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, 1996

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, 1997.

DOCUMENTS INCORPORATED BY REFERENCE:

1. Portions of the Registrant's Annual Report to shareholders for the fiscal year ended December 31, 1996 (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 29, 1997 are incorporated by reference into Part III of this Form 10-K Report.

INDEX

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 76.3% of the Company's consolidated revenues in 1996. 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, 1996, the Company had 3,107 full-time employees. Of that total, 1,490 full-time employees provide claims-specific services exclusively for the Exchange and 74 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, 1996, the Erie Insurance Group conducted business in nine states and the District of Columbia through approximately 1,045 agencies with approximately 4,626 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 share 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 reciprocval Insurance Exvhange)

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 - Incorporates 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% or 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, 1996 operated in nine states and the District of Columbia although the Erie Insurance Group's business consisted primarily of private passenger and commercial automobile and homeowners 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 risk 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, 1996, on a Generally Accepted Accounting Principles (GAAP) basis, EFL had assets of $741 million and shareholders' equity of $133 million. At December 31, 1996, of EFL's total liabilities of $608 million, insurance and annuity reserves accounted for $570 million and a note payable to the Company amounted to $15 million. Of EFL's investment portfolio of $660 million at December 31, 1996, cash and short-term investments accounted for $6 million, available-for-sale securities were $632 million, real estate was $2 million, policy loans were $4 million, mortgages accounted for $9 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 33 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

- 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.

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

- 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

- 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.

- 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 22 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.

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, 1996	1995
GAAP combined ratio........................	111.4%	104.0%
	======	======
Statutory operating ratios:		
Loss ratio...............................	83.3	75.9
Expense ratio............................	26.4	26.0
Dividend ratio...........................	1.0	1.1
	-----	-----
Statutory combined ratio.................	110.7%	103.0%
	======	======
Industry statutory combined ratio(1).......	107.0%	106.5%
	======	======

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(1) Source: A.M. Best

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

As mentioned previously, on January 1, 1995, the Exchange began retroceding to the Erie Insurance Company of New York, as part of the existing intercompany reinsurance pooling arrangement, .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 .5 percent participation of the Erie Insurance Company of New York, results in a 5.5 percent participation level for the Company's affiliates in 1995. As a result of the increased participation of the Company's subsidiaries in the reinsurance pooling agreement in 1995, the Company's premiums, losses and expenses were 10 percent more than they would have been had the level of participation remained the same.

For the calendar years 1996 and 1995, the Company incurred underwriting losses from its insurance underwriting operations in the amount of $11,579,211, and $3,737,618, respectively. 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 during 1995 resulted in better underwriting results for the property/casualty companies of the Erie Insurance Group when compared to 1996.

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 and 1996.

	Year Ended December 31, 1996	1995	1994	1993
	(in thousands)			
Reserve for unpaid losses and loss adjustment expense	$386,425	$357,334	$344,824	$353,939
Liability as of:				
One year later		351,684	327,283	323,996
Two years later			332,821	322,883
Three years later				332,771
Cumulative deficiency (excess)		(5,650)	(12,003)	(21,168)
Cumulative amount of liability paid through:				
One year later		$132,649	$134,044	$140,667
Two years later			$200,024	$214,818
Three years later				$247,339

See Note 7 of the Notes to Consolidated Financial Statements contained in the Annual Report page 32 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, 1996, 1995 and 1994.

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 positions 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 and 1994, the Company would not have recognized substantial recoveries from these discontinued treaties had they been in effect during the 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 and Erie Insurance Company of New York's net premiums earned. Losses equal to 5 percent of the net ultimate net loss in excess of the retention under the contract are retained net 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. This reinsurance treaty is excluded from the intercompany reinsurance pooling agreement. This reinsurance agreement replaces the earlier reinsurance agreements between the Company and Erie Insurance Company and Erie Insurance Company of New York, which are described below.

In 1995 and 1996, Erie Insurance Company of New York had in effect a property catastrophe excess of loss reinsurance agreement with the Exchange whereby Erie Insurance Company of New York reinsures its net retained share of the intercompany reinsurance pool such that once Erie Insurance Company of New York has sustained an ultimate net loss of $250,000 by reason of its .5 percent share of the results of the intercompany reinsurance pool, the Exchange was liable for the amount of the ultimate net loss for the Company's net retained share of the intercompany reinsurance pool in excess of $250,000 for a limit of liability to the Exchange of $2,250,000 for each occurrence. The annual premium for this reinsurance treaty with the Exchange was $150,000 in 1996. This reinsurance treaty was excluded from the intercompany reinsurance pooling agreement.

In 1994, 1995 and 1996, Erie Insurance Company had in effect a property catastrophe excess of loss reinsurance agreement with the Exchange whereby Erie Insurance Company reinsured its net retained share of the intercompany reinsurance pool such that once Erie Insurance Company has sustained an ultimate net loss of $10,000,000 by reason of its 5 percent share of the results of the intercompany reinsurance pool, the Exchange was liable for the amount of the ultimate net loss for the Company's net retained share of the intercompany reinsurance pool in excess of $10,000,000 for a limit of liability to the Exchange of $25,000,000 for each occurrence. The annual premium for this reinsurance treaty with the Exchange was $274,170 in 1996. This reinsurance treaty was excluded from the intercompany reinsurance pooling agreement.

