) consecutive calendar days by reason of incapacity due to illness, accident or other physical or mental disability, then the Company may, at its discretion, terminate the Executive's employment hereunder if the Executive, within ten (10) days after receipt of written notice of termination (which notice may be given before or after the end of the entire 180 day period), shall not have returned to the performance of all of his duties hereunder on a full-time basis.

(g) Death. The Executive's employment under this Agreement shall terminate upon the Executive's death.

(h) Mutual Written Agreement. This Agreement and the Executive's employment hereunder may be terminated at any time by the mutual written agreement of the Executive and the Company.

6. Compensation in the Event of Termination. In the event that the Executive's employment hereunder terminates prior to the expiration of this Agreement for any reason provided in Section 5 hereof, the Company shall pay the Executive, compensation and provide the Executive and the Executive's eligible dependents with benefits as follows:

(a) Executive's Nonreelection to Office; Termination By Company Without Cause; Termination By Executive for Good Reason. In the event that the Executive's employment hereunder is terminated: (i) because the Executive does not continue in office pursuant to Section 5(a) hereof; or (ii) by the Company without Cause pursuant to Section 5(b) hereof; or (iii) by the Executive for Good Reason pursuant to Section 5(e) hereof, then in any such event the Company shall pay or provide, as applicable, the following compensation and benefits to the Executive:

(1) Three (3) times the following: (A) the highest annual base salary paid or payable to the Executive in the then current year or any one (1) of the three (3) calendar years preceding Executive's termination of employment hereunder; plus (B) an amount equal to the sum of the Executive's highest award(s) under the Company's Annual Incentive Plans for any one (1) of the three (3) calendar years preceding the date of the termination of Executive's employment hereunder (such total is referred to herein as "Covered Compensation"). Such payment to the Executive by the Company shall be paid in a lump sum unless the Executive elects, and so notifies the Company in writing prior to the termination of the Executive's employment hereunder, to receive such payment in three (3) equal annual installments. The lump sum or first payment, as the case may be, shall be paid within sixty (60) days after the date of the termination of the Executive's employment hereunder;

(2) Any awards or other compensation to which the Executive is entitled under any of the Company's compensation plans or Erie Benefit Plans to the extent not covered in subsection (1) hereof;

(3) Any award to which the Executive would be entitled under the Company's Long-Term Incentive Plan as in effect on December 16, 1997, calculated under the provision of that Plan as if the Executive ceases to be an Employee of the Company by reason of death, disability or normal retirement;

(4) Continuing coverage for all purposes (including eligibility, coverage, vesting and benefit accruals, as applicable), for a period of three (3) years after the date of the termination of Executive's employment hereunder, to the extent not prohibited by law, for the Executive and the Executive's eligible dependents under all of the Erie Benefit Plans in effect and applicable to Executive and the Executive's eligible dependents as of the date of termination. In the event that the Executive and/or the Executive's eligible dependents, because of the Executive's terminated status, cannot be covered or fully covered under any or all of the Erie Benefit Plans, the Company shall continue to provide the Executive and/or the Executive's eligible dependents with the same level of such coverage in effect prior to termination, payable from the general assets of the Company if necessary. Notwithstanding the foregoing, the Executive may elect (by giving written notice to the Company prior to the termination of employment hereunder), on a benefit by benefit basis, to receive in lieu of continuing coverage, cash in an amount equal to the present value (using a 6.5% discount rate over three years) of the projected cost to the Company of providing such benefit for such three year period. The aggregate amount of cash to which the Executive is entitled pursuant to the preceding sentence shall be payable by the Company to the Executive within sixty (60) days after the date of the termination of Executive's employment hereunder; and

(5) For a period of three (3) years after the date of the termination of Executive's employment hereunder, such perquisites as are made available to the Executive as of the date of the termination of Executive's employment hereunder.

The Executive's subsequent death, disability or attainment of age 65 or any other age shall in no way affect or limit the Company's obligations under this Section 6(a).

(b) Termination By the Company for Cause. In the event that the Company shall terminate the Executive's employment hereunder for Cause pursuant to Section 5(d), this Agreement shall forthwith terminate and the obligations of the parties hereto shall be as set forth in Section 8 hereof.

(c) Termination by the Executive Without Good Reason. In the event that the Executive shall terminate employment hereunder other than for Good Reason pursuant to Section 5(c), this Agreement shall forthwith terminate and the obligations of the parties hereto shall be as set forth in Section 8 hereof.

(d) Disability. In the event that the Company elects to terminate the Executive's employment hereunder pursuant to Section 5(f), the Executive shall continue to receive from the date of such termination through the expiration date of this Agreement, sixty percent (60%) of the then current annual base salary to which the Executive was entitled pursuant to Section 3(a) hereof immediately preceding such termination, in accordance with the payroll practices of the Company for senior executive officers, reduced, however, by the amount of any proceeds from Social Security and disability insurance policies provided by and at the expense of the Company.

(e) Death. In the event of the death of the Executive during the term of this Agreement, the then current annual base salary to which the Executive was entitled pursuant to Section 3(a) hereof immediately preceding the Executive's death shall be paid, in twelve (12) equal monthly installments following the date of death, to the last beneficiary designated by the Executive under the Company's group life insurance policy maintained by the Company or such other written designation expressly provided to the Company for the purposes hereof or, failing either such designation, to the Executive's estate.

(f) Mutual Written Consent. In the event that the Executive and the Company shall terminate the Executive's employment by mutual written agreement, the Company shall pay such compensation and provide such benefits, if any, as the parties may mutually agree upon in writing.

The Executive shall not be required to mitigate the amount of any payment provided for in this Section 6 by seeking employment or otherwise, nor shall any amounts received from employment or otherwise by the Executive offset in any manner the obligations of the Company hereunder except as specifically provided in Section 6(d) hereof.

7. Certain Additional Payments by the Company. Notwithstanding anything in this Agreement to the contrary, in the event it is determined that any payment or distribution by the Company to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (a "Payment"), is subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), or any successor provision, on excess parachute payments, as that term is used and defined in Sections 4999 and 280G of the Code, then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount equal to the then current rate of tax under said Section 4999 multiplied by the total of the amounts so paid or payable, including the Gross-Up Payment, which are deemed to be a part of an excess parachute payment.

8. Effect of Expiration of Agreement or Termination of Executive's Employment. Upon the expiration of this Agreement by its terms or the termination of the Executive's employment hereunder, neither the Company nor the Executive shall have any remaining duties or obligations hereunder except that:

(a) The Company shall:

(1) Pay the Executive's accrued salary and any other accrued benefits under Sections 3(a), (b), and (c) hereof;

(2) Reimburse the Executive for expenses already incurred in accordance with Section 3(e) hereof;

(3) Pay or otherwise provide for any benefits, payments or continuation or conversion rights in accordance with the provisions of any Erie Benefit Plan of which the Executive or any of the Executive's dependents is or was a participant or as otherwise required by law;

(4) Pay the Executive and the Executive's beneficiaries any compensation and/or provide the Executive or the Executive's eligible dependents any benefits, as the case may be, due pursuant to Section 6 or Section 7 hereof; and

(5) Unless the employment of the Executive is terminated by the Company for Cause, pay the Executive or the Executive's beneficiaries the full amount or amounts accrued under the Supplemental Executive Retirement Plan of the Company (the "SERP") as in effect on the Effective Date (or as such benefits may be enhanced by subsequent amendments or supplements to such SERP), as though, solely for purposes of determining any otherwise applicable actuarial reduction factors, the event of the termination of Executive's employment hereunder or expiration of this Agreement occurred on the Executive's Normal Retirement Date as defined in such SERP. Accrued benefits under the SERP shall be fully vested and nonforfeitable upon such termination (including termination on account of the Executive's death) or expiration. Any reductions in SERP benefits that would otherwise apply pursuant to Section 10.1 of the Company's Retirement Plan for Employees (or pursuant to any successor provision of such plan or any successor plan) relating to Section 415(b) of the Code shall not be applicable for purposes hereof. No further approval by the Board of Directors or the Committee with respect to payments under the SERP in accordance with the preceding sentences shall be required. Unreduced payments may begin at age 55, but in no event would payments be made under this Section 8(a)(5) before the Executive reaches age fifty-five (55). The Company shall purchase for the Executive, naming the Executive and/or the Executive's designee the owner, a paid up annuity, from an insurer reasonably acceptable to the Executive but in any event having an A.M. Best rating of A+ or better (or other comparable rating), that will pay to the Executive an amount equal to the benefit to which the Executive would otherwise be entitled under the SERP and payable at the times such SERP benefit would be payable in accordance with the provisions hereof. Upon the purchase and delivery to the Executive of such an annuity, the Executive shall release the Company from any further obligation under the SERP. The Company further agrees to pay the Executive immediately upon termination, a cash payment (the "Tax Gross-up") equal to the sum of the following: (i) all taxes (federal, state, local, and payroll taxes) incurred and due and owing by the Executive, arising from the cost of the annuity purchased by the Company to meet the requirements of this Section 8(a)(5), and (ii) any such taxes incurred and due and owing with respect to the amount paid in (i).

(6) Continue to remain bound by the terms of Section 12 hereof.

(b) The Executive shall remain bound by the terms of Sections 9 and 13 hereof for a period of thirty six (36) months after the expiration of the Agreement by its terms; provided, that the Executive shall not be bound by the terms of Section 9(b) after the termination of employment (other than a termination of the Executive by the Company for Cause) if such termination occurs after the expiration of this Agreement by its terms.

9. Covenants as to Confidential Information and Competitive Conduct. The Executive hereby acknowledges and agrees as follows: (i) this Section 9 is necessary for the protection of the legitimate business interests of the Company, (ii) the restrictions contained in this Section 9 with regard to geographical scope, length of term and types of restricted activities are reasonable; (iii) the Executive has received adequate and valuable new consideration for entering into this Agreement, and (iv) the Executive's expertise and capabilities are such that this obligation hereunder and the enforcement hereof by injunction or otherwise will not adversely affect the Executive's ability to earn a livelihood.

(a) Confidentiality of Information and Nondisclosure. The Executive acknowledges and agrees that the Executive's employment by the Company under this Agreement necessarily involves knowledge of and access to confidential and proprietary information pertaining to the business of the Company and its subsidiaries. Accordingly, the Executive agrees that at all times during the term of this Agreement and at any time thereafter, the Executive will not, directly or indirectly, without the express written approval of the Company, unless directed by applicable legal authority (including any court of competent jurisdiction, governmental agency having supervisory authority over the business of the Company or the subsidiaries, or any legislative or administrative body having supervisory authority over the business of the Company or its subsidiaries) having jurisdiction over the Executive, disclose to or use, or knowingly permit to be so disclosed or used, for the benefit of himself, any person, corporation or other entity other than the Company, (i) any information concerning any financial matters, customer relationships, competitive status, supplier matters, internal organizational matters, current or future plans, or other business affairs of or relating to the Company or its subsidiaries, (ii) any management, operational, trade, technical or other secrets or any other proprietary information or other data of the Company or its subsidiaries, or (iii) any other information related to the Company or its subsidiaries or which the Executive should reasonably believe will be damaging to the Company or its subsidiaries which has not been published and is not generally known outside of the Company. The Executive acknowledges that all of the foregoing constitutes confidential and proprietary information, which is the exclusive property of the Company.

(b) Restrictive Covenant. During the term of, and for a period of one (1) year (the "Restrictive Period") after the termination of the Executive's employment hereunder for any reason (other than a termination of the Executive hereunder pursuant to Section 5(a), 5(b) or 5(e), hereof), the Executive shall not render, directly, or indirectly, services to any person, firm, corporation, association or other entity which conducts the same or similar business as the Company or its subsidiaries at the date of the Executive's termination of employment hereunder within the states in which the Company or any of its subsidiaries is then licensed and doing business at the date of the Executive's termination of employment hereunder without the prior written consent of the Board of Directors, which may be withheld in its discretion. In the event the Executive violates any of the provisions contained in this Section 9(b) hereof, the Restrictive Period shall be increased by the period of time from the commencement by the Executive of any violation until such violation has been cured to the satisfaction of the Company. The Executive further agrees that at no time during the Restrictive Period will the Executive attempt to directly or indirectly solicit or hire employees of Company or its subsidiaries or induce any of them to terminate their employment with the Company or any of the subsidiaries. Notwithstanding the foregoing, the performance by the Executive of rights and duties under an agency agreement with the Company shall not constitute a breach of this Section 9(b).

(c) Company Remedies. The Executive acknowledges and agrees that any breach of this Section 9 will result in immediate and irreparable harm to the Company, and that the Company cannot be reasonably or adequately compensated by damages in an action at law. In the event of a breach by the Executive of the provisions of this Section 9, the Company shall be entitled, to the extent permitted by law, immediately to cease to pay or provide the Executive or the Executive's dependents any compensation or benefit being, or to be, paid or provided to the Executive pursuant to Section 3, Section 6 or Section 8 of this Agreement, and also to obtain immediate injunctive relief restraining the Executive from conduct in breach of the covenants contained in this Section 9. Nothing herein shall be construed as prohibiting the Company from pursuing any other remedies available to it for such breach, including the recovery of damages from the Executive.

10. Resolution of Differences Over Breaches of Agreement. Except as otherwise provided herein, in the event of any controversy, dispute or claim arising out of, or relating to, this Agreement, or the breach thereof, or arising out of any other matter relating to the Executive's employment with the Company, the parties may seek recourse only for temporary or preliminary injunctive relief to the courts having jurisdiction thereof and if any relief other than injunctive relief is sought, the Company and the Executive agree that such underlying controversy, dispute or claim shall be settled by arbitration conducted in Erie, Pennsylvania in accordance with this Section 10 and the Commercial Arbitration Rules of the American Arbitration Association ("AAA"). The matter shall be heard and decided, and awards rendered by a panel of three (3) arbitrators (the "Arbitration Panel"). The Company and the Executive shall each select one arbitrator from the AAA National Panel of Commercial Arbitrators (the "Commercial Panel") and AAA shall select a third arbitrator from the Commercial Panel. The award rendered by the Arbitration Panel shall be final and binding as between the parties hereto and their heirs, executors, administrators, successors and assigns, and judgment on the award may be entered by any court having jurisdiction thereof. Except as provided in Section 11 hereof, each party shall bear sole responsibility for all expenses and costs incurred by such party in connection with the resolution of any controversy, dispute or claim in accordance with this Section 10.

11. Payment of Executive's Legal Fees. If the Executive is required to bring any action to enforce rights or to collect moneys due under this Agreement, the Company shall pay to the Executive the fees and expenses incurred by the Executive in bringing and pursuing such action if the Executive is successful, in whole or in part, on the merits or otherwise (including by way of a settlement involving a payment of money by the Company to the Executive), in such action. The Company shall pay such fees and expenses in advance of the final disposition of such action upon receipt of an undertaking from the Executive to repay to the Company such advances if the Executive is not ultimately successful, in whole or in part, on the merits or otherwise, in such action.

12. Severance Pay upon Termination of Employment after Expiration of the Agreement. Notwithstanding the expiration of this Agreement by its terms and notwithstanding the terms of any corporate severance policy then in effect and applicable to the Executive, if the employment of the Executive is terminated without Cause by the Company, by the Executive for Good Reason or upon the expiration of the term of the office(s) to which the Executive has been elected or appointed as set forth in Section 1 hereof (for reasons other than for Cause), in any case, within thirty-six (36) months after the expiration of this Agreement by its terms, then (i) the Company shall pay to the Executive severance compensation in an amount equal to two (2) times the Executive's Covered Compensation as determined on the date of such termination, and (ii) the Executive and the Executive's eligible dependents shall be entitled to continuing coverage under the Company's then-existing group health plans (including medical, dental, prescription drug and vision plans, if any) for a period of two (2) years after the date of the termination of the Executive's employment, to the extent not prohibited by law and subject to the terms of such plans including provisions as to deductibles and copayments and changes in levels of coverage that are generally applicable to employees. The payment to the Executive by the Company pursuant to subsection (i) of the preceding sentence shall be paid in a lump sum unless the Executive elects, and so notifies the Company in writing prior to the Executive's termination of employment, to receive such payment in two (2) equal annual installments. The lump sum or first payment, as the case may be, shall be paid within thirty (30) days after the date of termination of the Executive's employment.

13. Release. The Executive hereby acknowledges and agrees that neither the Company nor any of its representatives or agents will be obligated to pay any compensation or benefit which the Executive has a right to be paid or provided to the Executive or the Executive's dependents pursuant to Section 6, Section 8 or Section 12 of this Agreement, unless the Executive, if requested by the Company in its sole discretion, executes a release in a form reasonably acceptable to the Company, which releases any and all claims the Executive has or may have against the Company or its subsidiaries, agents, officers, directors, successors or assigns.

14. Waiver. The waiver by a party hereto of any breach by the other party hereto of any provision of this Agreement shall not operate or be construed as a waiver of any other or subsequent breach by a party hereto.

15. Assignment. This Agreement shall be binding upon and inure to the benefit of the successors and assigns of the Company, and the Company shall be obligated to require any successor to expressly acknowledge and assume its obligations hereunder. This Agreement shall inure to the extent provided hereunder to the benefit of and be enforceable by the Executive or the Executive's legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. The Executive may not delegate any of the Executive's duties, responsibilities, obligations or positions hereunder to any person and any such purported delegation shall be void and of no force and effect.