See the chart on the following page for information concerning inter-company reinsurance among the property/casualty insurers managed by the Company.

Erie Insurance Group
Inter-Company Reinsurance Chart
As of December 31, 1996

Source of Business:

The Erie Insurance Company, Erie Insurance Company of New York, Flagship City Insurance Company and Erie Insurance Porperty & 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, 1996, the amount of such insolvency assessments paid by the property/casualty insurers managed by the Company was not material.

The amount of dividends that the Company's Pennsylvania-domiciled property/casualty insurance subsidiaries, Erie Insurance Co. and Erie P&C, can pay without the prior approval of the Pennsylvania Insurance Commissioner is limited by Pennsylvania regulations to not more than the greater of: (a) ten percent of its surplus as to policyholders reported on its last annual statement, or (b) the net income as reported on its last annual statement. The amount of dividends that the Company's New York-domiciled property/casualty subsidiary, Erie NY, can pay without the prior approval of the New York Superintendent of Insurance is limited to the lesser of: (a) ten percent of its surplus as to policyholders as reported on its last annual statement, or (b) one hundred percent of its adjusted net investment income during such period. As of December 31, 1996, amounts available for payment of dividends to the Company in 1997 without the prior approval of the Pennsylvania Insurance Commissioner were $4,840,332 from Erie Insurance Co. and $471,888 from Erie P&C. The amount available without prior approval of the New York Superintendent of Insurance was $688,107 as of December 31, 1996. No dividends were paid to the Company by its property/casualty insurance subsidiaries in 1996. See also Note 12 of the Notes to Consolidated Financial Statements contained in the Annual Report, page 33.

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, 1996	Net Income Year Ended December 31, 1995
	(in thousands)	
SAP amounts	$ 1,806	$ 4,345
Adjustments:		
Deferred policy acquisition costs	529	1,344
Deferred income taxes	677	355
Salvage and subrogation	(104)	614
Incurred premium adjustment	(529)	(1,344)
Amortization of goodwill	(619)	(104)
Consolidating eliminations and adjustments	(1)	3
GAAP amounts	$ 1,759	$ 5,213

	Shareholders' Equity As of December 31, 1996	1995	1994
	(in thousands)		
SAP amounts	$53,154	$51,179	$46,716
Adjustments:			
Deferred policy acquisition costs	9,541	9,012	7,668
Deferred income taxes	4,478	3,847	3,738
Salvage and subrogation	2,863	2,967	2,353
Statutory reserves		1	5
Incurred premium adjustment	(9,541)	(9,012)	(7,668)
Unrealized gains (losses) under FAS115, net of deferred taxes	3,005	4,584	(1,384)
Amortization of goodwill	(619)	(104)	
Consolidating eliminations and adjustments	50	192	149
GAAP amounts	$62,931	$62,666	$51,577

In 1994, Pennsylvania imposed minimum risk-based capital requirements for property/casualty insurance companies as developed by the NAIC. Risk-based capital 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 formulas for determining the amount of risk-based capital specify various weighing factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Regulatory compliance is determined by the ratio of the Company's regulatory total adjusted capital, as defined by the NAIC, to its authorized control level risk-based capital, as defined by the NAIC. The NAIC provides for four different levels of regulatory action with respect to statutory annual statements for the calendar year 1994 and thereafter. The NAIC levels and ratios are as follows:

NAIC Required Regulatory Event	Ratio of Total Adjusted Capital to Authorized Control Level Risk-Based Capital (Less Than or Equal To)
Company Action Level	2 (or 2.5 with negative trends)
Regulatory Action Level	1.5
Authorized Control Level	1
Mandatory Control Level	.7

At the "Company Action Level", the insurer must submit a comprehensive plan to the regulatory authority which discusses proposed corrective actions to improve its capital position. At the "Regulatory Action Level", the regulatory authority will perform a special examination of the insurer and issue an order specifying corrective actions that must be taken. At the "Authorized Control Level", the regulatory authority is authorized (although not mandated) to take regulatory control of the insurer. At the "Mandatory Control Level", the regulatory authority must take regulatory control of the insurer. Regulatory control may lead to rehabilitation or liquidation of an insurer.

Calculations using the NAIC formula and the Company's property/casualty insurance subsidiaries' statutory financial statements as of December 31, 1996 indicate that the ratio of total adjusted capital of such companies to their authorized control level risk-based capital requirements was substantially above its requirements as such ratio of all companies was in excess of four to one (4:1) at December 31, 1996.

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, 1996, 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 $10,949,306 in 1996. One office is owned by and leased from EFL at an annual rental in 1996 of $423,120. The remaining ten offices are leased from various unaffiliated parties at an aggregate annual rental in 1996 of approximately $1,061,731. The Company is reimbursed by its affiliates for a percentage of the rent for office space used by its affiliates, which reimbursement was approximately 51% in 1996.

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 1996.

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 36 of the Annual Report for the year ended December 31, 1996 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 28, 1997, there were approximately 4,586 beneficial shareholders of the Company's Class A non-voting common stock and 28 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 9 of the Annual Report for the year ended December 31, 1996.

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 10 through 21 of the Annual Report for the year ended December 31, 1996.

Item 8. Financial Statements and Supplementary Data

Reference is made to the "Consolidated Financial Statements" included on pages 24 through 27 and to the "Quarterly Financial Data" contained in the Notes to Consolidated Financial Statements on page 33 of the Annual Report for the year ended December 31, 1996.

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 10 of the Company's proxy statement relating to the annual meeting of shareholders to be held on April 29, 1997.

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

Name	Age as of 12/31/96	Principal Occupation for Past Five Years and Positions with Erie Insurance Group
President & Chief Executive Officer		
Stephen A. Milne	48	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		
Thomas M. Sider	47	Executive Vice President and Chief Financial Officer since 1993; Senior Vice President and Controller 1982 - 1993
Jan R. Van Gorder, Esq.	49	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.
Senior Vice Presidents		
John C. Bender	51	Senior Vice President since 1992; Vice President 1983 - 1992

Name	Age as of 12/31/96	Principal Occupation for Past Five Years and Positions with Erie Insurance Group
Eugene C. Connell	42	Senior Vice President since 1990; Vice President 1988 - 1990
Philip A. Garcia	40	Senior Vice President and Controller since 1993; Vice President 1988 - 1993
Dennis M. Geib	53	Senior Vice President since 1990; Vice President 1986 - 1990
Elaine A. Lamm	58	Senior Vice President since 1990; Vice President 1988 - 1990
George R. Lucore	46	Senior Vice President since March, 1995. Regional Vice President 1993 - March 1995; Assistant Vice President 1988 - 1993
Jeffrey A. Ludrof	37	Senior Vice President since 1994; Regional Vice President 1993-1994; Assistant Vice President 1989-1993
David B. Miller	42	Senior Vice President since August 1996; Independent Insurance Agent 1991 - 1996; Vice President 1989 - 1991
James R. Roehm	48	Senior Vice President since 1991; Vice President 1987 - 1991
Douglas F. Ziegler	46	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	60	Regional Vice President since 1993; Vice President 1988 - 1993
Douglas N. Fitzgerald	40	Regional Vice President since 1993; Vice President 1987 - 1993
Terry L. Hamman	42	Regional Vice President since May, 1995; Assistant Vice President 1993 - May, 1995
Managing Director		
Michael S. Zavasky	44	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 12 through 20 of the Company's proxy statement dated April 1, 1997 relating to the annual meeting of shareholders to be held on April 29, 1997, 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 3 through 5 of the Company's proxy dated April 1, 1997 relating to the annual meeting of shareholders to be held on April 29, 1997.

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 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 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% as decided by the Board of Directors beginning 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. Further, the Board voted to maintain the 24% management fee rate for all of 1997. 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 surplus and taxes. For the five years ended December 31, 1996, 1995, 1994, 1993 and 1992 the amounts paid by the Exchange to the Company were $447,973,516, $424,404,971, $407,275,573, $375,038,960 and $337,551,358, respectively.

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. Prior to the service agreement on non-affiliated assumed reinsurance, which was effective January 1, 1995, the Company received a management fee based on premiums written and was responsible for the payment of brokerage commissions. Service agreement revenue from the management of non-affiliated assumed reinsurance business grew 15.1 percent to $5,069,140 in 1996 from $4,401,232 in 1995.

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 $742,772, $1,235,722 and $583,263 for the years ended December 31, 1996, 1995 and 1994, respectively, and the reserves held by EFL at December 31, 1996 for such annuities were approximately $5,175,280. 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 $4,894,042, $6,024,125 and $8,880,714 for the years ended December 31, 1996, 1995 and 1994, 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 $32,812,000 at December 31, 1996.

On December 29, 1995, EFL issued a surplus note to the Company in return for a cash (or cash equivalent) sum of $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 quarterly. 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 1996, EFL received approval for the payment of interest totaling $967,500, which was paid to the Company by EFL at December 31, 1996.

Director and former CEO and President, and previous Chief Investment Officer of the Erie Insurance Group of Companies, John M. Petersen, who retired as an employee of the Company on December 31, 1995, entered into a consulting arrangement with the Company effective January 2, 1996. Under the terms of the arrangement, the Company engaged Mr. Petersen as a consultant to furnish the Company and its pension trust, the Exchange, and EFL, with investment services with respect to their investments in common stock. As compensation for services to be rendered by Mr. Petersen, a fee of .15 of 1 percent, on an annualized basis, of the total fair market value of the common stock under management, will be paid to Mr. Petersen. The Company also will pay for all necessary and reasonable expenses related to Mr. Petersen's consulting services performed under this arrangement. The amount paid Mr. Petersen pursuant to this arrangement in 1996 was $2,078,758.