16. Notices. Any notices required or permitted to be given under this Agreement shall be sufficient if in writing, and if personally delivered or when sent by first class certified or registered mail, postage prepaid, return receipt requested--in the case of the Executive, to his residence address as set forth below, and in the case of the Company, to the address of its principal place of business as set forth below, to the attention of the Chairman of the Board, or in case the Executive is the Chairman of the Board, to the Chairman of the Compensation Committee of the Board -- or to such other person or at such other address with respect to each party as such party shall notify the other in writing.

17. Construction of Agreement.

(a) Governing Law. This Agreement shall be governed by and construed under the laws of the Commonwealth of Pennsylvania.

(b) Severability. In the event that any one or more of the provisions of this Agreement shall be held to be invalid, illegal or unenforceable, the validity, legality or enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

(c) Headings. The descriptive headings of the several paragraphs of this Agreement are inserted for convenience of reference only and shall not constitute a part of this Agreement.

18. Entire Agreement. This Agreement contains the entire agreement of the parties concerning the Executive's employment and all promises, representations, understandings, arrangements and prior agreements on such subject are merged herein and superseded hereby, including the Employment Agreement effective November 20, 1995 which is expressly superseded hereby. The provisions of this Agreement may not be amended, modified, repealed, waived, extended or discharged except by an agreement in writing signed by the party against whom enforcement of any amendment, modification, repeal, waiver, extension or discharge is sought. No person acting other than pursuant to a resolution of the Board of Directors or the Committee shall have authority on behalf of the Company to agree to amend, modify, repeal, waive, extend or discharge any provision of this Agreement or anything in reference thereto or to exercise any of the Company's rights to terminate or to fail to extend this Agreement.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its officers thereunto duly authorized, and the Executive has hereunto set his hand all as of the day and year first above written.

ATTEST: ERIE INDEMNITY COMPANY

/s/ J. R. Van Gorder
____
J. R. Van Gorder
Secretary

/s/ F. William Hirt
By:____________________________________
F. William Hirt
Chairman of the Board

WITNESS:

/s/ Sheila M. Hirsch
____

/s/ Philip A. Garcia
____(SEAL)
Philip A. Garcia
786 Stockbridge Drive
Erie, PA 16505

Exhibit 10.27

EMPLOYMENT AGREEMENT

THIS AGREEMENT (the "Agreement") made effective as of the 16th day of December, 1997 (the "Effective Date") by and between ERIE INDEMNITY COMPANY, a Pennsylvania corporation with its principal place of business at Erie, Pennsylvania (the "Company"), and JOHN J. BRINLING, JR. (the "Executive");

WITNESSETH:

WHEREAS, the Company has determined that it is in the best interests of the Company and its shareholders to secure the continued employment of the Executive on the terms and subject to the conditions set forth in this Agreement; and

WHEREAS, the Executive desires and is willing to accept employment with the Company on the terms and subject to the conditions set forth herein;

NOW THEREFORE, in consideration of the premises and mutual covenants contained herein, and intending to be legally bound hereby, the parties hereto agree as follows:

1. Term. The Company hereby agrees to continue the employment of the Executive and the Executive hereby agrees to continue to serve the Company pursuant to the terms and conditions of this Agreement as Executive Vice President of the Company, or in such other position with the Company of at least commensurate responsibility and authority in all material respects, for a term of two years commencing on the Effective Date hereof and expiring on December 15, 1999, unless earlier terminated pursuant to Section 5 hereof. Notwithstanding the foregoing, the Executive shall serve in said office(s) at the pleasure of the Company's Board of Directors (the "Board of Directors") and the Executive may be removed from said office(s) at any time with or without Cause, as hereinafter defined, pursuant to Sections 5(b) or 5(d) hereof; provided that any such removal shall be without prejudice to any contract rights the Executive may have hereunder. Subject to Section 8(a)(6) and Section 8(b) hereof, this Agreement shall expire by its terms on December 15, 1999.

2. Duties and Responsibilities. The Executive's duties hereunder shall be those which shall be prescribed by the Company's Bylaws, as amended from time to time, and by the Board of Directors or any committee thereof from time to time and shall include such executive authority, duties, powers and responsibilities as customarily attend the office as Executive Vice President of a company comparable to the Company. The Executive shall discharge such duties consistent with sound business practices and in accordance with law and the Company's general employment policies, in each case, as in effect from time to time, in all material respects and the Executive shall use best efforts to promote the best interests of the Company. During the term of this Agreement, the Executive's position (including the Executive's status and reporting requirements), authority, duties, powers and responsibilities shall at all times be at least commensurate in all material respects with the most significant of those held, exercised or assigned to the Executive as of the Effective Date. The Executive shall devote the Executive's knowledge, skill and all of the Executive's professional time, attention and energies (reasonable absences for vacations and illness excepted), to the business of the Company in order to perform such assigned duties faithfully, competently and diligently. It is understood and agreed between the parties that the Executive may (i) engage in charitable and community activities, including serving on boards of directors or trustees of and holding other leadership positions in non-profit organizations unless the objectives and requirements of such positions are determined by the Board of Directors to be inconsistent with the performance of the Executive's duties hereunder, and, (ii) manage personal investments, so long as such activities do not interfere or conflict with the Executive's performance of responsibilities and obligations hereunder. It is expressly agreed that any such activities engaged in by the Executive as of the Effective Date shall not thereafter be deemed to interfere with the Executive's obligations and responsibilities hereunder. The Executive agrees that the approval of the Board of Directors or a committee thereof shall be required before the Executive first accepts a position as director of any for-profit corporation after the date hereof.

3. Compensation. During the term of this Agreement, the Executive shall receive, for all services rendered to the Company hereunder, the following (hereinafter referred to collectively as "Compensation"):

(a) Salary. The Executive shall be paid an annual base salary at an annual rate at least equal to the annual rate being paid or payable to the Executive by the Company in the month in which the Effective Date occurs, with such increases thereafter as shall be determined from time to time to be fair and reasonable by the Board of Directors or by the Executive Compensation Committee of the Board of Directors (the "Committee") in its discretion after taking into account, among other things, the authority, duties, powers and responsibilities of the Executive's position, the Executive's performance, the Company's performance, the compensation of persons in comparable positions at the Company and at other comparable companies, and the effect of inflation. The

Executive's annual base salary shall not be reduced after any such increase. The Executive's annual base salary shall be payable in equal installments in accordance with the Company's general salary payment policies, but no less frequently than bi-weekly.

(b) Incentive Compensation. The Executive shall be eligible for awards under the Company's incentive compensation plans, if any, applicable to senior executive officers of the Company or to key employees of the Company or its subsidiaries, including, but not limited to, management incentive plans and stock option plans, in accordance with and subject to the terms thereof (including any provisions providing for changes in the level of or termination of benefits thereunder), on a basis commensurate with the Executive's position and authorities, duties, powers and responsibilities.

(c) Employee Benefit Plans. The Executive and the Executive's "dependents," as that term may be defined under the applicable employee benefit plan(s) of the Company, shall be included, to the extent eligible thereunder and subject to the terms of the plans (including any provisions for changing the level of or termination of benefits thereunder), in all plans, programs and policies which provide benefits for Company employees and their dependents on a basis commensurate with the Executive's position and authorities, duties, powers and responsibilities including, without limitation, health care insurance, health and welfare plans, pension and retirement plans, group life insurance plans, split dollar life insurance plans, short and long-term disability plans, survivors' benefits, executive supplemental benefits, holidays and other similar or comparable benefits made available to the Company's employees and senior executive officers (hereinafter, such plans, programs and policies shall be collectively referred to as the "Erie Benefit Plans"). Such plans, programs and policies shall include, but are not limited to, the Erie Insurance Group Retirement Plan for Employees, the Erie Insurance Group Employee Savings Plan, the Erie Insurance Group Deferred Compensation Plan, the Erie Insurance Group Split Dollar Life Insurance Plan, the Erie Insurance Group Supplemental Executive Retirement Plan, and the Erie Insurance Group Health Protection, Prescription Drug, Dental Assistance and Vision Care Plans.

(d) Perquisites. The Executive shall be entitled to all perquisites which the Company from time to time makes available to senior executive officers of the Company. Such perquisites shall include, but are not limited to, parking, club dues, tax preparation assistance, and an annual physical examination.

(e) Expenses and Working Facilities. The Executive is hereby authorized to incur, and shall be reimbursed by the Company for, any and all reasonable and necessary business related expenses, including, but not limited to, expenses for business travel, entertainment, gifts and similar matters, which expenses are incurred by the Executive on behalf of the Company or any of its subsidiaries, upon presentation of itemized accounts of such expenses in accordance with Company policies. The Executive shall be furnished during the term of this Agreement with offices and other working facilities in the Company's principal executive offices located in Erie, Pennsylvania (or other location of the principal executive offices within the Erie metropolitan area) and secretarial and other assistance suitable to the Executive's position and adequate for the performance of duties hereunder.

(f) Performance Appraisal. The Executive's performance may be evaluated by the Board of Directors or the Committee from time to time. The Executive shall be entitled to such additional remuneration, including but not limited to annual bonuses based on performance, as the Board of Directors or the Committee may, in its discretion, determine from time to time.

4. Absences. The Executive shall be entitled to vacations in accordance with the Company's vacation policy in effect from time to time (but in no event shall the Executive be entitled to fewer vacation days than under the Company's vacation policy as in effect on the Effective Date) and to absences because of illness or other incapacity, and shall also be entitled to such other absences, whether for holiday, personal time, conventions, or for any other purpose, as are granted to the Company's other senior executive officers or as are approved by the Board of Directors or the Committee, which approval shall not be unreasonably withheld.

5. Termination. The Executive's employment hereunder may be terminated only as follows:

(a) Expiration of Term of Office. Upon the expiration of the term of the office(s) to which the Executive has been elected or appointed as set forth in Section 1 hereof, the Board of Directors may (i) determine that the Executive should not continue in such office(s) or (ii) that the Executive should not be elected or appointed to an office with duties, authorities, powers and responsibilities that are at least commensurate with those of said office(s), in either case, for reasons other than for Cause (if the reasons for such noncontinuance, nonreelection or nonreappointment constitute Cause, then Section 5(d) hereof will apply).

(b) By the Company Without Cause. The Company may at any time terminate the Executive's employment hereunder without Cause only by the affirmative vote of a majority of the entire Board of Directors, and upon no less than thirty (30) days' prior written notice to the Executive.

(c) By the Executive Without Good Reason. The Executive may at any time terminate employment hereunder for any reason upon no less than thirty (30) days' written notice to the Company. Section 5(e) shall apply to any termination of employment by the Executive for Good Reason.

(d) By the Company For Cause. The Company may terminate the Executive's employment hereunder for Cause. In such event, the Company shall give to the Executive prompt written notice (in addition to any notice which may be required by Section 5(d)(1) hereof) specifying in reasonable detail the basis for such termination. For purposes of this Agreement, "Cause" shall mean any of the following conduct by the Executive:

(1) The deliberate and intentional breach of any material provision of this Agreement, which breach Executive shall have failed to cure within thirty (30) days after Executive's receipt of written notice from the Company specifying the specific nature of the Executive's breach;

(2) The deliberate and intentional engaging by Executive in gross misconduct that is materially and demonstrably inimical to the best interests, monetary or otherwise, of the Company; or

(3) Conviction of a felony or conviction of any crime involving moral turpitude, fraud or deceit.

For purposes of this definition, no act, or failure to act, on the Executive's part shall be considered "deliberate and intentional" unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that such action or omission was in the best interest of the Company.

(e) By the Executive for Good Reason. The Executive may terminate employment hereunder for Good Reason upon providing thirty (30) days written notice to the Company after the Executive reasonably becomes aware of the circumstances giving rise to such Good Reason. For purposes of this Agreement, "Good Reason" means the following conduct of the Company, unless the Executive shall have consented thereto in writing:

(1) Material breach of any material provision of this Agreement by the Company, which breach shall not have been cured by the Company within thirty (30) days after Company's receipt from the Executive or the Executive's agent of written notice specifying in reasonable detail the nature of the Company's breach;

(2) The assignment to the Executive of any duties inconsistent in any material respect with the Executive's position (including any reduction of the Executive's status and reporting requirements), authority, duties, powers or responsibilities with the Company as contemplated by Section 2 of this Agreement, or any other action by the Company, including the removal of the Executive from or any failure to reelect or reappoint the Executive to the office(s) specified in Section 2 or a commensurate office(s) (other than for Cause), which results in a diminution of the Executive's authority, duties, position, responsibilities or status, excluding for this purpose any isolated, insubstantial and inadvertent action respecting the Executive not taken in bad faith and which is remedied by the Company within thirty (30) days after receipt of written notice from the Executive to the Company;

(3) The Company's relocation of the Executive out of the Company's principal executive offices or the relocation of the Company's principal executive offices to a location outside the Erie, Pennsylvania metropolitan area, except for required short-term travel on the Company's behalf to the extent necessary for the Executive to carry out his normal duties in the ordinary course of business;

(4) The failure of the Company to obtain the assumption in writing of its obligations to perform this Agreement by any successor as provided in Section 14 hereof not less than five days prior to a merger, consolidation or sale as contemplated in Section 14; or

(5) A reduction in the overall level of compensation of the Executive. For purposes of this subsection 5, the following shall not constitute a reduction in the overall level of compensation of the Executive: (i) changes in the cash/stock mix of compensation payable to the Executive; (ii) a reduction in the overall level of compensation of the Executive resulting from the failure to achieve corporate, business unit and/or individual performance goals established for purposes of incentive compensation for any year or other period; provided that the aggregate short-term incentive opportunity, when combined with the Executive's base salary, provides, in the aggregate, an opportunity for the Executive to realize at least the same overall level of compensation as was paid in the immediately prior year or period at target performance levels; and provided, further, that such target performance levels are reasonable at all times during the measurement period, taking into account the fact that one of the purposes of such compensation is to incent the Executive; (iii) reductions in compensation resulting from changes to any Erie Benefit Plan (provided that such changes are generally applicable to all participants in such Erie Benefit Plan); and (iv) any combination of the foregoing.

(f) Disability. In the event that the Executive shall be unable to perform the Executive's duties hereunder on a full time basis for a period of one hundred-eighty (180) consecutive calendar days by reason of incapacity due to illness, accident or other physical or mental disability, then the Company may, at its discretion, terminate the Executive's employment hereunder if the Executive, within ten (10) days after receipt of written notice of termination (which notice may be given before or after the end of the entire 180 day period), shall not have returned to the performance of all of his duties hereunder on a full-time basis.

(g) Death. The Executive's employment under this Agreement shall terminate upon the Executive's death.

(h) Mutual Written Agreement. This Agreement and the Executive's employment hereunder may be terminated at any time by the mutual written agreement of the Executive and the Company.

6. Compensation in the Event of Termination. In the event that the Executive's employment hereunder terminates prior to the expiration of this Agreement for any reason provided in Section 5 hereof, the Company shall pay the Executive, compensation and provide the Executive and the Executive's eligible dependents with benefits as follows:

(a) Executive's Nonreelection to Office; Termination By Company Without Cause; Termination By Executive for Good Reason. In the event that the Executive's employment hereunder is terminated: (i) because the Executive does not continue in office pursuant to Section 5(a) hereof; or (ii) by the Company without Cause pursuant to Section 5(b) hereof; or (iii) by the Executive for Good Reason pursuant to Section 5(e) hereof, then in any such event the Company shall pay or provide, as applicable, the following compensation and benefits to the Executive:

(1) Three (3) times the following: (A) the highest annual base salary paid or payable to the Executive in the then current year or any one (1) of the three (3) calendar years preceding Executive's termination of employment hereunder; plus (B) an amount equal to the sum of the Executive's highest award(s) under the Company's Annual Incentive Plans for any one (1) of the three (3) calendar years preceding the date of the termination of Executive's employment hereunder (such total is referred to herein as "Covered Compensation"). Such payment to the Executive by the Company shall be paid in a lump sum unless the Executive elects, and so notifies the Company in writing prior to the termination of the Executive's employment hereunder, to receive such payment in three (3) equal annual installments. The lump sum or first payment, as the case may be, shall be paid within sixty (60) days after the date of the termination of the Executive's employment hereunder;

(2) Any awards or other compensation to which the Executive is entitled under any of the Company's compensation plans or Erie Benefit Plans to the extent not covered in subsection (1) hereof;

(3) Any award to which the Executive would be entitled under the Company's Long-Term Incentive Plan as in effect on December 16, 1997, calculated under the provision of that Plan as if the Executive ceases to be an Employee of the Company by reason of death, disability or normal retirement;

(4) Continuing coverage for all purposes (including eligibility, coverage, vesting and benefit accruals, as applicable), for a period of three (3) years after the date of the termination of Executive's employment hereunder, to the extent not prohibited by law, for the Executive and the Executive's eligible dependents under all of the Erie Benefit Plans in effect and applicable to Executive and the Executive's eligible dependents as of the date of termination. In the event that the Executive and/or the Executive's eligible dependents, because of the Executive's terminated status, cannot be covered or fully covered under any or all of the Erie Benefit Plans, the Company shall continue to provide the Executive and/or the Executive's eligible dependents with the same level of such coverage in effect prior to termination, payable from the general assets of the Company if necessary. Notwithstanding the foregoing, the Executive may elect (by giving written notice to the Company prior to the termination of employment hereunder), on a benefit by benefit basis, to receive in lieu of continuing coverage, cash in an amount equal to the present value (using a 6.5% discount rate over three years) of the projected cost to the Company of providing such benefit for such three year period. The aggregate amount of cash to which the Executive is entitled pursuant to the preceding sentence shall be payable by the Company to the Executive within sixty (60) days after the date of the termination of Executive's employment hereunder; and

(5) For a period of three (3) years after the date of the termination of Executive's employment hereunder, such perquisites as are made available to the Executive as of the date of the termination of Executive's employment hereunder.