Directors Black and Borneman are officers and principal shareholders of insurance agencies which receive insurance commissions in the ordinary course of business from the insurance companies managed by the Company in accordance with such companies' standard commission schedules and agents' contracts.

Reference is also made to Item 2 hereof.

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 1996 Annual Report to Shareholders. The Consolidated Financial Statements and Notes to Consolidated Financial Statements and Auditors' Report thereon on pages 23 to 33 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
10.8***	Service Agreement dated January 1, 1989 between Registrant and Erie Insurance Company
10.9***	Service Agreement dated June 21, 1993 between Registrant and Erie Insurance Property & Casualty Company
10.10***	Service Agreement dated June 21, 1993 between Registrant and Flagship City Insurance Company
10.11***	Reinsurance Pooling Agreement dated January 1, 1992 between Erie Insurance Company and Erie Insurance Exchange

Exhibit Number	Description of Exhibit
10.12***	Form of Subscriber's Agreement whereby policyholders of Erie Insurance Exchange appoint Registrant as their attorney-in-fact
10.13*	Stock Redemption Plan of Registrant dated December 14, 1989
10.14*	Stock Purchase Agreement dated December 20, 1991, between Registrant and Erie Insurance Exchange relating to the capital stock of Erie Insurance Company
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
10.21	Aggregate Excess of Loss Reinsurance Agreement effective January 1, 1997 between Erie Insurance Exchange, by and through its Attorney-in-Fact, Erie Indemnity Company and Erie Insurance Company and its wholly owned subsidiary Erie Insurance Company of New York
11	Statement re computation of per share earnings
13	1996 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

Exhibit Number	Description of Exhibit
28#	Analysis of Losses and Loss Expenses -- Schedule P of the 1996 Annual Statement of Erie Insurance Company
28#	Analysis of Losses and Loss Expenses -- Schedule P of the 1996 Annual Statement of Erie Insurance Property & Casualty Company
28#	Analysis of Losses and Loss Expenses -- Schedule P of the 1996 Annual Statement of Erie Insurance Company of New York

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

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

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

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

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

Such exhibit is being filed under FORM SE pursuant to Rule 202 of Regulation S-T.

(b) Reports on Form 8-K:

During the quarter ended December 31, 1996, 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.

ERIE INDEMNITY COMPANY
(Registrant)

Date: March 11, 1997 By: /s/ F. William Hirt
F. William Hirt, Chairman of the Board

By: /s/ Stephen A. Milne
Stephen A. Milne, President & CEO

By: /s/ Thomas M. Sider
Thomas M. Sider, Executive Vice President
& Chief Financial Officer

By: /s/ Philip A. Garcia
Philip A. Garcia, Senior Vice President
& Controller

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: March 11, 1997 By: /s/ Peter B. Bartlett
Peter B. Bartlett, Director

Date: March 11, 1997 By: /s/ Samuel P. Black, Jr.
Samuel P. Black, Jr., Director

Date: March 11, 1997 By: /s/ J. Ralph Borneman, Jr.
J. Ralph Borneman, Jr., Director

Date: March 11, 1997 By: /s/ Patricia A. Goldman
Patricia A. Goldman, Director

Date: March 11, 1997 By: /s/ Susan Hirt Hagen
Susan Hirt Hagen, Director

Date: March 11, 1997 By: /s/ Thomas B. Hagen
Thomas B. Hagen, Director

Date: March 11, 1997	By: /s/ F. William Hirt F. William Hirt, Chairman of the Board
Date: March 11, 1997	By: /s/ Irvin H. Kochel Dr. Irvin H. Kochel, Director
Date: March 11, 1997	By: /s/ Stephen A. Milne Stephen A. Milne, Director
Date: March 11, 1997	By: /s/ Edmund J. Mehl Edmund J. Mehl, Director
Date: March 11, 1997	By: /s/ John M. Petersen John M. Petersen, Director
Date: March 11, 1997	By: /s/ Seth E. Schofield Seth E. Schofield, Director
Date: March 11, 1997	By: /s/ Jan R. Van Gorder Jan R. Van Gorder, Director, Sr. Executive Vice President, Secretary & General Counsel
Date: March 11, 1997	By: /s/ Harry H. Weil Harry H. Weil, Director

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, 1996 and 1995 and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1996, as contained in the 1996 annual report, incorporated by reference in the annual report on Form 10-K for the year ended December 31, 1996. 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, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996 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 18, 1997

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

December 31, 1996

Type of Investment (In Thousands)	Cost or Amortized Cost	Fair Value	Amount at which Shown in the Balance Sheet
Available-for-Sale Securities			
Common Stocks			
U.S. Industrial and Miscellaneous	$ 37,003	$ 50,045	$ 50,045
Non-Redeemable Preferred Stocks			
Public Utilities	10,652	10,821	10,821
U.S. Banks, Trusts and Insurance Companies	44,106	45,868	45,868
U.S. Industrial and Miscellaneous	24,309	24,884	24,884
Fixed Maturities			
U.S. Treasuries	12,000	12,140	12,140
Foreign Governments	1,988	2,007	2,007
Obligations of State and Political Subdivisions	28,127	29,408	29,408
Special Revenue	136,950	142,209	142,209
Public Utilities	7,238	7,380	7,380
U.S. Industrial and Miscellaneous	114,790	117,032	117,032
Total Available-for-Sale Securities	$ 417,163	$ 441,794	$ 441,794
Real Estate Mortgage Loans	$ 7,294	$ 7,294	$ 7,294
Other Invested Assets	7,010	7,010	7,010
Total Investments	$ 431,467	$ 456,098	$ 456,098