The Executive's subsequent death, disability or attainment of age 65 or any other age shall in no way affect or limit the Company's obligations under this Section 6(a).

(b) Termination By the Company for Cause. In the event that the Company shall terminate the Executive's employment hereunder for Cause pursuant to Section 5(d), this Agreement shall forthwith terminate and the obligations of the parties hereto shall be as set forth in Section 8 hereof.

(c) Termination by the Executive Without Good Reason. In the event that the Executive shall terminate employment hereunder other than for Good Reason pursuant to Section 5(c), this Agreement shall forthwith terminate and the obligations of the parties hereto shall be as set forth in Section 8 hereof.

(d) Disability. In the event that the Company elects to terminate the Executive's employment hereunder pursuant to Section 5(f), the Executive shall continue to receive from the date of such termination through the expiration date of this Agreement, sixty percent (60%) of the then current annual base salary to which the Executive was entitled pursuant to Section 3(a) hereof immediately preceding such termination, in accordance with the payroll practices of the Company for senior executive officers, reduced, however, by the amount of any proceeds from Social Security and disability insurance policies provided by and at the expense of the Company.

(e) Death. In the event of the death of the Executive during the term of this Agreement, the then current annual base salary to which the Executive was entitled pursuant to Section 3(a) hereof immediately preceding the Executive's death shall be paid, in twelve (12) equal monthly installments following the date of death, to the last beneficiary designated by the Executive under the Company's group life insurance policy maintained by the Company or such other written designation expressly provided to the Company for the purposes hereof or, failing either such designation, to the Executive's estate.

(f) Mutual Written Consent. In the event that the Executive and the Company shall terminate the Executive's employment by mutual written agreement, the Company shall pay such compensation and provide such benefits, if any, as the parties may mutually agree upon in writing.

The Executive shall not be required to mitigate the amount of any payment provided for in this Section 6 by seeking employment or otherwise, nor shall any amounts received from employment or otherwise by the Executive offset in any manner the obligations of the Company hereunder except as specifically provided in Section 6(d) hereof.

7. Certain Additional Payments by the Company. Notwithstanding anything in this Agreement to the contrary, in the event it is determined that any payment or distribution by the Company to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (a "Payment"), is subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), or any successor provision, on excess parachute payments, as that term is used and defined in Sections 4999 and 280G of the Code, then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount equal to the then current rate of tax under said Section 4999 multiplied by the total of the amounts so paid or payable, including the Gross-Up Payment, which are deemed to be a part of an excess parachute payment.

8. Effect of Expiration of Agreement or Termination of Executive's Employment. Upon the expiration of this Agreement by its terms or the termination of the Executive's employment hereunder, neither the Company nor the Executive shall have any remaining duties or obligations hereunder except that:

(a) The Company shall:

(1) Pay the Executive's accrued salary and any other accrued benefits under Sections 3(a), (b), and (c) hereof;

(2) Reimburse the Executive for expenses already incurred in accordance with Section 3(e) hereof;

(3) Pay or otherwise provide for any benefits, payments or continuation or conversion rights in accordance with the provisions of any Erie Benefit Plan of which the Executive or any of the Executive's dependents is or was a participant or as otherwise required by law;

(4) Pay the Executive and the Executive's beneficiaries any compensation and/or provide the Executive or the Executive's eligible dependents any benefits, as the case may be, due pursuant to Section 6 or Section 7 hereof; and

(5) Unless the employment of the Executive is terminated by the Company for Cause, pay the Executive or the Executive's beneficiaries the full amount or amounts accrued under the Supplemental Executive Retirement Plan of the Company (the "SERP") as in effect on the Effective Date (or as such benefits may be enhanced by subsequent amendments or supplements to such SERP), as though, solely for purposes of determining any otherwise applicable actuarial reduction factors, the event of the termination of Executive's employment hereunder or expiration of this Agreement occurred on the Executive's Normal Retirement Date as defined in such SERP. Accrued benefits under the SERP shall be fully vested and nonforfeitable upon such termination (including termination on account of the Executive's death) or expiration. Any reductions in SERP benefits that would otherwise apply pursuant to Section 10.1 of the Company's Retirement Plan for Employees (or pursuant to any successor provision of such plan or any successor plan) relating to Section 415(b) of the Code shall not be applicable for purposes hereof. No further approval by the Board of Directors or the Committee with respect to payments under the SERP in accordance with the preceding sentences shall be required. Unreduced payments may begin at age 55, but in no event would payments be made under this Section 8(a)(5) before the Executive reaches age fifty-five (55). The Company shall purchase for the Executive, naming the Executive and/or the Executive's designee the owner, a paid up annuity, from an insurer reasonably acceptable to the Executive but in any event having an A.M. Best rating of A+ or better (or other comparable rating), that will pay to the Executive an amount equal to the benefit to which the Executive would otherwise be entitled under the SERP and payable at the times such SERP benefit would be payable in accordance with the provisions hereof. Upon the purchase and delivery to the Executive of such an annuity, the Executive shall release the Company from any further obligation under the SERP. The Company further agrees to pay the Executive immediately upon termination, a cash payment (the "Tax Gross-up") equal to the sum of the following: (i) all taxes (federal, state, local, and payroll taxes) incurred and due and owing by the Executive, arising from the cost of the annuity purchased by the Company to meet the requirements of this Section 8(a)(5), and (ii) any such taxes incurred and due and owing with respect to the

. amount paid in (i)

(6) Continue to remain bound by the terms of Section 12 hereof.

(b) The Executive shall remain bound by the terms of Sections 9 and 13 hereof for a period of thirty six (36) months after the expiration of the Agreement by its terms; provided, that the Executive shall not be bound by the terms of Section 9(b) after the termination of employment (other than a termination of the Executive by the Company for Cause) if such termination occurs after the expiration of this Agreement by its terms.

9. Covenants as to Confidential Information and Competitive Conduct. The Executive hereby acknowledges and agrees as follows: (i) this Section 9 is necessary for the protection of the legitimate business interests of the Company, (ii) the restrictions contained in this Section 9 with regard to geographical scope, length of term and types of restricted activities are reasonable; (iii) the Executive has received adequate and valuable new consideration for entering into this Agreement, and (iv) the Executive's expertise and capabilities are such that this obligation hereunder and the enforcement hereof by injunction or otherwise will not adversely affect the Executive's ability to earn a livelihood.

(a) Confidentiality of Information and Nondisclosure. The Executive acknowledges and agrees that the Executive's employment by the Company under this Agreement necessarily involves knowledge of and access to confidential and proprietary information pertaining to the business of the Company and its subsidiaries. Accordingly, the Executive agrees that at all times during the term of this Agreement and at any time thereafter, the Executive will not, directly or indirectly, without the express written approval of the Company, unless directed by applicable legal authority (including any court of competent jurisdiction, governmental agency having supervisory authority over the business of the Company or the subsidiaries, or any legislative or administrative body having supervisory authority over the business of the Company or its subsidiaries) having jurisdiction over the Executive, disclose to or use, or knowingly permit to be so disclosed or used, for the benefit of himself, any person, corporation or other entity other than the Company, (i) any information concerning any financial matters, customer relationships, competitive status, supplier matters, internal organizational matters, current or future plans, or other business affairs of or relating to the Company or its subsidiaries, (ii) any management, operational, trade, technical or other secrets or any other proprietary information or other data of the Company or its subsidiaries, or (iii) any other information related to the Company or its subsidiaries or which the Executive should reasonably believe will be damaging to the Company or its subsidiaries which has not been published and is not generally known outside of the Company. The Executive acknowledges that all of the foregoing constitutes confidential and proprietary information, which is the exclusive property of the Company.

(b) Restrictive Covenant. During the term of, and for a period of one (1) year (the "Restrictive Period") after the termination of the Executive's employment hereunder for any reason (other than a termination of the Executive hereunder pursuant to Section 5(a), 5(b) or 5(e), hereof), the Executive shall not render, directly, or indirectly, services to any person, firm, corporation, association or other entity which conducts the same or similar business as the Company or its subsidiaries at the date of the Executive's termination of employment hereunder within the states in which the Company or any of its subsidiaries is then licensed and doing business at the date of the Executive's termination of employment hereunder without the prior written consent of the Board of Directors, which may be withheld in its discretion. In the event the Executive violates any of the provisions contained in this Section 9(b) hereof, the Restrictive Period shall be increased by the period of time from the commencement by the Executive of any violation until such violation has been cured to the satisfaction of the Company. The Executive further agrees that at no time during the Restrictive Period will the Executive attempt to directly or indirectly solicit or hire employees of Company or its subsidiaries or induce any of them to terminate their employment with the Company or any of the subsidiaries. Notwithstanding the foregoing, the performance by the Executive of rights and duties under an agency agreement with the Company shall not constitute a breach of this Section 9(b).

(c) Company Remedies. The Executive acknowledges and agrees that any breach of this Section 9 will result in immediate and irreparable harm to the Company, and that the Company cannot be reasonably or adequately compensated by damages in an action at law. In the event of a breach by the Executive of the provisions of this Section 9, the Company shall be entitled, to the extent permitted by law, immediately to cease to pay or provide the Executive or the Executive's dependents any compensation or benefit being, or to be, paid or provided to the Executive pursuant to Section 3, Section 6 or Section 8 of this Agreement, and also to obtain immediate injunctive relief restraining the Executive from conduct in breach of the covenants contained in this Section 9. Nothing herein shall be construed as prohibiting the Company from pursuing any other remedies available to it for such breach, including the recovery of damages from the Executive.

10. Resolution of Differences Over Breaches of Agreement. Except as otherwise provided herein, in the event of any controversy, dispute or claim arising out of, or relating to, this Agreement, or the breach thereof, or arising out of any other matter relating to the Executive's employment with the Company, the parties may seek recourse only for temporary or preliminary injunctive relief to the courts having jurisdiction thereof and if any relief other than injunctive relief is sought, the Company and the Executive agree that such underlying controversy, dispute or claim shall be settled by arbitration conducted in Erie, Pennsylvania in accordance with this Section 10 and the Commercial Arbitration Rules of the American Arbitration Association ("AAA"). The matter shall be heard and decided, and awards rendered by a panel of three (3) arbitrators (the "Arbitration Panel"). The Company and the Executive shall each select one arbitrator from the AAA National Panel of Commercial Arbitrators (the "Commercial Panel") and AAA shall select a third arbitrator from the Commercial Panel. The award rendered by the Arbitration Panel shall be final and binding as between the parties hereto and their heirs, executors, administrators, successors and assigns, and judgment on the award may be entered by any court having jurisdiction thereof. Except as provided in Section 11 hereof, each party shall bear sole responsibility for all expenses and costs incurred by such party in connection with the resolution of any controversy, dispute or claim in accordance with this Section 10.

11. Payment of Executive's Legal Fees. If the Executive is required to bring any action to enforce rights or to collect moneys due under this Agreement, the Company shall pay to the Executive the fees and expenses incurred by the Executive in bringing and pursuing such action if the Executive is successful, in whole or in part, on the merits or otherwise (including by way of a settlement involving a payment of money by the Company to the Executive), in such action. The Company shall pay such fees and expenses in advance of the final disposition of such action upon receipt of an undertaking from the Executive to repay to the Company such advances if the Executive is not ultimately successful, in whole or in part, on the merits or otherwise, in such action.

12. Severance Pay upon Termination of Employment after Expiration of the Agreement. Notwithstanding the expiration of this Agreement by its terms and notwithstanding the terms of any corporate severance policy then in effect and applicable to the Executive, if the employment of the Executive is terminated without Cause by the Company, by the Executive for Good Reason or upon the expiration of the term of the office(s) to which the Executive has been elected or appointed as set forth in Section 1 hereof (for reasons other than for Cause), in any case, within thirty-six (36) months after the expiration of this Agreement by its terms, then (i) the Company shall pay to the Executive severance compensation in an amount equal to two (2) times the Executive's Covered Compensation as determined on the date of such termination, and (ii) the Executive and the Executive's eligible dependents shall be entitled to continuing coverage under the Company's then-existing group health plans (including medical, dental, prescription drug and vision plans, if any) for a period of two (2) years after the date of the termination of the Executive's employment, to the extent not prohibited by law and subject to the terms of such plans including provisions as to deductibles and copayments and changes in levels of coverage that are generally applicable to employees. The payment to the Executive by the Company pursuant to subsection (i) of the preceding sentence shall be paid in a lump sum unless the Executive elects, and so notifies the Company in writing prior to the Executive's termination of employment, to receive such payment in two (2) equal annual installments. The lump sum or first payment, as the case may be, shall be paid within thirty (30) days after the date of termination of the Executive's employment.

13. Release. The Executive hereby acknowledges and agrees that neither the Company nor any of its representatives or agents will be obligated to pay any compensation or benefit which the Executive has a right to be paid or provided to the Executive or the Executive's dependents pursuant to Section 6, Section 8 or Section 12 of this Agreement, unless the Executive, if requested by the Company in its sole discretion, executes a release in a form reasonably acceptable to the Company, which releases any and all claims the Executive has or may have against the Company or its subsidiaries, agents, officers, directors, successors or assigns.

14. Waiver. The waiver by a party hereto of any breach by the other party hereto of any provision of this Agreement shall not operate or be construed as a waiver of any other or subsequent breach by a party hereto.

15. Assignment. This Agreement shall be binding upon and inure to the benefit of the successors and assigns of the Company, and the Company shall be obligated to require any successor to expressly acknowledge and assume its obligations hereunder. This Agreement shall inure to the extent provided hereunder to the benefit of and be enforceable by the Executive or the Executive's legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. The Executive may not delegate any of the Executive's duties, responsibilities, obligations or positions hereunder to any person and any such purported delegation shall be void and of no force and effect.

16. Notices. Any notices required or permitted to be given under this Agreement shall be sufficient if in writing, and if personally delivered or when sent by first class certified or registered mail, postage prepaid, return receipt requested--in the case of the Executive, to his residence address as set forth below, and in the case of the Company, to the address of its principal place of business as set forth below, to the attention of the Chairman of the Board, or in case the Executive is the Chairman of the Board, to the Chairman of the Compensation Committee of the Board -- or to such other person or at such other address with respect to each party as such party shall notify the other in writing.

17. Construction of Agreement.

(a) Governing Law. This Agreement shall be governed by and construed under the laws of the Commonwealth of Pennsylvania.

(b) Severability. In the event that any one or more of the provisions of this Agreement shall be held to be invalid, illegal or unenforceable, the validity, legality or enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

(c) Headings. The descriptive headings of the several paragraphs of this Agreement are inserted for convenience of reference only and shall not constitute a part of this Agreement.

18. Entire Agreement. This Agreement contains the entire agreement of the parties concerning the Executive's employment and all promises, representations, understandings, arrangements and prior agreements on such subject are merged herein and superseded hereby, including the Employment Agreement effective November 20, 1995 which is expressly superseded hereby. The provisions of this Agreement may not be amended, modified, repealed, waived, extended or discharged except by an agreement in writing signed by the party against whom enforcement of any amendment, modification, repeal, waiver, extension or discharge is sought. No person acting other than pursuant to a resolution of the Board of Directors or the Committee shall have authority on behalf of the Company to agree to amend, modify, repeal, waive, extend or discharge any provision of this Agreement or anything in reference thereto or to exercise any of the Company's rights to terminate or to fail to extend this Agreement.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its officers thereunto duly authorized, and the Executive has hereunto set his hand all as of the day and year first above written.

ATTEST: ERIE INDEMNITY COMPANY

/s J. R. Van Gorder
____
J. R. Van Gorder
Secretary

/s/ F. William Hirt
By:__________________________________
F. William Hirt
Chairman of the Board

WITNESS:

/s/ Sheila M. Hirsch
____

/s/ John J. Brinling, Jr.
_____________________________________(SEAL)
John J. Brinling, Jr.
5691 Culpepper Drive
Erie, PA 16506

EXHIBIT 11. - STATEMENT RE COMPUTATION OF PER SHARE EARNINGS

	1997	1996	1995
Class A common shares outstanding (stated value $.0292)	$ 67,032,000	$ 67,032,000	$ 67,032,000
Class B common shares outstanding (stated value $70)	3,070	3,070	3,070
Conversion of Class B shares to shares (One share of Class B for 2,400 shares of Class A)	7,368,000	7,368,000	7,368,000
Total	74,400,000	74,400,000	74,400,000
Net income	$118,581,190	$105,132,359	$ 93,550,797
Per-share amount	$1.59	$1.41	$1.26

Note: At the Annual Meeting of the Company's shareholders held on May 1, 1996, the number of authorized shares of the Company's Class A Common Stock was increased pursuant to a vote of the shareholders and a three-for-one stock split was effected. The amounts included for 1995 have been restated to reflect this transaction.

INCORPORATED BY REFERENCE, PAGE 15 OF THE COMPANY'S 1997 ANNUAL REPORT TO SHAREHOLDERS

Selected Consolidated Financial Data

	Years ended December 31				
	1997	1996	1995	1994	1993
	(dollars in thousands, except per share data)				
OPERATING DATA:					
Net revenue from management operations	$134,224	$127,429	$111,276	$96,328	$77,056
Underwriting loss	(2,259)	(11,579)	(3,738)	(8,250)	(1,567)
Total revenue from investment operations	42,955	36,198	30,473	16,939	15,451
Income before income taxes and cumulative effect of change in accounting principle	174,920	152,048	138,011	105,017	90,940
Income after taxes and before cumulative effect of change in accounting principle	118,581	105,132	93,551	71,729	62,408
Net income	$118,581	$105,132	$93,551	$71,729	$60,423
EARNINGS PER SHARE: (2)					
Income before cumulative effect of change in accounting principle	$1.59	$1.41	$1.26	$0.96	$0.84
Cumulative effect on prior years of change in accounting principle	--	--	--	--	(0.03)
Net income per share	$1.59	$1.41	$1.26	$0.96	$0.81
FINANCIAL POSITION:					
Investments (1)	$566,118	$484,784	$360,555	$255,449	$216,442
Receivables from Exchange and affiliates	495,861	478,304	451,778	433,109	468,463
Total assets	1,292,544	1,150,639	1,022,432	869,531	817,191
Shareholders' equity	539,383	435,759	354,064	260,934	210,188
Book value per share (2)	7.25	5.86	4.76	3.51	2.83
Dividends declared per Class A share (2)	0.3925	0.345	0.278	0.225	$0.17
Dividends declared per Class B share	58.875	51.75	41.75	33.75	$26.00

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

INCORPORATED BY REFERENCE, PAGES 16 AND 17 OF THE COMPANY'S 1997 ANNUAL REPORT TO SHAREHOLDERS

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

The following discussion and analysis should be read in conjunction with the audited financial statements and related notes found on pages 29 to 41 as they contain important information helpful in evaluating the Company's operating results and financial condition. (Note: A glossary of certain terms used in this discussion can be found on page 27, herein. The terms are italicized the first time they appear in the text.)

Overview

Erie Indemnity Company (the Company) is a Pennsylvania business corporation formed in 1925 to be the attorney-in-fact for Erie Insurance Exchange (the Exchange), a Pennsylvania- domiciled reciprocal insurance exchange. The Company's principal business activity consists of management of the affairs of the Exchange. Management fees received from the Exchange account for the majority of the Company's consolidated revenues. The Company also is engaged in the property/casualty insurance business through its wholly-owned subsidiaries, Erie Insurance Company, Erie Insurance Property & Casualty Company, and Erie Insurance Company of New York and through its management of Flagship City Insurance Company (Flagship), a subsidiary of the Exchange. The Company also has investments in both affiliated and unaffiliated entities, including a 21.6 percent common stock interest in Erie Family Life Insurance Company (EFL), an affiliated life insurance company. Together with the Exchange, the Company and its subsidiaries and affiliates operate collectively under the name Erie Insurance Group.

In its role as attorney-in-fact for the Policyholders of the Exchange, the Company may charge a management fee up to 25 percent of the affiliated assumed and direct premiums written by the Exchange. The Company's Board of Directors has the authority to change the management fee at its discretion. The management fee is compensation for: (a) acting as attorney-in-fact for the Exchange, (b) managing the business and affairs of the Exchange, and (c) paying certain general administrative expenses including sales commissions, salaries, Employee benefits, taxes, rent, depreciation, data processing expenses and other general and administrative expenses not incurred in the adjustment of losses or the management of investments. All premiums collected, less the management fee paid to the Company, are retained by the Exchange for the purpose of paying losses, loss adjustment expenses, investment expenses and other miscellaneous expenses including taxes, licenses and fees. The Company pays certain loss adjustment and investment expenses on behalf of the Exchange and is reimbursed fully for these expenses by the Exchange. The management fee rate charged the Exchange was set at the following rates:

January 1, 1995 to March 31, 1995	25.0 percent
April 1, 1995 to March 31, 1996	24.5 percent
April 1, 1996 to December 31, 1997	24.0 percent

The management fee rate was set by the Board at 24.25 percent for the period January 1, 1998 through December 31, 1998. In determining the management fee rate, the Company's Board of Directors reviews the relative financial positions of the Erie Insurance Exchange and the Company and considers the long-term needs of the Exchange to ensure its continued growth, competitiveness, and superior financial strength, which benefits the Company.

The Company's wholly-owned subsidiary, Erie Insurance Company, participates in an intercompany reinsurance pooling arrangement with the Exchange. This reinsurance pooling arrangement provides for Erie Insurance Company to share proportionately in the results of all property/casualty insurance operations of the Exchange and the Company's subsidiaries. Since the inception of this pooling arrangement on January 1, 1992, Erie Insurance Company's proportionate share of the reinsurance pool has been 5 percent.

INCORPORATED BY REFERENCE, PAGES 17 AND 18 OF THE COMPANY'S 1997 ANNUAL REPORT TO SHAREHOLDERS

On January 1, 1995, the Exchange began retroceding to the Erie Insurance Company of New York, a wholly-owned subsidiary of Erie Insurance Company, as part of the existing intercompany reinsurance pooling arrangement, 0.5 percent of its total direct and assumed writings. Erie Insurance Company maintained its 5 percent participation in the reinsurance pool which, when combined with the 0.5 percent participation of the Erie Insurance Company of New York, results in a 5.5 percent participation level for the Company's affiliates since 1995.

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

Result of Operations

Overview

Consolidated net income in 1997 was a record $118,581,190, or $1.59 per share, which exceeded the 1996 net income of $105,132,359, or $1.41 per share, by 12.8 percent. The 1997 results, when compared with 1996's results, improved in all operating segments. Increased revenue from management operations translated into growth in net revenues as overall operating costs were controlled. Insurance underwriting operations were favorable compared to 1996, a year which was affected adversely by severe storm-related losses. Revenues from investment operations improved significantly as the Company's excess cash flows were reinvested. The 1996 net income exceeded the 1995 net income of $93,550,797, or $1.26 per share, by 12.4 percent. The 1996 results, when compared with 1995's results, were affected by improved results in the management and investment operating segments of the Company which were offset partially by the unfavorable results of the insurance underwriting operations. The underwriting results of the Company's property/casualty insurance subsidiaries were affected negatively by severe winter weather in the first quarter of 1996 and losses related to Hurricane Fran in the third quarter of 1996. Returns on average shareholders' equity continued to be outstanding in 1997 at 24.3 percent, consistent with the returns realized in 1996 and 1995 of 26.6 percent and 30.4 percent, respectively.

Analysis of Management Operations

Net revenues from management operations rose 5.3 percent to $134,224,096 in 1997 versus $127,428,577 in 1996 and $111,276,227 in 1995. Gross margins from management operations of 28.2 percent remained consistent in 1997 with gross margins of 28.4 percent in 1996 and were improved from gross margins of 26.1 percent in 1995.

Total revenues from management operations rose $26,799,865 for the year ended December 31, 1997, an increase of 6.0 percent. Management fee revenue derived from the direct and affiliated assumed written premiums of the Exchange rose $24,697,907, or 5.6 percent, for the year ended December 31, 1997. In 1997 the Exchange continued to experience written premium growth rates that exceeded industry growth rates. Affiliated assumed and direct premiums written of the Exchange grew 6.1 percent in 1997. The Exchange's overall premium growth was negatively influenced by the rate reduction in Pennsylvania workers' compensation insurance driven by recent Pennsylvania legislative reforms. Total direct written premiums, excluding workers' compensation, increased 8.2 percent in 1997.

The management fee revenue derived by the Company by state and line of business based on the direct and affiliated assumed written premiums of the property/casualty insurance companies of the Erie Insurance Group are presented in the chart below:

Total revenues from management operations for the year ended December 31, 1996 grew $23,399,540 or 5.5 percent. The growth in affiliated assumed and direct premiums written of 7.5 percent was greater than the growth in management fee revenue due to a reduction in the management fee rate charged the Exchange by the Company in 1996.

Service agreement revenue grew 38.6 percent to $7,026,373 in 1997 from $5,069,140 in 1996. Service agreement revenue rose 15.2 percent in 1996 from the $4,401,232 recorded in 1995. The Company receives a fee of 7 percent of voluntary reinsurance premiums assumed from non-affiliated insurers as compensation for the management and administration of this business on behalf of the Exchange. These fees totaled $5,015,192, $5,069,140 and $4,401,232 for 1997, 1996 and 1995, respectively. Also included in service agreement revenue for 1997 is a portion of service charges collected from Policyholders of the property/casualty insurance companies, which amounted to $2,011,181. Beginning September 1, 1997 the Company was reimbursed by the Exchange for a portion of service charges collected by the property/casualty insurers of the Group from Policyholders as reimbursement for the costs incurred by the Company in providing extended payment terms on policies written by them.

The cost of management operations rose $20,004,346, or 6.2 percent, for the year ended December 31, 1997 compared with the rate of growth in management fee revenue of 5.6 percent. The largest component of the cost of management operations, Agent commission expense, rose 10.0 percent to $230,659,805 in 1997 from $209,756,209 in 1996 and 4.3 percent in 1996 from $201,155,576 in 1995. The Company is responsible for the payment of commissions, other than brokerage commissions on non-affiliated assumed reinsurance, to the independent Agents who sell insurance products for the Company's insurance subsidiaries and the Exchange and its subsidiary, Flagship. The Agent commissions are based on fixed percentage fee schedules with different commission rates by line of insurance. Generally, commissions are paid by the Company when premiums are collected. Also included in commission expense are the costs of promotional incentives for Agents and Agent contingency bonuses. Agent contingency bonuses are based upon the underwriting profitability of the insurance written and serviced by the Agent within the Erie Insurance Group of companies. Commissions on direct and affiliated assumed reinsurance business rose 8.5 percent to $220,662,335 in 1997 from $203,367,469 in 1996, and rose 6.1 percent in 1996 from $191,621,427 in 1995.

MANAGEMENT FEE REVENUE
BY STATE AND LINE OF BUSINESS
For the Year Ended December 31, 1997

(thousands)

State	Private Passenger Auto	Homeowners	Workers' Compensation	Commercial Auto	Commercial Multi-Peril	All Other Lines of Business	Total by State
District of Columbia	$ 279	$ 136	$ 364	$ 34	$ 169	$ 63	$ 1,045
Indiana	10,272	2,762	1,223	1,066	1,376	579	17,278
Maryland	35,033	7,978	3,377	4,474	3,029	2,423	56,314
New York	1,986	470	294	393	485	125	3,753
North Carolina	4,369	1,722	1,787	2,121	1,751	695	12,445
Ohio	22,693	5,544	---	2,416	2,874	1,107	34,634
Pennsylvania	183,516	34,119	20,262	15,881	16,346	6,914	277,038
Tennessee	1,877	552	795	685	728	219	4,856
Virginia	20,365	4,612	4,804	3,925	3,260	1,862	38,828
West Virginia	15,034	2,548	---	1,801	1,366	662	21,411
Total by line of business	$295,424	$ 60,443	$ 32,906	$ 32,796	$ 31,384	$ 14,649	$467,602

Promotional incentive and Agent contingency bonus costs increased 56.5 percent to $9,997,470 in 1997 from $6,388,740 in 1996 and declined 33 percent in 1996 from $9,534,149 in 1995. The increase in 1997 was due to the improved underwriting profitability of the insurance operations of the Group which resulted in higher contingency bonuses in 1997.

The cost of management operations, excluding commission costs, fell 1.0 percent in 1997 to $111,108,053 from $112,007,304 in 1996. The Company's personnel costs, net of reimbursement from affiliates, totaled $66,410,377, $68,949,232, and $66,576,363 in 1997, 1996, and 1995, respectively. Personnel costs are the second largest cost component in the cost of management operations after commissions. Personnel costs fell 3.7 percent in 1997, compared to an increase of 3.6 percent in 1996. The 1997 decline is the result of increased expense reimbursements from the Exchange and a decrease in pension costs. As attorney-in-fact for the Exchange, the Company pays almost all expenses of the Group and allocates those costs to the respective Company responsible for them in accordance with intercompany agreements. Increased reimbursements in 1997 to the Company for personnel costs of the loss adjustment function resulted in part from the refinement of the Company's expense allocations made possible with the implementation of new financial systems. Additionally, as the percentage of loss adjustment personnel to total personnel of the Group increases, a larger share of staff department overhead is allocated to the loss adjustment function resulting in higher reimbursements. Pension costs were reduced as a result of the effects of positive investment returns and prior year funding levels.

The cost of management operations, excluding commissions and personnel costs, increased 3.8 percent in 1997 to $44,697,676 compared to $43,058,071 in 1996 and declined by 8.0 percent in 1996 from $46,784,383 in 1995. In 1997 the Company continued to control other operating costs and kept its growth rate less than the growth in management fee revenue. The decline in the cost of management operations in 1996, excluding commissions and personnel costs, was driven by lower data processing costs, lower occupancy costs and reduced underwriting expenses.

INCORPORATED BY REFERENCE, PAGES 19 AND 20 OF THE COMPANY'S 1997 ANNUAL REPORT TO SHAREHOLDERS

Analysis of Insurance Underwriting Operations

The Company incurred underwriting losses from its insurance underwriting operations of $2,259,425, $11,579,211, and $3,737,618, for the years 1997, 1996 and 1995, respectively. In 1997, insurance underwriting results were positively affected by mild winter weather conditions and a lack of catastrophe losses in the Company's operating territories. The 1996 underwriting results of the Company's wholly-owned subsidiaries, Erie Insurance Company and Erie Insurance Company of New York, were impacted negatively by severe winter weather in the first quarter of 1996 and catastrophe losses experienced from Hurricane Fran in the eastern United States, particularly North Carolina, and other storm-related catastrophe losses elsewhere in our operating territories during the third quarter of 1996. Losses resulting from these catastrophes were about $8.1 million in 1996, or about $.07 per share, after federal income taxes. The majority of these losses were property losses on homeowners and commercial property lines of business. Milder weather conditions during 1995 resulted in better underwriting results for the property/casualty companies of the Erie Insurance Group when compared to 1996.

Catastrophes are an inherent risk of the property/casualty insurance business. Catastrophes can have a material impact on the Company's property/casualty insurance underwriting operating results. However, the Company has in effect a reinsurance agreement with the Exchange that would cushion the effect of catastrophe losses on the Company's operating results and financial position.

Premiums earned increased $5,839,909 or 5.8 percent, for the year ended December 31, 1997 and $8,635,458 or 9.3 percent for the year ended December 31, 1996. The increase in premiums earned in 1997 is reflective of the growth in net premiums written of the Erie Insurance Group, which was impacted negatively during 1997 by rate reductions in Pennsylvania workers' compensation as a result of legislative reforms. Excluding workers' compensation, premiums written of the Erie Insurance Group would have increased 8.2 percent. Premiums earned were also lower due to $1,102,868 of premiums ceded to the Exchange for reinsurance coverage under the aggregate excess of loss reinsurance agreement with the Exchange.

Losses, loss adjustment expenses and underwriting expenses incurred fell $3,479,877 or 3.1 percent, for the year ended December 31, 1997 compared to an increase of $16,477,051 or 17.1 percent for the year ended December 31, 1996. In 1997 losses and loss adjustment expenses incurred fell 6.0 percent to $79,970,102 due to the lack of catastrophe losses and milder weather conditions in 1997 compared to 1996. In 1996 losses and loss adjustment expenses incurred rose 19.9 percent to $85,070,861.

The Company continually reviews its methods for estimating its liability for losses and loss adjustment expenses, which includes an estimate for losses incurred but not reported. Such liabilities are based necessarily on estimates and, while management believes the amounts reserved are adequate, the ultimate liabilities may be in excess of or less than amounts provided.

The 1997 GAAP combined ratio for the Company's property/casualty operations was 102.1 compared to a ratio of 111.4 in 1996 and 104.0 in 1995. The GAAP combined ratio for 1997, 1996 and 1995, excluding catastrophe losses, was 101.5, 103.4 and 102.8, respectively.

Analysis of Investment Operations

Total revenue from investment operations was $42,954,953 in 1997, compared to $36,198,425 in 1996 and $30,472,840 in 1995, an increase of 18.7 percent and 18.8 percent, respectively. Income from investment operations rose primarily due to an increase in interest and dividend income generated from the Company's investment portfolio as increased cash flows were reinvested.

Interest and dividend income rose $7,114,598, or 27.6 percent, for the year ended December 31, 1997 and $4,980,002, or 23.9 percent, for the year ended December 31, 1996, which was consistent with the growth in the Company's cash, cash equivalents and investments, which increased 23.1 percent in 1997 and 21.9 percent in 1996.