SCHEDULE IV - REINSURANCE

	Gross Amount	Ceded to Other Companies	Assumed From Other Companies	Net Amount	Percentage of Amount Assumed to Net
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%
December 31, 1994 Premiums for the year Property and Liability Insurance	$266,091,231	$269,153,771	$ 81,138,460	$ 78,075,920	103.9%

SCHEDULE VI - SUPPLEMENTAL INFORMATION CONCERNING PROPERTY/CASUALTY INSURANCE OPERATIONS

	Deferred Policy Acquisition Costs	Reserves for Unpaid Loss & LAE Expenses	Discount, if any deducted from reserves	Unearned Premiums
@ 12/31/96				
Consolidated P&C Entities	$ 9,540,998	$386,425,019	$ 0	$216,938,069
Unconsolidated P&C Entities	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0
Total	$ 9,540,998	$386,425,019	$ 0	$216,938,069
@ 12/31/95				
Consolidated P&C Entities	$ 9,011,734	$357,334,127	$ 0	$202,806,574
Unconsolidated P&C Entities	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0
Total	$ 9,011,734	$357,334,127	$ 0	$202,806,574
@ 12/31/94				
Consolidated P&C Entities	$ 7,667,652	$344,823,708	$ 0	$177,301,657
Unconsolidated P&C Entities	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0
Total	$ 7,667,652	$344,823,708	$ 0	$177,301,657

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

	Earned Premiums	Net Investment Income	Loss and Loss Adjustment Expense Incurred (1) Current Year	Loss and Loss Adjustment Expense Related to (2) Prior Years
@ 12/31/96				
Consolidated P&C Entities	$101,509,759	$ 11,031,742	$ 85,311,000	$ (240,000)
Unconsolidated P&C Entities	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0
Total	$101,509,759	$ 11,031,742	$ 85,311,000	$ (240,000)
@ 12/31/95				
Consolidated P&C Entities	$ 92,874,301	$ 10,342,751	$ 73,145,000	$ (2,210,000)
Unconsolidated P&C Entities	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0
Total	$ 92,874,301	$ 10,342,751	$ 73,145,000	$ (2,210,000)
@ 12/31/94				
Consolidated P&C Entities	$ 78,075,920	$ 8,033,792	$ 68,694,000	$ (4,767,000)
Unconsolidated P&C Entities	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0
Total	$ 78,075,920	$ 8,033,792	$ 68,694,000	$ (4,767,000)

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

	Amortization of Deferred Policy Acquistion Costs	Loss & LAE Paid	Net Premiums Written
@ 12/31/96			
Consolidated P&C Entities	$ 18,909,000	$ 79,208,000	$105,020,049
Unconsolidated P&C Entities	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0
Total	$ 18,909,000	$ 79,208,000	$105,020,049
@ 12/31/95			
Consolidated P&C Entities	$ 17,041,000	$ 60,827,000	$100,561,533
Unconsolidated P&C Entities	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0
Total	$ 17,041,000	$ 60,827,000	$100,561,533
@ 12/31/94			
Consolidated P&C Entities	$ 14,908,000	$ 60,401,000	$ 81,369,411
Unconsolidated P&C Entities	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0
Total	$ 14,908,000	$ 60,401,000	$ 81,369,411

EXHIBIT INDEX

(Pursuant to Item 601 of Regulation S-K)

Exhibit Number	Description of Exhibit	Sequentially Numbered Page
3.1*	Articles of Incorporation of Registrant	
3.2**	Amended and Restated By-laws of Registrant	
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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	
10.8***	Service Agreement dated January 1, 1989 between Registrant and Erie Insurance Company	
10.9***	Service Agreement dated June 21, 1993 between Registrant and Erie Insurance Property & Casualty Company	
10.10***	Service Agreement dated June 21, 1993 between Registrant and Flagship City Insurance Company	
10.11***	Reinsurance Pooling Agreement dated January 1, 1992 between Erie Insurance Company and Erie Insurance Exchange	

Exhibit Number	Description of Exhibit	Sequentially Numbered Page
10.12***	Form of Subscriber's Agreement whereby policyholders of Erie Insurance Exchange appoint Registrant as their attorney-in-fact	
10.13*	Stock Redemption Plan of Registrant dated December 14, 1989	
10.14*	Stock Purchase Agreement dated December 20, 1991, between Registrant and Erie Insurance Exchange relating to the capital stock of Erie Insurance Company	
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 restated as of 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	
10.21	Aggregate Excess of Loss Reinsurance Agreement effective January 1, 1997 between Erie Insurance Exchange, by and through its Attorney-in-Fact, Erie Indemnity Company and Erie Insurance Company and its wholly owned subsidiary Erie Insurance Company of New York	
11	Statement re computation of per share earnings	
13	1996 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	