The Company's earnings from its 21.6 percent ownership of EFL totaled $4,230,909 in 1997, up from $3,820,957 in 1996 and $3,867,533 in 1995. This investment is accounted for under the equity method of accounting. Consequently, the Company's investment earnings in 1997, 1996 and 1995 were a direct result of its share of EFL's net income of $19,560,368, $17,666,250 and $17,881,592, respectively. The increase in EFL's net income in 1997 was due to increased policy revenues (up 13.1 percent in 1997 compared to 1996) and to increased investment income of 8.6 percent. Investment income totaled $49,914,292 in 1997 and $45,948,969 in 1996. The decrease in EFL's net income in 1996 was due to a decrease in realized gains on investments in 1996 when compared with 1995. EFL's realized gains on investments were $4,986,897 in 1996 compared to $7,483,798 in 1995.

Financial Condition

Investments

The Company's investment strategy takes a long-term perspective emphasizing investment quality, diversification and superior investment returns. Investments are managed on a total return approach that focuses on current income and capital appreciation. The Company's investment strategy also provides for liquidity to meet the short- and long-term commitments of the Company. At December 31, 1997 and 1996, the Company's investment portfolio of investment-grade bonds, common stock, and preferred stock, all of which are readily marketable, represent 40 percent and 38 percent, respectively, of total assets, and provide the liquidity the Company requires to meet the demands on its funds.

Distribution of Invested Assets

Carrying Value at December 31,

(thousands)

	1997	%	1996	%
Fixed maturities available-for-sale	$349,973	66	$310,176	68
Equity securities:				
Common stock	80,170	15	50,045	11
Preferred stock	84,963	16	81,573	18
Real estate mortgage loans	8,392	2	7,294	2
Other invested assets	7,932	1	7,010	1
Total invested assets	$531,430	100%	$456,098	100%

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

Fixed Maturities

The Company's investment strategy includes maintaining a fixed maturities portfolio that is of very high quality and well diversified within each market sector. The fixed maturities portfolio is managed conservatively with the goal of achieving reasonable returns while limiting exposure to risk. At December 31, 1997, the carrying value of fixed maturity investments represented 66 percent of total invested assets.

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

Diversification of Fixed Maturities

at December 31, 1997

(thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value
U. S. government & agencies	$ 12,771	$ 432	$ 3	$ 13,200
Foreign governments	1,989		418	1,571
Obligations of states and political subdivisions	41,931	2,840		44,771
Special revenue	116,052	7,850	1	123,901
Public utilities	7,171	160		7,331
U. S. industrial & miscellaneous	150,666	6,317	401	156,582
Foreign industrial & miscellaneous	2,556	61		2,617
Total fixed maturities	$ 333,136	$ 17,660	$ 823	$ 349,973

The Company's fixed maturity investments consist of high-quality, marketable bonds all of which were rated at investment-grade levels (Ba/BB or better) at December 31, 1997. Included in this investment-grade category are $205.8 million, or 58.8 percent, of the highest quality bonds rated Aaa/AAA or Aa/AA or bonds issued by the United States government. At December 31, 1997, the Company had no below investment-grade bonds. Generally, the fixed maturities in the Company's portfolio are rated by external rating agencies; if such bonds are not rated externally, they are rated by the Company on a basis consistent with that used by the rating agencies.

Management classifies all fixed maturities as available-for-sale securities, allowing the Company to meet its liquidity needs and provide greater flexibility for its investment managers to restructure the Company's investments in response to changes in market conditions or strategic direction. Securities classified as available-for-sale are carried at market value with unrealized gains and losses included in shareholders' equity. At December 31, 1997 and 1996, unrealized gains on fixed maturities amounted to $10,944,000 and $5,904,000, respectively, net of deferred taxes.

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

The term to maturity graph which follows is based on contractual maturity date. The distribution does not reflect expected future prepayments.

Equity Securities

Diversification of Equity Securities

at December 31, 1997
(thousands)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value
Common stock:				
U.S. banks, trusts and insurance companies	$ 3,138	$ 3,379	$	$ 6,517
U.S. industrial and miscellaneous	58,415	19,650	6,874	71,191
Foreign industrial and miscellaneous	3,209	53	800	2,462
Preferred stock:				
Public utilities	2,619	27		2,646
U.S. banks, trusts and insurance companies	46,901	3,347		50,248
U.S. industrial and miscellaneous	25,909	2,006	1	27,914
Foreign industrial and miscellaneous	3,932	223		4,155
Total equity securities	$ 144,123	$ 28,685	$ 7,675	$ 165,133

Equity securities consist of common stock and preferred stock which are carried on the consolidated statements of financial position at market value. At December 31, 1997 and 1996, equity securities held by the Company include unrealized gains of $13,656,000 and $10,042,000, respectively, net of deferred taxes. Investment characteristics of common and preferred stocks differ substantially from one another. The Company's preferred stock portfolio provides a source of highly predictable current income that is competitive with investment-grade bonds. The preferred stock are of very high quality and marketable. Common stock provide capital appreciation potential within the portfolio. Common stock investments inherently provide no assurance of producing income since dividends are not guaranteed. Preferred stocks generally provide for fixed rates of return which, while not guaranteed, resemble fixed income securities. As with all investments, the continuing value of common stock is subject to change based on the underlying value of the issuer. Common stocks also are subject to valuation fluctuations driven by investment market conditions. The current appreciation in the value of the Company's equity security investments is subject to these risks. Management addresses these risks by providing for investment strategies which tend to balance investment holdings along the lines of type of investment, maturity dates, industry and geographic concentrations and income-producing characteristics.

Investment in EFL

The Company owns 21.6 percent of the outstanding common stock of EFL, a member company of the Erie Insurance Group. EFL markets various life insurance products, principally non-participating individual and group life policies, including universal life and individual and group annuity products, in nine jurisdictions. The Company's investment in EFL is accounted for under the equity method of accounting; consequently, the Company's carrying value of $34,687,640 represents 21.6 percent of the shareholders' equity of EFL at December 31, 1997.

Liquidity and Capital Resources

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

The Company incurs substantially all general and administrative expenses on behalf of the Exchange and other affiliated companies. The Exchange generally reimburses the Company for these expenses on a paid basis when calculating the management fee due for the month. Since management fees traditionally have not been paid to the Company by the Exchange until the premiums from Policyholders are collected, the change in the premium receivable balance is used in determining the actual monthly amount transferred. During 1997 and 1996, approximately $115.4 million and $65.5 million, respectively, were paid to the Company from the Exchange. These funds have been invested by the Company and the investment earnings are reflected in the investment operations of the Company.

At December 31, 1997 and 1996, the Company's receivables from its affiliates totaled $495,861,158 and $478,304,267, respectively. These receivables, primarily due from the Exchange as a result of the management fee, expense reimbursements and the intercompany reinsurance pool, potentially expose the Company to concentrations of credit risk.

Receivables from Erie Insurance Exchange and affiliates:

	1997	1996
Exchange-Management fee and expense reimbursements	$111,577,074	$108,589,885
EFL-Expense reimbursements	1,153,057	1,049,007
Exchange-Reinsurance recoverable from losses and unearned premium balances ceded	383,131,027	368,665,375
Total receivables from Erie Insurance Exchange and affiliates	$495,861,158	$478,304,267

The Company generates sufficient net positive cash flow from its operations to fund its commitments and to build its investment portfolio, thereby increasing future investment returns. The Company maintains a high degree of liquidity in its investment portfolio in the form of readily marketable fixed maturities, common stock and short-term investments. The Company's consolidated statements of cash flows indicate that net cash flows provided from operating activities in 1997, 1996 and 1995 were $118,905,654, $103,362,034 and $111,720,574, respectively. Those statements also classify the other sources and uses of cash by investing activities and financing activities.

In 1989 the shareholders adopted the Erie Indemnity Company Stock Redemption Plan (the Plan). The Plan entitles estates of qualified shareholders to cause the Company to redeem shares of stock of the Company at a price equal to the fair market value of the stock at time of redemption. On December 12, 1995, the Board of Directors amended and restated the Plan. The restatement limits the redemption amount to an aggregation of: (1) an initial amount of $10 million as of December 31, 1995 and (2) beginning in 1996 and annually thereafter, an additional annual amount as determined by the Board in its sole discretion, not to exceed 20 percent of the Company's net income from management operations during the prior fiscal year. This aggregate amount is reduced by redemption amounts paid. However, at no time shall the aggregate redemption limitation exceed 20 percent of the Company's retained earnings determined as of the close of the prior year. In addition, the restated plan limits the repurchase from any single shareholder's estate to 33 percent of total share holdings of such shareholder. At the Board of Directors meeting on February 29, 1996, the Board approved an increase in the redemption amount of $14,350,186. On March 11, 1997, the Board approved an increase in the redemption amount of $16,655,226 to $41,005,412. There were no shares of stock redeemed under this Plan during 1997 or 1996.

Dividends declared to shareholders totaled $26,490,811, $23,284,957 and $18,785,419 in 1997, 1996 and 1995, respectively. There are no regulatory restrictions on the payment of dividends to the Company's shareholders, although there are state law restrictions on the payment of dividends from the Company's subsidiaries to the Company.

Temporary differences between the financial statement carrying amounts and tax basis of assets and liabilities that give rise to deferred tax assets and liabilities resulted in net deferred tax liabilities at December 31, 1997 and 1996 of $7,101,371 , $2,035,054, respectively. The primary reason for the increase in the deferred tax liability is due to an increase in unrealized gains from available-for-sale securities in 1997 and 1996. The deferred tax liability generated from these unrealized gains amounted to $13,246,068 as of 1997, and $8,620,624 as of 1996, an increase of $4,625,444. Management believes it is likely that the Company will have sufficient taxable income in future years to realize the benefits of the deferred tax assets.

Financial Ratings

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

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

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

Regulatory Risk-Based Capital

The NAIC standard for measuring the solvency of insurance companies, referred to as Risk Based Capital (RBC), is a method of measuring the minimum amount of capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The RBC formula is used by state insurance regulators as an early warning tool to identify, for the purpose of initiating regulatory action, insurance companies that potentially are inadequately capitalized. In addition, the formula defines minimum capital standards that will supplement the current system of low fixed minimum capital and surplus requirements on a state-by-state basis. At December 31, 1997, the Company's property/casualty insurance subsidiaries' financial statements prepared under Statutory Accounting Practices are all substantially in excess of levels that would require regulatory action.

Reinsurance

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

Effective January 1, 1997, Erie Insurance Company and Erie Insurance Company of New York placed in effect an all lines aggregate excess of loss reinsurance agreement with the Exchange that supersedes the prior catastrophe excess of loss reinsurance agreement between the parties. Under the new agreement, Erie Insurance Company and Erie Insurance Company of New York reinsure their net retained share of the intercompany reinsurance pool such that once Erie Insurance Company and Erie Insurance Company of New York have sustained ultimate net losses that exceed an amount equal to 72.5 percent of Erie Insurance Company and Erie Insurance Company of New York's net premiums earned, the Exchange will be liable for 95 percent of the amount of such excess up to, but not exceeding, an amount equal to 95 percent of 15 percent of Erie Insurance Company's and Erie Insurance Company of New York's net premiums earned. Losses equal to 5 percent of the ultimate net loss in excess of the retention under the contract are retained by Erie Insurance Company and Erie Insurance Company of New York. The annual premium for this reinsurance treaty is 1.01 percent of the net premiums earned by Erie Insurance Company and Erie Insurance Company of New York during the term of this agreement subject to a minimum premium of $800,000. The annual premium for this agreement with the Exchange was $1,102,868 in 1997. There were no loss recoveries by Erie Insurance Company or Erie Insurance Company of New York under this agreement for 1997. This reinsurance treaty is excluded from the intercompany reinsurance pooling agreement and replaces the earlier reinsurance agreements between the Company and Erie Insurance Company and Erie Insurance Company of New York, which are described below.

During 1996 and 1995, Erie Insurance Company and Erie Insurance Company of New York had in effect a Property Catastrophe Excess of Loss Reinsurance Treaty with the Exchange. The coverage included in the treaty for Erie Insurance Company was $25,000,000 in excess of $10,000,000 and was excluded from the aforementioned pooling arrangement. The coverage included in the treaty for Erie Insurance Company of New York was $2,250,000 in excess of $250,000 and also was excluded from the aforementioned pooling arrangement. The annual premium for these agreements to the Exchange was $424,170 and $641,250 in 1996 and 1995, respectively.

Effects of Inflation

Inflationary considerations can impact the Company's activities in several ways. Inflationary expectations can impact the market value of the Company's portfolio of securities, particularly fixed maturities and preferred stock. At December 31, 1997, the Company's investments totaled $531,430,296. Of this amount, $434,934,522 was invested in interest rate sensitive bonds and preferred stock. At December 31, 1997 the market value exceeded the book value of the Company's interest rate sensitive bonds and preferred stock by $22,437,832.

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

Property/Casualty Loss Reserves

General

The reserve liabilities for property/casualty losses and loss adjustment expenses (LAE) represent estimates of the ultimate net cost of all unpaid losses and loss adjustment expenses incurred through December 31, 1997 and 1996. The reserves are determined using adjusters' individual case estimates and statistical projections. These projections are employed in four specific areas: (1) to calculate incurred but not reported (IBNR) reserves, (2) to test the adequacy of case basis estimates of loss reserves, (3) to calculate allocated LAE reserves, and (4) to calculate unallocated LAE reserves. These projections are reviewed continually and adjusted as necessary, as experience develops and new information becomes known. Such adjustments are reflected in current operations.

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

Environmental-Related Claims

The Company's property/casualty subsidiaries had 36 reported open claims concerning environmental-related liabilities at December 31, 1997 and 31 and 47 such claims at December 31, 1996 and 1995, respectively. The Company's property/casualty subsidiaries' share of direct losses paid related to environmental-related claims was $1,621, $5,308 and $9,172, related to years ended December 31, 1997, 1996 and 1995, respectively. The Company's property/casualty subsidiaries' share of unpaid direct losses amounted to $40,583, $42,194 and $53,512, related to years ended December 31, 1997, 1996 and 1995, respectively.

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

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

Impact of Recent Accounting Standards

Reporting Comprehensive Income

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (FAS) No. 130, "Reporting Comprehensive Income." FAS 130 is effective for fiscal years beginning after December 31, 1997 and requires reporting of comprehensive income in a full set of general purpose financial statements. Comprehensive income is defined in the Statement as all changes in equity during a period except those resulting from investments by owners and distributions to owners. The Company will begin reporting comprehensive income beginning with the quarter ending March 31, 1998. The standard increases disclosure but will not affect reported financial position, results of operations or cash flows.

Disclosure about Segments of an Enterprise and Related Information

In June 1997, the FASB also issued FAS No. 131, "Disclosure about Segments of an Enterprise and Related Information." FAS 131 is effective for fiscal years beginning after December 31, 1997 and requires disclosure of segments under a "management approach" whereby segments are reported publicly as they are internally. The Company currently reports segment information consistent with that of internal management reporting and, as a result, expects little effect on interim and year-end reports.

Management Change

Philip A. Garcia was appointed Executive Vice President and Chief Financial Officer of the Erie Insurance Group on October 2, 1997. Mr. Garcia replaced Thomas M. Sider, who retired June 30, 1997 after 26 years of service to the Erie Insurance Group. Mr. Garcia began his career with the Company in 1981 and has held several positions in the life and property/casualty accounting operations since that time. Immediately prior to his appointment, Mr. Garcia had served as senior vice president and controller of the Company for the past four years.

The Company's former internal audit manager, Timothy G. NeCastro, was appointed senior vice president and controller of the Erie Insurance Group on November 10, 1997.

Factors That May Affect Future Results

Management Operations

The management fee paid to the Company as attorney-in-fact for the Exchange is subject to approval by the Company's Board of Directors. The rate may be changed periodically by the Board at their discretion but may not exceed 25 percent. The Board considers several factors in determining the management fee rate, including the relative financial position of the Exchange and the Company and the long-term capital needs of the Exchange in order to foster growth, competitiveness, and maintain its superior financial strength. Because the management fee revenue from the Exchange provides the majority of the Company's revenue, the income of the Company is dependent upon the ability of the Exchange to offer competitive insurance products in the marketplace.

Insurance Operations

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

Geographic Expansion. In addition to its current operating territory, which includes nine states and the District of Columbia, the Exchange and EFL are licensed to do business in the State of Illinois. The Erie Insurance Group, through these entities, will begin to market insurance in Illinois early in 1999. All lines of business currently being marketed in other states will be written in Illinois, subject to the requirements of Illinois law. During 1997, the Company continued preparation for this expansion by creating an entry plan, analyzing system requirements and regulatory considerations and appointing a branch manager. The expansion into a new operating territory offers the opportunity for growth of direct and affiliated assumed written premiums of the Exchange upon which management fee revenue of the Company is based and directly through premium growth of EFL.

Investment Operations

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

Regulatory

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

Urban Insurance Issues. Federal regulators have heightened their scrutiny of the property/casualty insurance industry, particularly its underwriting and marketing practices relative to homeowners insurance. Assertions have been made and complaints filed against various insurers for an alleged practice called redlining, a term used to describe an insurer's illegal and unfair discrimination against minority communities, which are typically located in economically depressed inner cities. Much of the action at the federal level has been initiated by the Department of Housing and Urban Development, with enforcement by the United States Department of Justice. A number of complaints have culminated in consent decrees under which insurers have agreed to pay substantial sums of money. This trend may continue unless and until Congressional action or a Supreme Court decision makes clear that HUD has no authority to regulate property insurance.