Exhibit Number	Description of Exhibit	Sequentially Numbered Page
28	Information from Reports Furnished to State Insurance Regulatory Authorities	
28#	Analysis of Losses and Loss Expenses -- Schedule P of the 1996 Annual Statement of Erie Insurance Company	
28#	Analysis of Losses and Loss Expenses -- Schedule P of the 1996 Annual Statement of Erie Insurance Property & Casualty Company	
28#	Analysis of Losses and Loss Expenses -- Schedule P of the 1996 Annual Statement of Erie Insurance Company of New York	

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

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

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

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

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

Such exhibit is being filed under FORM SE pursuant to Rule 202 of Regulation S-T.

INCORPORATED BY REFERENCE, PAGE 9 OF THE COMPANY'S 1996 ANNUAL REPORT TO SHAREHOLDERS

Selected Consolidated Financial Data

	1996	1995	1994	1993	1992
	Years ended December 31 (dollars in thousands, except per share data)				
Operating Data:					
Net revenues from management operations	$127,429	$111,276	$96,328	$77,056	$77,752
Underwriting loss	(11,579)	(3,738)	(8,250)	(1,567)	(4,835)
Revenue from investment operations	36,198	30,473	16,939	15,451	13,772
Income before income taxes and cumulative effect of change in accounting principle	152,048	138,011	105,017	90,940	86,689
Income after taxes and before cumulative effect of change in accounting principle	105,132	93,551	71,729	62,408	57,548
Net Income	$105,132	$93,551	$71,729	$60,423	$57,548
Earnings per Share:					
Income before cumulative effect of change in accounting principle	$1.41	$1.26	$0.96	$0.84	$0.77
Cumulative effect on prior years of change in accounting principle	--	--	--	(0.03)	--
Net Income per Share	$1.41	$1.26	$0.96	$0.81	$0.77
Balance Sheet Data:					
Investments (1)	$484,784	$360,555	$255,449	$216,442	$121,474
Receivables from Exchange and affiliate	478,304	451,778	433,109	468,463	534,120
Total assets (1)	1,150,639	1,022,432	869,531	817,191	771,667
Shareholders' equity	435,759	354,064	260,934	210,188	160,574
Book value per share (2)	5.86	4.76	3.51	2.83	2.16
Dividends declared per Class A share (2)	$0.345	$0.28	$0.225	$0.17	$0.1375
Dividends declared per Class B share	$51.75	$41.75	$33.75	$26.00	$20.625

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

INCORPORATED BY REFERENCE, PAGES 10 AND 11 OF THE COMPANY'S 1996 ANNUAL REPORT TO SHAREHOLDERS

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the financial statements and related notes found on pages 24 to 33 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 21, 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 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 Erie Indemnity 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 does pay certain loss adjustment and investment expenses on behalf of the Exchange; however, the Company is reimbursed fully for these expenses by the Exchange. The management fee charged the Exchange was 25 percent of the Exchange's assumed and direct written premiums during the first quarter of 1995 and all of 1994. The Company's Board of Directors reduced the management fee charged the Exchange to 24.5 percent beginning April 1, 1995 through March 31, 1996. Effective April 1, 1996 through December 31, 1996, the Board elected, at its December 12, 1995 meeting, to further reduce the management fee to 24 percent. The Company's Board of Directors took this action based upon a review of the relative financial positions of the Erie Insurance Exchange and the Company. The Board considered the long-term needs of the Exchange to ensure its continued growth, competitiveness, and superior financial strength, which benefits the Company. In December 1996, the Board voted to maintain the management fee rate at 24 percent through December 31, 1997. The Company's Board of Directors has the authority to change the management fee at its discretion.

The Company acquired all of the outstanding capital stock of Erie Insurance Company from the Exchange on December 31, 1991. Effective January 1, 1992, Erie Insurance Company and the Exchange entered into an intercompany reinsurance pooling agreement whereby Erie Insurance Company cedes 100 percent of its gross premiums, losses and underwriting expenses to the Exchange and the Exchange retrocedes to Erie Insurance Company 5 percent of the pooled underwriting business. Erie Insurance Company's underwriting results are then consolidated with the operating results of the Company. On April 20, 1994 the Erie Insurance Company completed its conversion of the Cooperative Insurance Company of Western New York to a stock company renamed the Erie Insurance Company of New York. Erie Insurance Company of New York commenced writing direct business in New York on January 1, 1995. Further, Erie Insurance Company also has been admitted as a licensed insurer in New York and began writing automobile, homeowners, and commercial business in New York on January 1, 1995.