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

Year 2000

Financial services companies like the Erie Insurance Group are largely dependent upon information technology in conducting their day-to-day operations. Like many companies, Erie Insurance Group continually is faced with significant information technology challenges. Among these challenges is the so-called "Year 2000 Issue," the inability of many computer systems to recognize the year 2000 and subsequent years.

The Erie Insurance Group has developed and substantially implemented solutions to this problem in the normal course of meeting these technological challenges. Work on correcting these systems began in the early 1990's and all projects since then have incorporated corrections in them. As of year-end 1997, approximately 80 percent of the Company's systems are Year 2000 compliant. Completion of the remaining effort is expected by the fourth quarter of 1998.

In addition to those systems operated by the Erie Insurance Group, systems resident with our major service providers are of a concern to maintaining ongoing and uninterrupted service. The Erie Insurance Group's plans address these external concerns by assessing the readiness of outside parties and considering alternatives in situations in which any more than remote exposure might exist. During 1998 the Erie Insurance Group is continuing its assessment of the ability of external service providers such as banks and reporting bureaus to provide mission critical services.

Based upon known factors and the measures taken to date, management does not anticipate significant future costs with addressing the Year 2000 Issue. Costs which have been incurred to date have been charged to operations as incurred.

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

Glossary of Selected Insurance Terms

o Affiliated assumed reinsurance business:

Voluntary reinsurance contracts entered into whereby the Exchange assumes risks from other insurers within the Erie Insurance Group of companies.

o Assume:

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

o Attorney-in-fact:

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

o Cede:

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

o Direct premiums written:

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

o GAAP:

Generally Accepted Accounting Principles.

o GAAP combined ratio:

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

o Gross margins from management operations:

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

o Incurred but not reported reserves:

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

o Losses:

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

o Loss adjustment expenses (LAE):

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

o Loss reserves:

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

o NAIC:

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

o Property/casualty insurance:

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

o Reciprocal insurance exchange:

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

o Reinsurance:

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

- Retrocede:

  To transfer again all or part of the insurance or reinsurance ceded to an insurance or reinsurance entity.

- Statutory Accounting Practices (SAP):

  Provides for recording transactions and preparing financial statements in accordance with the rules and procedures prescribed or permitted by state statute or regulatory authorities. Such practices generally reflect a liquidating rather than a going concern basis of accounting. The principal differences between SAP and GAAP are as follows: (a) under SAP, certain assets ("nonadmitted" assets) are eliminated from the consolidated statements of financial position, (b) under SAP, policy acquisition costs are expensed as incurred, while under GAAP, they are deferred and amortized over the terms of the policies, (c) under SAP, no provision is made for deferred income taxes and (d) under SAP, certain reserves are recognized which are not under GAAP.

INCORPORATED BY REFERENCE, PAGE 44 OF THE COMPANY'S 1997 ANNUAL REPORT TO SHAREHOLDERS

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

Common Stock Prices:

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

Class A Trading Price

	1997		1996	
	Low	High	Low	High
First Quarter	26	35	19	26 5/8
Second Quarter	26 1/2	39 1/4	24 1/2	42
Third Quarter	30 1/2	40	33 1/2	48 1/2
Fourth Quarter	28 1/8	34 1/2	25	37

In May 1996 the Company's Board of Directors approved a three-for-one split of the Class A non-voting common stock. The above sales prices have been adjusted to reflect the stock split.

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

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

Common Stock Dividends:

The Company historically has declared and paid cash dividends on a quarterly basis at the discretion of the Board of Directors. The payment and amount of future dividends on the common stock will be determined by the Board of Directors and will depend on, among other things, earnings, financial condition and cash requirements of the Company at the time such payment is considered, and on the ability of the Company to receive dividends from its subsidiaries, the amount of which is subject to regulatory limitations. Dividends declared for each class of stock during 1997 and 1996 are as follows:

Dividends Declared

	Class A Share		Class B Share	
1997:				
First Quarter	$	.0950	$	14.250
Second Quarter		.0950		14.250
Third Quarter		.0950		14.250
Fourth Quarter		.1075		16.125
	$	.3925	$	58.875
1996:				
First Quarter	$	.083333	$	12.50
Second Quarter		.083333		12.50
Third Quarter		.083334		12.50
Fourth Quarter		.095000		14.25
	$	.345000	$	51.75

As of February 27, 1998 there were approximately 1,349 shareholders of record of the Company's Class A non-voting common stock and 27 shareholders of record of the Company's Class B voting common stock.

Of the 67,032,000 shares of the Company's Class A common stock outstanding as of February 27, 1998, approximately 24,492,470 shares are freely transferable without restriction or further registration under the Securities Act of 1933 (the Act), as amended unless purchased by affiliates of the Company as that term is defined in Rule 144 under the Act. The 42,539,530 remaining outstanding shares of Class A common stock (the Restricted Shares) are held by the Company's directors, executive officers and their affiliates and are restricted securities which are eligible to be sold publicly pursuant to an effective registration statement under the Act or in accordance with an applicable exemption, including, after September 28, 1994, Rule 144, from the registration requirements under the Act. The Company is unable to estimate the amount of Restricted Shares that may be sold under Rule 144 since this amount will depend in part on the price for the Class A common stock, the personal circumstances of the sellers and other factors. Sales of a substantial number of Restricted Shares in the public market, or the availability of such shares, could adversely affect the price of the Class A common stock.

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

The Company serves as its own transfer agent and registrar.

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

Graph #1 ERIE INSURANCE GROUP
Organizational Structure/Major Business Units

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

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

Management Operations

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

Life Insurance Operations

Erie Family Life Insurance Company

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

Graph #2 NET INCOME
(In millions of dollars)

	1995	1996	1997
Net Income for Year Ended December 31	$93.6	$105.1	$118.6

Graph #3 NET REVENUES FROM MANAGEMENT
OPERATIONS AND GROSS MARGINS
(In millions of Dollars, except ratios)

	1995	1996	1997
Net Revenues from Management Operations	$111.3	$127.4	$134.2
Gross Margin from Management Operations	26.1%	28.4%	28.2%

Graph #4 PREMIUMS EARNED AND GAAP
COMBINED RATIO EXCLUDING CATASTROPHES
(In millions of Dollars, except ratios)

	1995	1996	1997
Premiums Earned for Year Ended December 31	$ 92.9	$101.5	$107.3
GAAP Combined Ratio Excluding Catastrophes	102.8	103.4	101.5

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

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

	1995	1996	1997
Realized Gain on Investments	$ 5.8	$ 6.6	$ 5.8
Equity in Earnings of EFL	$ 3.9	$ 3.8	$ 4.2
Interest and Dividends	$20.8	$25.8	$32.9

Graph #6 DIVERSIFICATION OF FIXED MATURITIES
at December 31, 1997

U.S. Industrial & Miscellaneous	45%
Special Revenue	35%
States & Political Subdivisions	13%
U.S. Government	4%
Public Utilities	2%
Foreign Governments, Industrial & Miscellaeous	1%

Graph #7 QUALITY* OF BOND PORTFOLIO
at December 31, 1997 - Carrying Value

Aaa/AAA	33%
A	28%
Aa/AA	21%
Baa/BBB	13%
U.S. Treasury & Agency Securities	4%
Ba/BB	1%

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

Graph #8 TERM TO MATURITY OF FIXED MATURITIES

Subsequent to 2008	52%
1999-2003	27%
2004-2008	20%
1998	1%

Graph #9 DIVERSIFICATION OF EQUITY SECURITIES
At December 31, 1997 - Carrying Value

(1) U.S. Industrial & Miscellaneous	43%
(2) U.S. Banks & Insurance	30%
(2) U.S. Industrial & Miscellaneous	17%
(1) U.S. Banks & Insurance	4%
(2) Foreign Industrial & Miscellaneous	3%
(2) Public Utilities	2%
(1) Foreign Industrial & Miscellaneous	1%

(1) Common Stocks
(2) Preferred Stocks

INCORPORATED BY REFERENCE, PAGE 29 OF THE COMPANY'S 1997 ANNUAL REPORT TO SHAREHOLDERS

INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

We have audited the accompanying consolidated statements of financial position of Erie Indemnity Company and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Erie Indemnity Company and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

/s/ Brown, Schwab, Bergquist & Co.

Erie, Pennsylvania
February 17, 1998

INCORPORATED BY REFERENCE, PAGE 31 OF THE COMPANY'S 1997 ANNUAL REPORT TO SHAREHOLDERS

ERIE INDEMNITY COMPANY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of December 31, 1997 and 1996

ASSETS	1997	1996
INVESTMENTS		
Fixed maturities available-for-sale, at fair value (amortized cost of $333,135,959 and $301,093,212, respectively)	$ 349,972,703	$ 310,175,864
Equity securities, at fair value (cost of $144,123,112 and $116,070,434, respectively)	165,132,504	131,618,139
Real estate mortgage loans	8,392,518	7,293,651
Other invested assets	7,932,571	7,010,019
Total investments	$ 531,430,296	$ 456,097,673
Cash and cash equivalents	53,148,495	18,719,624
Accrued investment income	6,128,725	5,570,033
Note receivable from Erie Family Life Insurance Company	15,000,000	15,000,000
Premiums receivable from policyholders	108,057,986	103,847,320
Prepaid federal income taxes	1,681,573	4,056,974
Receivables from Erie Insurance Exchange and affiliates	495,861,158	478,304,267
Deferred policy acquisition costs	10,283,372	9,540,998
Property and equipment	10,130,230	9,841,538
Equity in Erie Family Life Insurance Company	34,687,640	28,686,137
Other assets	26,134,306	20,974,641
Total assets	$1,292,543,781	$1,150,639,205

LIABILITIES AND SHAREHOLDERS' EQUITY	1997	1996
LIABILITIES		
Unpaid losses and loss adjustment expenses	$ 413,408,941	$ 386,425,019
Unearned premiums	219,210,522	216,938,069
Accrued commissions	81,150,931	75,518,593
Accounts payable and accrued expenses	17,041,120	20,325,691
Deferred income taxes	7,101,371	2,035,054
Dividends payable	7,255,444	6,411,788
Accrued benefit obligations	7,992,300	7,226,300
Total liabilities	$ 753,160,629	$ 714,880,514
SHAREHOLDERS' EQUITY		
Capital stock		
Class A common, stated value $.0292 per share; authorized 74,996,930	$ 1,955,100	$ 1,955,100
Class B common, stated value $70 per share; authorized 3,070	214,900	214,900
Additional paid-in capital	7,830,000	7,830,000
Net unrealized gain on available-for-sale securities (net of deferred taxes)	29,024,573	17,490,491
Retained earnings	500,358,579	408,268,200
Total shareholders' equity	$ 539,383,152	$ 435,758,691
Total liabilities and shareholders' equity	$1,292,543,781	$1,150,639,205

See accompanying notes to consolidated financial statements.

INCORPORATED BY REFERENCE, PAGE 30 OF THE COMPANY'S 1997 ANNUAL REPORT TO SHAREHOLDERS

ERIE INDEMNITY COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 1997, 1996 and 1995

	1997	1996	1995
MANAGEMENT OPERATIONS:			
Management fee revenue	$467,602,283	$442,904,376	$420,003,739
Service agreement revenue	7,026,373	5,069,140	4,401,232
Other operating revenue	1,363,298	1,218,573	1,387,578
Total revenue from management operations	$475,991,954	$449,192,089	$425,792,549
Cost of management operations	341,767,858	321,763,512	314,516,322
Net revenue from management operations	$134,224,096	$127,428,577	$111,276,227
INSURANCE UNDERWRITING OPERATIONS:			
Premiums earned	$107,349,668	$101,509,759	$ 92,874,301
Losses and loss adjustment expenses incurred	$ 79,970,102	$ 85,070,861	$ 70,934,755
Policy acquisition and other underwriting expenses	29,638,991	28,018,109	25,677,164
Total losses and expenses	$109,609,093	$113,088,970	$ 96,611,919
Underwriting loss	($ 2,259,425)	($ 11,579,211)	($ 3,737,618)
INVESTMENT OPERATIONS:			
Equity in earnings of Erie Family Life Insurance Company	$ 4,230,909	$ 3,820,957	$ 3,867,533
Interest and dividends	32,908,858	25,794,260	20,814,258
Net realized gain on investments	5,815,186	6,583,208	5,791,049
Total revenue from investment operations	$ 42,954,953	$ 36,198,425	$ 30,472,840
Income before income taxes	$174,919,624	$152,047,791	$138,011,449
Provision for income taxes	56,338,434	46,915,432	44,460,652
NET INCOME	$118,581,190	$105,132,359	$ 93,550,797
Net income per share	$ 1.59	$ 1.41	$ 1.26

See accompanying notes to consolidated financial statements.

INCORPORATED BY REFERENCE, PAGE 33 OF THE COMPANY'S 1997 ANNUAL REPORT TO SHAREHOLDERS

ERIE INDEMNITY COMPANY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY Years Ended December 31, 1997, 1996 and 1995

	Class A Shares Outstanding	Capital Stock Class A Amount	Capital Stock Class B Amount	Class B Shares Outstanding
Balance, January 1, 1995	67,032,000	$1,955,100	$214,900	3,070
Net income				
Net unrealized gains on available-for-sale securities				
Dividends:				
Class A - $.2783 per share				
Class B - $41.75 per share				
Balance, December 31, 1995	67,032,000	$1,955,100	$214,900	3,070
Net income				
Net unrealized losses on available-for-sale securities				
Dividends:				
Class A - $.345 per share				
Class B - $51.75 per share				
Balance, December 31, 1996	67,032,000	$1,955,100	$214,900	3,070
Net income				
Net unrealized gains on available-for-sale securities				
Dividends:				
Class A - $.3925 per share				
Class B - $58.875 per share				
Balance, December 31, 1997	67,032,000	$1,955,100	$214,900	3,070
	==========	==========	========	=====

See accompanying notes to consolidated financial statements.

INCORPORATED BY REFERENCE, PAGE 33 OF THE COMPANY'S 1997 ANNUAL REPORT TO SHAREHOLDERS

ERIE INDEMNITY COMPANY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY Years Ended December 31, 1997, 1996 and 1995

	Additional Paid-in Capital	Net Unrealized Gain (Loss) on Available-for-sale Securities	Retained Earnings	Total Shareholders' Equity
Balance, January 1, 1995	$7,830,000	($ 721,470)	$251,655,420	$260,933,950
Net income			93,550,797	93,550,797
Net unrealized losses on available-for-sale securities		18,364,913		18,364,913
Dividends:				
Class A - $.2783 per share			(18,657,245)	(18,657,245)
Class B - $41.75 per share			(128,174)	(128,174)
	----------	-----------	------------	-----------
Balance, December 31,1995	$7,830,000	$17,643,443	$326,420,798	$354,064,241
Net Income			105,132,359	105,132,359
Net unrealized losses on available-for-sale securities		(152,952)		(152,952)
Dividends:				
Class A - $.345 per share			(23,126,084)	(23,126,084)
Class B - $51.75 per share			(158,873)	(158,873)
	----------	-----------	------------	------------
Balance, December 31, 1996	$7,830,000	$17,490,491	$408,268,200	$435,758,691
Net income			118,581,190	118,581,190
Net unrealized losses on available-for-sale securities		11,534,082		11,534,082
Dividends:				
Class A - $.3925 per share			(26,310,064)	(26,310,064)
Class B - $58.875			(180,747)	(180,747)
	----------	-----------	------------	------------
Balance at December 31,1997	$7,830,000	$29,024,573	$500,358,579	$539,383,152
	==========	===========	============	===========

See accompanying notes to consolidated financial statements.

ERIE INDEMNITY COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 1997, 1996 and 1995

	1997	1996	1995
CASH FLOW FROM OPERATING ACTIVITIES			
Net income	$118,581,190	$105,132,359	$ 93,550,797
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,888,660	1,428,376	1,019,784
Deferred income tax expense (benefit)	440,871	1,255,163	(49,439)
Realized gain on investments	(5,815,186)	(6,583,208)	(5,791,049)
Amortization of bond discount	(158,240)	(19,640)	(227,667)
Undistributed earnings of Erie Family Life	(3,127,202)	(2,799,190)	(2,982,739)
Deferred compensation	345,450	(151,646)	263,283
Increase in accrued investment income	(558,686)	(589,879)	(1,542,037)
Increase in receivables	(21,845,530)	(30,842,709)	(30,929,496)
Policy acquisition costs deferred	(20,845,360)	(19,438,265)	(18,385,333)
Amortization of deferred policy acquisition costs	20,102,986	18,909,001	17,041,251
Increase in prepaid expenses and other assets	(4,503,392)	(3,655,923)	(1,042,119)
(Decrease) increase in accounts payable and accrued expenses	(2,864,021)	(2,200,926)	2,887,942
Increase in accrued commissions	5,632,338	2,820,729	17,367,002
Increase (decrease) in income taxes payable	2,375,401	(3,124,595)	2,525,058
Increase in loss reserves	26,983,922	29,090,892	12,510,419
Increase in unearned premiums	2,272,453	14,131,495	25,504,917
Net cash provided by operating activities	$118,905,654	$103,362,034	$111,720,574
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of investments:			
Fixed maturities	($ 69,647,276)	($129,218,290)	($ 73,178,269)
Equity securities	(73,953,554)	(71,925,472)	(47,294,618)
Mortgage loans	(1,222,747)	(2,933,110)	
Other invested assets	(1,571,223)	(3,114,141)	(2,460,336)
Sales/maturities of investments:			
Fixed maturities	37,995,727	58,677,994	23,374,067
Equity securities	51,482,876	32,959,337	27,869,655
Mortgage loans	124,108	68,519	569,555
Other invested assets	648,453	1,422,557	561,956
Issuance of note receivable to Erie Family Life Insurance Company			(15,000,000)
Purchase of property and equipment	(558,824)	(2,129,961)	(98,249)
Purchase of computer software	(1,618,530)	(898,016)	(1,491,911)
Loans to agents	(1,729,022)	(3,086,074)	(3,268,595)
Collections on agent loans	1,220,381	1,174,808	990,733
Net cash used in investing activities	($ 58,829,631)	($119,001,849)	($ 89,426,012)
CASH FLOW FROM FINANCING ACTIVITY			
Dividends paid to shareholders	($ 25,647,152)	($ 22,497,544)	($ 17,548,053)
Net cash used in financing activity	($ 25,647,152)	($ 22,497,544)	($ 17,548,053)
Net increase (decrease) in cash and cash equivalents	34,428,871	(38,137,359)	4,746,509
Cash and cash equivalents at beginning of year	18,719,624	56,856,983	52,110,474
Cash and cash equivalents at end of year	$ 53,148,495	$ 18,719,624	$ 56,856,983

See accompanying notes to consolidated financial statements.

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF BUSINESS

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

The Company shares proportionately in the results of all property/casualty insurance underwriting operations of the Exchange. The Exchange, Erie Insurance Company (EIC), a wholly-owned subsidiary of the Company, and the Erie Insurance Company of New York (EINY), a wholly-owned subsidiary of the EIC, are part of an intercompany reinsurance pooling agreement. Under this agreement, EIC and EINY cede 100% of their property/casualty insurance business, including property/casualty insurance operations assets and liabilities, to the Exchange. The Exchange retrocedes to EIC and EINY a specified percentage (5% for EIC and .5% for EINY during 1997, 1996 and 1995) of all pooled property/casualty insurance business, including insurance operations assets and liabilities. Insurance ceded by EIC and EINY to the Exchange does not relieve EIC and EINY from their primary liability as the original insurers. See also Note 11.

The Company owns a 21.6% common stock interest in an affiliated life insurance company, Erie Family Life Insurance Company (EFL), which is accounted for using the equity method of accounting. EFL is a Pennsylvania-domiciled life insurance company operating in eight states and the District of Columbia.

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

Principles of consolidation

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

Reclassifications

Certain amounts reported in the 1996 and 1995 financial statements have been reclassified to conform to the current year's financial statement presentation.

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments

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

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

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

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

Financial instruments

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

Cash equivalents

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

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recognition of premium revenues and losses

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

Deferred policy acquisition costs

Commissions and other costs of acquiring insurance that vary with and are primarily related to the production of new and renewal business are deferred and amortized over the terms of the policies or reinsurance treaties to which they relate. The amount of costs to be deferred would be reduced to the extent future policy premiums and anticipated investment income would not exceed related losses, expenses and Policyholder dividends. Amortization equaled $20,103,000, $18,909,000, and $17,041,000 in 1997, 1996 and 1995, respectively.

Insurance liabilities

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

The liability for losses and loss adjustment expenses includes an amount determined from loss reports and individual cases and an amount, based on past experience, for losses incurred but not reported. Inflation is provided for in the reserving function through analysis of costs, trends and reviews of historical reserving results. Such liabilities are necessarily based on estimates and, while management believes the amount is appropriate, the ultimate liability may differ from the amounts provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in earnings currently. Loss reserves are set at full expected cost and are not discounted. The reserve for losses and loss adjustment expenses is reported net of receivables for salvage and subrogation of $2,957,000 and $2,863,000 at December 31, 1997 and 1996, respectively.

Environmental-related claims

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

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Guarantee fund and other assessments

The property/casualty insurance subsidiaries of the Company are subject to insurance guarantee laws in the states in which they write business. These laws provide for assessments against insurance companies in the event of insolvency of other insurance companies. The Company records an estimated liability for assessments when incurred. The Company's estimated liability for guarantee fund and other assessments at December 31, 1997 and 1996 totaled $489,000 and $302,000, respectively.

Reinsurance

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

Income taxes

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

Property and equipment

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

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

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(In Thousands)	1997	1996
Land	$ 737	$ 737
Buildings	5,857	5,834
Leasehold improvements	242	229
Computer software	8,632	7,013
Computer equipment	2,645	2,123
Transportation equipment	450	450
	$18,563	$16,386
Less accumulated depreciation	8,433	6,544
	$10,130	$ 9,842

Earnings per share

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

Recent accounting standards

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (FAS) No. 130, "Reporting Comprehensive Income." FAS 130 is effective for fiscal years beginning after December 31, 1997 and requires reporting of comprehensive income in a full set of general purpose financial statements. Comprehensive income is defined in the Statement as all changes in equity during a period except those resulting from investments by owners and distributions to owners. The Company will continue to display an amount for net income and, in addition, an amount for comprehensive income beginning with the quarter ending March 31, 1998.

In June 1997, the FASB also issued FAS No. 131, "Disclosure about Segments of an Enterprise and Related Information." FAS 131 is effective for fiscal years beginning after December 31, 1997 and requires disclosure of segments under a "management approach" whereby segments are reported publicly as they are internally. The Company currently reports segment information consistent with internal management reporting and expects little effect of this new standard on interim and year-end financial statements.

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. INVESTMENTS

The following tables summarize the cost and market value of available-for-sale securities at December 31, 1997 and 1996 based on current year classifications. Prior year data may have been categorized differently to the extent of current year classification changes.

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

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. INVESTMENTS (CONTINUED)

	Available-for-Sale Securities			
(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 1996				
Fixed Maturities:				
U.S. Treasuries & government agencies	$ 14,284	$ 280	$ 73	$ 14,491
Foreign governments-agency	1,988	25	5	2,008
Obligations of states & political subdivisions	33,402	1,840	76	35,166
Special revenue	131,675	4,830	54	136,451
Public utilities	5,681	124		5,805
U. S. industrial & miscellaneous	112,505	2,763	588	114,680
Foreign industrial & miscellaneous	1,558	17		1,575
Total fixed maturities	$301,093	$ 9,879	$ 796	$310,176
Equity Securities:				
Common stock:				
Banks, trusts & insurance companies	$ 3,039	$ 1,711		$ 4,750
U. S. industrial & miscellaneous	33,964	12,856	$1,525	45,295
Non-redeemable preferred stock:				
Public utilities	8,660	138	27	8,771
Banks, trusts & insurance companies	42,106	1,628	1	43,733
U. S. industrial & miscellaneous	26,309	715	5	27,019
Foreign industrial & miscellaneous	1,992	58		2,050
Total equity securities	$116,070	$17,106	$1,558	$131,618
Total available-for-sale securities	$417,163	$26,985	$2,354	$441,794

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. INVESTMENTS (CONTINUED)

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

(In Thousands)	1997	1996	1995
Realized gains:			
Fixed maturities available-for-sale	$ 252	$1,015	$ 430
Equity securities	6,613	5,969	6,393
Other invested assets		299	
Total gains	$6,865	$7,283	$6,823
Realized losses:			
Fixed maturities available-for-sale	$ 19	$ 198	$ 52
Equity securities	1,031	378	960
Other invested assets		124	20
Total losses	$1,050	$ 700	$1,032
Net realized gain on available-for-sale securities	$5,815	$6,583	$5,791

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

(In Thousands)	1997	1996	1995
Equity securities	$ 5,462	$5,830	$ 5,926
Fixed maturities available-for-sale	7,754	(2,955)	10,868
Held-to-maturity securities transferred to available-for-sale securities			3,388
Other	63	(69)	
Equity in unrealized gains (losses) of EFL	2,880	(1,994)	5,289
Deferred federal income taxes	(4,625)	(965)	(7,106)
Increase (decrease) in unrealized gains on available-for-sale securities	$11,534	($ 153)	$18,365

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. INVESTMENTS (CONTINUED)

The amortized cost and estimated fair value of fixed maturity securities at December 31, 1997, by remaining contractual term to maturity, are shown below.

(In Thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 2,504	$ 2,506
Due after one year through five years	94,278	94,936
Due after five years through ten years	66,631	69,868
Due after ten years	169,723	182,663
	$333,136	$349,973

NOTE 4. EQUITY IN ERIE FAMILY LIFE INSURANCE COMPANY

The following represents condensed financial information for EFL:

(In Thousands)	1997	1996	1995
Investments	$703,033	$653,917	$569,425
Total assets	832,534	740,651	673,794
Liabilities	672,155	608,020	544,889
Shareholders' equity	160,379	132,630	128,905
Revenues	91,037	82,720	77,077
Net income	19,560	17,666	17,882
Dividends paid to shareholders	5,009	4,615	4,158

The Company's share of EFL's net unrealized gains or losses on securities is reflected in shareholders' equity ($4,424,736, $1,545,188, and $3,538,604 at December 31, 1997, 1996 and 1995, respectively.) The 1997, 1996 and 1995 changes in this net unrealized gain on securities were $2,879,548, ($1,993,416) and $5,288,659, respectively.

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. EQUITY IN ERIE FAMILY LIFE INSURANCE COMPANY (CONTINUED)

Deferred federal income taxes have not been provided on the Company's equity in undistributed earnings of EFL. It is management's current intent to reinvest undistributed earnings indefinitely and not liquidate its investment in EFL. The estimated deferred tax liability unrecognized at December 31, 1997, 1996 and 1995 is $2,401,000, $1,981,000 and $1,923,000, respectively.

NOTE 5. BENEFIT PLANS

Pension plan for Employees

The Company has a non-contributory defined benefit pension plan covering substantially all Employees of the Company. Pension costs include the following components for the years ended December 31:

(In Thousands)	1997	1996	1995
Service cost for benefits earned during the year	$4,451	$4,303	$4,629
Interest cost on projected benefit obligation	5,550	5,128	5,442
Actual return on plan assets	(14,691)	(12,401)	(16,991)
Net amortization and deferral	5,865	5,171	11,323
Net pension expense	$1,175	$2,201	$4,403

Net amortization and deferral relates primarily to the difference between the expected and actual return on plan assets, and amortization of the initial transitional asset over fifteen years.

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

	1997	1996	1995
Weighted average discount rate used to measure projected benefit obligation	7.25%	7.50%	7.25%
Weighted average rate of compensation increase used to measure projected benefit obligation	5.00%	5.00%	5.00%
Weighted average expected long-term rate of return on plan assets	8.25%	8.25%	8.25%

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. BENEFIT PLANS (CONTINUED)

The following table sets forth the funded status of the plan at December 31, 1997 and 1996:

(In Thousands)	1997	1996
Accumulated benefit obligation:		
Vested	$ 45,654	$39,254
Non-vested	4,636	4,190
Total	$ 50,290	$43,444
Fair value of plan assets	$117,644	$98,761
Less projected benefit obligation	83,575	72,016
Plan assets in excess of projected benefit obligation	34,069	26,745
Unrecognized net gain	(29,875)	(27,879)
Unrecognized net initial transition asset	(1,402)	(1,636)
Unrecognized prior service cost	3,376	3,824
Prepaid asset	$ 6,168	$ 1,054

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

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

The pension plan purchases individual annuities periodically from EFL to settle retiree benefit payments. Such purchases equaled $1,992,060, $4,894,042 and $6,024,125 in 1997, 1996 and 1995, respectively. These are non-participating annuity contracts under which EFL has unconditionally contracted to provide specified benefits to beneficiaries in return for a fixed premium from the plan. However, the plan remains the primary obligor to the beneficiaries and a contingent liability exists in the event EFL could not honor the annuity contracts. The benefit obligation has been reduced for these annuities purchased for retirees.

Pension plans for officers and outside directors

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

(In Thousands)	1997	1996	1995
Service cost component	$ 225	$ 152	$ 141
Interest cost on projected benefit obligation	404	257	413
Net amortization and deferral	604	371	339
Net pension expense	$1,233	$ 780	$ 893
Settlement expenses			3,577
Total pension expense	$1,233	$ 780	$4,470

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. BENEFIT PLANS (CONTINUED)

Net amortization and deferral represents amortization of the initial projected benefit obligation over the estimated average remaining service period of thirteen years. The settlement expenses recognized in 1995 relate to annuity purchases made by the Company during the year to cover vested benefits of three retired officers.

The following table sets forth the funded status of the plans at December 31:

(In Thousands)	1997	1996
Accumulated benefit obligation	$2,690	$2,259
Projected benefit obligation	$5,049	$3,915
Unrecognized net loss	(1,787)	(2,895)
Unrecognized prior service cost	(689)	(895)
Benefit payments	(1,294)	
Accrued pension liability	$1,279	$ 125

The additional pension liability recognized on the Statement of Financial Position is as follows at December 31:

(In Thousands)	1997	1996
Accumulated benefit obligation	$2,690	$2,259
Less accrued cost	1,279	125
Additional accrued pension liability	$1,411	$2,134

The weighted average discount rate used for purposes of determining the projected benefit obligation of the officers' supplemental pension plan was 7.25%, 7.50% and 7.25% in 1997, 1996 and 1995, respectively. The weighted average rate of compensation increase used to measure the projected benefit obligation of the officers' supplemental pension plan was 5.0% in 1997, 1996 and 1995, respectively.

An intangible asset has been recorded to reflect the transition of the additional liability of the Company. The amount of this asset at December 31, 1997 and 1996 for these plans equals $785,200 and $894,800, respectively.

Employee savings plan

The Company has an Employee Savings Plan for its Employees. Eligible participants are permitted to make contributions of 1% to 8% of compensation to the plan on a pre-tax salary reduction basis in accordance with provisions of Section 401(k) of the Internal Revenue Code. The Company matches one-half of the participant contributions up to 6% of compensation. All Employees are eligible to participate in the plan. The Company's matching contributions to the plan in 1997, 1996 and 1995 were $2,892,101, $2,687,907, and $2,227,221, respectively. Effective May 1997, Employees were permitted to invest a portion of employer contributions in the Class A common stock of the Company. The plan will acquire shares necessary to meet the obligations of the plan in the open market.

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. BENEFIT PLANS (CONTINUED)

Deferred compensation and incentive plans

The Company has deferred compensation and incentive plans for certain eligible Employees of the Company and its affiliates. Compensation deferred and charged to operations under these plans amounted to $1,347,155, $258,857, and $224,280 during 1997, 1996 and 1995, respectively.

Health and dental benefits

The Company has self-funded health and dental care plans for all of its employees and eligible dependents. Estimated unpaid claims incurred are accrued as a liability at December 31, 1997 and 1996. Operations were charged $12,646,000, $9,899,000, and $10,828,000 in 1997, 1996 and 1995, respectively, for the cost of health and dental care provided under these plans.

Post-retirement benefits other than pensions

The Company provides post-retirement medical coverage for eligible retired Employees and eligible dependents. The Company pays the obligation when due. Actuarially determined costs are recognized over the period the Employee provides service to the Company.

The periodic expense for post-retirement benefits consists of the following for the years ended December 31:

(In Thousands)	1997	1996	1995
Service cost for benefits earned during the year	$287	$337	$353
Interest cost on accumulated benefit obligation	290	320	322
Amortization of unrecognized net loss	(66)		
Total expense	$511	$657	$675

The cash payments for such benefits were $176,400, $213,500, and $184,900 in 1997, 1996 and 1995, respectively.

The recorded liabilities for post-retirement health benefits, none of which have been funded, at December 31, are as follows:

(In Thousands)	1997	1996
Accumulated post-retirement benefit obligation:		
Retirees	$ 172	$ 202
Fully eligible active plan participants	815	889
Other active plan participants	3,084	3,384
Unrecognized gain	755	492
Unrecognized prior service cost	476	
Accrued post-retirement liability	$5,302	$4,967

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. BENEFIT PLANS (CONTINUED)

The weighted average discount rate used to measure the accumulated post-retirement benefit obligation was 7.25%, 7.50% and 7.25% in 1997, 1996 and 1995, respectively. The December 31, 1997 accumulated benefit obligation was based on a 9.5% increase in the cost of covered health care benefits during 1997. The expected health care cost trend rate for 1998 is 9.0%. This rate is assumed to decrease gradually to 5% per year in 2006 and to remain at that level thereafter.

At December 31, 1997, the effect on the present value of the accumulated benefit obligation of a 1% increase each year in the health care cost trend rate used would increase the amount of such obligation by $619,800, and the 1997 net periodic expense would have increased by $100,100.