As part of the intercompany reinsurance pooling agreement, Erie Insurance Company of New York cedes 100 percent of its direct writings to the Exchange and effective January 1, 1995 the Exchange retrocedes to Erie Insurance Company of New York .5 percent of its assumed and direct written premium. Erie Insurance Company has maintained its 5 percent participation in the reinsurance pool in 1995, resulting in an increase in the total participation of the Company's subsidiaries, in the reinsurance pool, from 5.0 to 5.5 percent. The Company's subsidiaries also retained their 5.5 percent participation in the reinsurance pool in 1996. The Exchange retained the remaining 94.5 percent of the assumed and direct written premium of the intercompany reinsurance pool in 1995 and 1996.

In June 1994, the Erie Insurance Company made a $5,000,000 capital contribution to the Erie Insurance Company of New York to provide it with sufficient capital to support its .5 percent participation in the reinsurance pool. On January 1, 1995 the intercompany reinsurance pooling agreement required the transfer of $8,900,000 of pooled assets and liabilities from the Exchange to the Erie Insurance Company of New York as part of its .5 percent share.

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.

As part of its investment activities, the Company owns 21.6 percent of EFL's outstanding common stock. EFL, which commenced business in 1967, 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. EFL has contributed 10.6 percent, 12.7 percent and 21.5 percent of the Company's income from investment activities in the years 1996, 1995 and 1994, respectively. The Company's remaining investment income consists of interest and dividends from its investment portfolio and net realized gain (loss) on the sale of various investments.

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 regulations to not more than the greater of: (a) 10 percent of its statutory surplus as reported on its last statutory annual statement or (b) net income as reported on its last statutory annual statement. At December 31, 1996, the Company's share, as a 21.6 percent shareholder of EFL, of the maximum dividend payable by EFL without the prior approval of the Pennsylvania Insurance Commissioner was $2,274,000. The amount of EFL dividends paid by EFL to the Company totaled $1,021,767 in 1996.

The amount of dividends that the Company's Pennsylvania-domiciled property/casualty insurance subsidiaries, Erie Insurance Company and Erie Insurance Property & Casualty Company, can pay without the prior approval of the Pennsylvania Insurance Commissioner is limited by Pennsylvania regulations to not more than the greater of: (a) 10 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, Erie Insurance Company of New York, can pay without the prior approval of the New York Superintendent of Insurance is limited to the lesser of: (a) 10 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, 1996, the maximum dividend payable by the Company's property/casualty insurance subsidiaries was $6,000,327. No dividends were paid to the Company by its property/casualty insurance subsidiaries in 1996.

INCORPORATED BY REFERENCE, PAGES 11 AND 12 OF THE COMPANY'S 1996 ANNUAL REPORT TO SHAREHOLDERS

The non-affiliated investments of the Company consist principally of high-quality marketable debt and equity securities. Non-affiliated investments are described more fully in the Financial Condition section of the Management's Discussion and Analysis.

Operating Results

Overview

Consolidated net income in 1996 was a record $105,132,359, or $1.41 per share, compared to $93,550,797, or $1.26 per share in 1995, a 12.4 percent increase. The 1996 results, when compared with 1995's results, were affected favorably 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. Management operations experienced an improvement in gross margins and revenues from investment operations improved significantly as the Company's excess cash flows were reinvested for higher returns and the Company earned realized capital gains. The underwriting results of the Company's property/casualty insurance subsidiaries worsened due to losses related to severe winter weather in the first quarter 1996 and losses related to Hurricane Fran in the third quarter 1996. The 1995 net income exceeded the 1994 net income of $71,728,832 or $.96 per share, by 30.4 percent. The 1995 results, when compared with 1994's results, were affected favorably by the improvement in gross margins from all operating segments of the Company. Returns on average shareholders' equity continued to be strong in 1996 at 26.6 percent, which compared favorably with the outstanding returns realized in 1995 and 1994 of 30.4 percent and 30.5 percent respectively.

Results of Operations

Analysis of Management Operations

Total revenues from management operations rose to $449,192,089 in 1996, compared to $425,792,549 in 1995, an increase of 5.5 percent. Management fee revenue derived from the direct and affiliated assumed written premiums of the Exchange rose 5.5 percent to $442,904,376 in 1996 from $420,003,739 in 1995. In 1996 the Exchange continued to experience written premium growth rates that generally exceeded industry growth rates. Affiliated assumed and direct premiums written of the Exchange grew 7.5 percent in 1996. The growth in affiliated assumed and direct premiums written 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. The Board of Directors reduced the management fee rate charged the Exchange to 24 percent from 24.5 percent, for the period April 1, 1996 through December 31, 1996. The Company's Board of Directors took this action based upon a review of the relative financial positions of the Erie Insurance Exchange and the Company. The Board considered the long-term needs of the Exchange to ensure its continued growth, competitiveness, and superior financial strength, which benefits the Company. In December 1996 the Board voted to maintain the 24 percent management fee rate for all of 1997.

Total revenues from management operations in 1995 of $425,792,549 were 4.1 percent above the 1994 total revenues from management operations of $409,068,659. The Board of Directors reduced the management fee rate charged the Exchange by the Company to 24.5 percent from 25 percent, for the period April 1, 1995 through March 31, 1996. During all of 1994 the management fee rate charged by the Company was 25 percent.