NOTE 6. INCOME TAXES

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

(In Thousands)	1997	1996	1995
Federal			
Current	$55,897	$45,660	$44,510
Deferred	441	1,255	(49)
	$56,338	$46,915	$44,461

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:

(In Thousands)	1997	1996	1995
Income tax at statutory rates	$61,222	$53,217	$48,304
(Deduct) add:			
Undistributed earnings of affiliate	(1,095)	(980)	(1,029)
Tax-exempt interest	(3,009)	(3,338)	(3,041)
Dividends received deduction	(1,628)	(1,483)	(1,004)
Other items	848	(501)	1,231
	$56,338	$46,915	$44,461

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. INCOME TAXES (CONTINUED)

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

	December 31, 1997	1996
(In Thousands)		
Deferred tax assets:		
Loss reserve discount	$ 4,012	$ 4,143
Unearned premiums	3,733	3,528
Alternative minimum tax paid	2,305	610
Accrued Employee benefit plans	1,943	2,462
Other	15	
Total deferred tax assets	$12,008	$10,743
Deferred tax liabilities:		
Deferred policy acquisition costs	$ 3,599	$ 3,339
Unrealized gains	13,246	8,620
Pension and other benefits	1,472	
Accrual of discount	792	756
Other		63
Total deferred tax liabilities	$19,109	$12,778
Net deferred tax liability	$ 7,101	$ 2,035

The Company paid income taxes totaling $55,166,001, $48,784,864 and $41,985,033 for 1997, 1996 and 1995, respectively.

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

NOTE 7. CAPITAL STOCK

Class A and B shares

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

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. CAPITAL STOCK (CONTINUED)

Redemption provisions

The Erie Indemnity Company Stock Redemption Plan entitles heirs of shareholders to cause the Company to redeem shares of stock of the Company at a price equal to the fair market value of the stock as determined in the Board's sole discretion after consideration of certain factors at time of redemption. The redemption amount is limited to an aggregation of: (1) an initial amount of $10 million as of December 31, 1995 and (2) beginning in 1996 and annually thereafter, an additional annual amount as determined by the Board in its sole discretion, not to exceed 20% of the Company's net income from management operations during the prior fiscal year. This aggregate amount is reduced by redemption amounts paid. However, at no time shall the aggregate redemption limitation exceed 20% of the Company's retained earnings determined as of the close of the prior year. In addition, the plan limits the repurchase from any single shareholder's estate to 33% of total shareholdings of such shareholder. On February 29, 1996, the Board of Directors approved an increase in the redemption amount of $14,350,186. On March 11, 1997, the Board approved an increase in the redemption amount of $16,655,226 to $41,005,412. There were no shares of stock redeemed during 1997 or 1996.

Stock split

In May 1996, the number of authorized shares of the Company's Class A common stock was increased pursuant to a vote of the shareholders from 24,996,920 to 74,996,930 shares and a three-for-one (3:1) stock split of Class A common stock was effected. All references in the consolidated financial statements to number of shares outstanding, net income per share, and dividends per share have been restated to reflect the stock split. The stated value of the stock has also been proportionately adjusted for the split.

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8. UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES (LAE)

The following table provides a reconciliation of beginning and ending liability balances for 1997, 1996 and 1995 for the Company's wholly-owned property/casualty subsidiaries.

(In Thousands)	1997	1996	1995
Total unpaid losses and loss adjustment expenses at January 1, gross	$386,425	$357,334	$344,824
Less reinsurance recoverables	301,553	278,325	275,923
Net balance at January 1	84,872	79,009	68,901
Incurred related to:			
Current year	77,345	85,311	73,145
Prior years	2,625	(240)	(2,210)
Total incurred	79,970	85,071	70,935
Paid related to:			
Current year	42,792	49,901	38,039
Prior years	32,551	29,307	22,788
Total paid	75,343	79,208	60,827
Net balance at December 31	89,499	84,872	79,009
Plus reinsurance recoverables	323,910	301,553	278,325
Total unpaid losses and loss adjustment expenses at December 31, gross	$413,409	$386,425	$357,334

NOTE 9. RELATED PARTY TRANSACTIONS

Management fee

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

January 1, 1995 to March 31, 1995	25%
April 1, 1995 to March 31, 1996	24.5%
April 1, 1996 to December 31, 1997	24%

Beginning January 1, 1998 through December 31, 1998, the management fee rate charged the Exchange increased to 24.25%. The Company's Board of Directors may change the management fee rate at its discretion.

Service agreement revenue

A service arrangement fee is charged to the Exchange to compensate the Company for its management of non-affiliated assumed reinsurance business on behalf of the Exchange. Prior to this service agreement, the Company received a management fee on assumed reinsurance premiums written and was responsible for the payment of brokerage commissions. Under the new

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. RELATED PARTY TRANSACTIONS (CONTINUED)

reinsurance service arrangement, which went into effect January 1, 1995, the Company receives a fee of 7% of voluntary reinsurance premiums assumed from non-affiliated insurers and will no longer be responsible for the payment of brokerage commissions on this business. The Company will continue to be responsible for accounting and operating expenses in connection with the administration of this business.

Effective September 1, 1997 the Company was reimbursed by the Exchange a portion of the service charges collected from policyholders as reimbursement for the costs incurred by the Company in providing extended payment terms on policies written by the insurers managed by the Company.
Service charge revenue amounted to $2,011,000 in 1997.

Expense reimbursements

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

(In Thousands)	1997	1996	1995
Erie Insurance Exchange	$109,076	$ 95,820	$ 83,662
EFL	13,038	10,095	10,231
	$122,114	$105,915	$ 93,893

Office leases

The Company occupies certain office facilities owned by the Exchange and EFL. The Company leases office space on a year-to-year basis from the Exchange. Rent expenses under these leases totaled $11,288,000, $10,949,000, and $10,814,000 in 1997, 1996 and 1995, respectively. The Company has a lease commitment in excess of one year with EFL for a branch office. Rentals paid to EFL under this lease totaled $423,000 in 1997, 1996 and 1995.

Note receivable from EFL

EFL issued a surplus note to the Company for $15,000,000. The note bears an annual interest rate of 6.45% and all payments of interest and principal of the note may be repaid only out of unassigned surplus of EFL and are subject to prior approval of the Pennsylvania Insurance Commissioner. Interest on the surplus note is scheduled to be paid semi-annually. The note will be payable on demand on or after December 31, 2005. During 1997 and 1996, EFL paid interest to the Company totaling $967,500.

Structured settlements with EFL

The Company and Exchange periodically purchase annuities from EFL in connection with the structured settlements of claims. The Company's pro-rata share (5.5%) of such annuities purchased equaled $977,932, $742,772 and $1,235,722 in 1997, 1996 and 1995, respectively.

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Financial instruments which potentially expose the Company to concentrations of credit risk include unsecured receivables from the Exchange. A significant amount of the Company's revenue, and a receivable of $495,861,158 at December 31, 1997 and $478,304,267 at December 31, 1996, are from the Exchange and affiliates. The carrying value of the receivable from the Exchange approximates fair value.

Receivables from the Exchange and affiliates at December 31, 1997 and 1996 are as follows:

(In Thousands)	1997	1996
Exchange - Management fee and expense reimbursements	$111,577	$108,590
EFL - Expense reimbursements	1,153	1,049
Exchange - Reinsurance recoverable from losses and unearned premium balances ceded to pool	383,131	368,665
	$495,861	$478,304

Premiums receivable from Policyholders at December 31, 1997 and 1996 equaled $108,057,986 and $103,847,320, respectively. A significant amount of these receivables are ceded to the Exchange as part of the reinsurance pooling arrangement.

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

NOTE 11. REINSURANCE

EIC and EINY have a pooling arrangement with the Exchange, whereby EIC and EINY cede all of their direct property/casualty insurance to the Exchange, except for premium under the all lines aggregate excess of loss reinsurance agreement discussed below. EIC and EINY then assume 5% and 0.5%, respectively, of the total of the Exchange's insurance business (including the business assumed from EIC and EINY).

Effective January 1, 1997, EIC and EINY placed in effect an all lines aggregate excess of loss reinsurance agreement with the Exchange that supercedes the prior catastrophe excess of loss reinsurance agreement between the parties. Under the new agreement, EIC and EINY reinsure their net retained share of the intercompany reinsurance pool such that once EIC and EINY have sustained ultimate net losses that exceed an amount equal to 72.5% of EIC and EINY's net premiums earned, the Exchange will be liable for 95% of the amount of such excess, up to but not exceeding, an amount equal to 95% of 15% of EIC and EINY's net premium earned. Losses equal to 5% of the net ultimate net loss in excess of the retention under the contract are retained net by EIC and EINY. The annual premium for this reinsurance treaty is 1.01% of the net premiums earned by EIC and EINY during the term of this agreement subject to a minimum premium of $800,000. This reinsurance

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. REINSURANCE (CONTINUED)

treaty is excluded from the intercompany reinsurance pooling agreement. The annual premium paid to the Exchange for the agreement totaled $1,102,868 in 1997. There were no loss recoveries by EIC or EINY under the agreement for 1997.

During 1996 and 1995, EIC and EINY had in effect a Property Catastrophe Excess of Loss Reinsurance Treaty with the Exchange. The coverage included in the treaty for EIC was $25 million in excess of $10 million and was excluded from the aforementioned pooling arrangement. The annual premium to the Exchange for the treaty equaled $274,170 and $562,500 in 1996 and 1995, respectively. The coverage included in the treaty for EINY was $2,250,000 in excess of $250,000 and was also excluded from the aforementioned pooling arrangement. The annual premium to the Exchange for the treaty equaled $150,000 and $78,750 in 1996 and 1995, respectively.

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

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

The following summarizes insurance and reinsurance activities for the Company:

(In Thousands)	1997	1996	1995
Premiums Earned:			
Direct	$334,772	$321,736	$289,801
Assumed-nonaffiliates	5,393	2,882	3,331
Ceded to Erie Insurance Exchange	(340,165)	(324,618)	(293,132)
Assumed from Erie Insurance Exchange	107,350	101,510	92,874
Net	$107,350	$101,510	$ 92,874
Losses and Loss Adjustment Expenses Incurred:			
Direct	$265,678	$261,097	$236,612
Assumed-nonaffiliates	5,896	2,511	3,024
Ceded to Erie Insurance Exchange	(271,574)	(263,608)	(239,636)
Assumed from Erie Insurance Exchange	79,970	85,071	70,935
Net	$ 79,970	$ 85,071	$ 70,935

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12. STATUTORY INFORMATION

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

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

(In Thousands)	1997	1996	1995
Shareholders' equity at December 31,	$523,715	$414,674	$328,457
Net income for the year ended December 31,	118,970	104,007	91,550

The amount of dividends the Company's Pennsylvania-domiciled property/casualty subsidiaries, EIC and Erie Insurance Property & Casualty Company, can pay without the prior approval of the Pennsylvania Insurance Commissioner is limited by Pennsylvania regulation to not more than the greater of: (a) ten percent of its statutory surplus as reported on its last annual statement, or (b) the net income as reported on its last annual statement. The amount of dividends that the Erie Insurance Company's New York-domiciled property/casualty subsidiary, EINY, can pay without the prior approval of the New York Superintendent of Insurance is limited to the lesser of: (a) ten percent of its statutory surplus as reported on its last annual statement, or (b) one hundred percent of its adjusted net investment income during such period. At December 31, 1997, the maximum dividend the Company could receive from its property/casualty insurance subsidiaries was $8,613,652. No dividends were paid to the Company from its property/casualty insurance subsidiaries in 1997 or 1996.

The amount of dividends EFL, a Pennsylvania-domiciled life insurer, can pay to its shareholders without the prior approval of the Pennsylvania Insurance Commissioner is limited by statute to the greater of: (a) 10 percent of its statutory surplus as regards Policyholders as shown on its last annual statement on file with the commissioner, or (b) the net income as reported for the period covered by such annual statement, but shall not include pro rata distribution of any class of the insurer's own securities. Accordingly, the Company's share of the maximum dividend payout which may be made in 1998 without prior Pennsylvania commissioner approval is $2,795,000. Dividends paid to the Company totaled $1,103,706 in 1997 and $1,021,950 in 1996.

The NAIC has adopted Risk-Based Capital (RBC) requirements that attempt to evaluate the adequacy of a property/casualty insurance company's statutory capital and surplus in relation to investment, insurance and other business risks. The RBC requirements provide for four different levels of regulatory attention depending on the ratio of the company's adjusted capital and surplus to its RBC. As of December 31, 1997 and 1996, the adjusted capital and surplus of the property/casualty insurance subsidiaries of the Company are substantially in excess of the minimum level of RBC that would require regulatory action.

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13. SEGMENT INFORMATION

The Company's principal operations consist of serving as attorney-in-fact for the Exchange which constitutes its management operations. The Company's property/casualty insurance operations arise by virtue of a pooling arrangement between its subsidiaries and the Exchange. The Company also has 21.6% equity interest in EFL which comprises its life insurance operations segment.

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

(In Thousands)	1997	1996	1995
Revenue:			
Management operations	$ 501,148	$ 470,538	$ 442,055
Property/casualty insurance operations	120,918	112,541	103,217
Life insurance operations	4,231	3,821	3,868
Total revenue	$ 626,297	$ 586,900	$ 549,140
Income before income taxes:			
Management operations	$ 159,380	$ 148,774	$ 127,539
Property/casualty insurance operations	11,309	(547)	6,605
Life insurance operations	4,231	3,821	3,867
Total income before income taxes	$ 174,920	$ 152,048	$ 138,011
Net income:			
Management operations	$ 106,513	$ 99,045	$ 84,431
Property/casualty insurance operations	8,056	2,338	5,317
Life insurance operations	4,012	3,749	3,803
Total net income	$ 118,581	$ 105,132	$ 93,551
Assets:			
Management operations	$ 550,748	$ 456,598	$ 369,600
Property/casualty insurance operations	707,108	665,355	624,951
Life insurance operations	34,688	28,686	27,881
Total assets	$1,292,544	$1,150,639	$1,022,432

INCORPORATED BY REFERENCE, PAGE 41 OF THE COMPANY'S 1997 ANNUAL REPORT TO SHAREHOLDERS

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14. QUARTERLY FINANCIAL DATA - UNAUDITED

(In Thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1997				
Net revenue from management operations	$31,674	$35,378	$36,463	$30,709
Underwriting loss	(48)	(783)	(299)	(1,129)
Revenue from investment operations	9,717	10,123	11,828	11,287
Net income	28,211	30,444	32,128	27,798
Per share data:				
Net income per Share	$ .38	$ .41	$ .43	$ .37
Dividends declared:				
Class A Non-voting Common	$ .095	$ .095	$ .095	$ .1075
Class B Common	$ 14.25	$ 14.25	$ 14.25	$ 16.125
1996				
Net revenue from management operations	$30,688	$33,445	$35,718	$27,578
Underwriting loss	(5,817)	(1,257)	(2,718)	(1,787)
Revenue from investment operations	7,069	7,483	9,813	11,833
Net income	23,498	26,466	29,187	25,981
Per share data:				
Net income per Share	$ .32	$ .36	$ .39	$ .35
Dividends declared:				
Class A Non-voting Common	$ .0833	$ .0833	$ .0833	$ .095
Class B Common	$ 12.50	$ 12.50	$ 12.50	$ 14.25

EXHIBIT 21

SUBSIDIARIES OF REGISTRANT

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

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

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

0000922621
ERIE INDEMNITY COMPANY
1,000

YEAR
DEC-31-1997
DEC-31-1997
349,973
0
0
165,133
8,393
0
531,430
53,148
242
10,283
1,292,544
413,408
219,211
0
0
0
0
0
2,170
537,213
1,292,544
107,350
37,140
5,815
0
79,970
29,639
0
174,920
56,338
0
0
0
0
118,581
1.59
1.59
386,425
77,345
2,625
42,792
32,551
413,409
8,883

EXHIBIT 28

INFORMATION FROM REPORTS FURNISHED TO STATE INSURANCE REGULATORY AUTHORITIES

The information contained in this Exhibit represents information contained in Schedule P of Annual Statements provided to state regulatory authorities by the Company's property/casualty insurance company subsidiaries, Erie Insurance Company, Erie Insurance Company of New York and Erie Insurance Property & Casualty Company, net of reinsurance. However, under SFAS113, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts" which the Company adopted in 1993, the prior practice of offsetting assets and liabilities relating to reinsurance contracts was eliminated for GAAP reporting purposes. Thus, the following is a reconciliation between the loss and loss adjustment expense reserves reported on the Company's December 31, 1997 Consolidated Statements of Financial Position, contained in the Company's 1997 Annual Report, page 31, and that reported on the Erie Insurance Company's, Erie Insurance Company of New York's and Erie Insurance Property & Casualty Company's December 31, 1997 Annual Statements.

Loss and loss adjustment expense reserves per Annual Statement:	
Erie Insurance Company	$ 84,050,919
Erie Insurance Property & Casualty Company	0
Erie Insurance Company of New York	8,405,092
Subtotal - Loss and loss adjustment expense reserves, net of reinsurance	$ 92,456,011
SFAS113 Reinsurance gross-up adjustment:	
Erie Insurance Company	269,625,123
Erie Insurance Property & Casualty Company	50,891,486
Erie Insurance Company of New York	436,321
Loss and loss adjustment expense reserves per Erie Indemnity Company Consolidated Financial Statements	$413,408,941