Service agreement revenue from the management of non-affiliated assumed reinsurance business grew 15.2 percent to $5,069,140 in 1996 from $4,401,232 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. Prior to the service agreement on non-affiliated assumed reinsurance, which was effective January 1, 1995, the Company received a management fee based on premiums written and was responsible for the payment of brokerage commissions. In 1994 management fee revenue includes $14,388,409 from management fees on non-affiliated assumed reinsurance. The cost of management operations in 1994 includes $11,666,025 in brokerage commissions, paid by the Company, in connection with this business.

Net revenues from management operations rose 14.5 percent to $127,428,577 in 1996 versus

$111,276,227 in 1995 and $96,327,610 in 1994. Gross margins from management operations improved for the third year in a row rising to 28.4 percent in 1996 from 26.1 percent in 1995 and 23.5 percent in 1994. This continued improvement in gross margins is largely the result of continued control of operating costs, particularly personnel costs and discretionary spending. The cost of management operations rose 2.3 percent in 1996 to $321,763,512 from $314,516,322 in 1995. In 1996, the growth in the cost of management operations of 2.3 percent compared favorably with the rate of growth in management fee revenue of 5.5 percent.

The largest component of the cost of management operations, Agent commissions, rose 4.3 percent to $209,756,209 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, Agents profit sharing bonuses and brokerage commissions paid on voluntary assumed reinsurance business before January 1, 1995. Agent profit sharing 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 business rose 6.1 percent to $203,367,469 in 1996 from $191,621,427 in 1995. Promotional incentive and Agent profit sharing bonus costs declined 33 percent to $6,388,739 in 1996 from $9,534,149 in 1995. The decline was due to underwriting losses from the insurance operations of the Group which resulted in lower profit sharing bonuses paid to the agency force in 1996. The Company incurred no commission costs beginning in 1995 on non-affiliated assumed reinsurance business per the terms of a separate service arrangement with the Exchange governing this business. In 1994 the Company incurred commission expense of $11,666,025 on the non-affiliated assumed reinsurance business written by the Exchange.

The 1995 commission expense increased 1.5 percent to $201,155,576 versus 1994. Commissions on direct and affiliated assumed business rose 9.1 percent to $191,621,427 in 1995 from $175,699,756 in 1994, which is in line with the growth in direct and affiliated assumed written premiums.

The cost of management operations, excluding commission costs, fell 1.2 percent in 1996 to $112,007,304 from $113,360,746 in 1995. The Company's personnel costs, net of reimbursement from affiliates, totaled $68,949,232, $66,576,363, and $70,133,195 in 1996, 1995, and 1994, respectively. Personnel costs are the second largest cost component in the cost of management operations, after commissions. Personnel costs increased 3.6 percent in 1996, compared to a 5.1 percent decrease in 1995. The 1996 increase in the growth rate of personnel costs was due to a combination of a .4 percent increase in the number of employees plus normal merit-based salary growth. In 1995 the number of employees declined 2.5 percent from a year earlier. Significant productivity gains were made by the Company in 1996 and 1995 by utilizing information technology in underwriting and administrative support areas, which has allowed Company employment levels to remain stable or decline.

The cost of management operations, excluding commissions and personnel costs, declined by 8.0 percent in 1996 to $43,058,071 compared to a 5.5 percent increase in other costs of management operations to $46,784,383 in 1995. 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.

Analysis of Insurance Underwriting Operations

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

As mentioned previously, on January 1, 1995, the Exchange began retroceding to the Erie Insurance Company of New York, as part of the existing intercompany reinsurance pooling arrangement, .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 .5 percent participation of the Erie Insurance Company of New York, results in a 5.5 percent participation level for the Company's affiliates in 1995. As a result of the increased participation of the Company's subsidiaries in the reinsurance pooling agreement in 1995, the Company's premiums, losses and expenses were 10 percent more than they would have been had the level of pool participation remained the same.

For the calendar years 1996, 1995 and 1994, the Company incurred underwriting losses from its insurance underwriting operations in the amount of $11,579,211, $3,737,618, and $8,249,900, respectively. 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 during 1995 resulted in better underwriting results for the property/casualty companies of the Erie Insurance Group when compared to 1996 and 1994. During the first quarter of 1994 significant underwriting losses were incurred by the property/casualty companies of the Erie Insurance Group as a result of severe winter weather in all of the Group's underwriting territories. This severe winter weather was responsible for approximately $6.2 million in catastrophe losses in 1994. As in 1996, the majority of these catastrophe losses were property losses on homeowners and commercial property lines of business.

Catastrophes are an inherent risk of the property/casualty insurance business. Catastrophes can have a material impact on year-to-year fluctuations in the Company's property/casualty insurance underwriting operating results. 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 amount is adequate, the ultimate liability may be in excess of or less than amounts provided.

Premiums earned totaled $101,509,759 in 1996, compared to $92,874,301 and $78,075,920 in 1995 and 1994, respectively. The increase in premiums earned of 9.3 percent in 1996 is reflective of the strong growth in net premiums written of the Erie Insurance Group. In 1995 premiums earned increased 19 percent. This growth was due in part to the increased participation in the intercompany reinsurance pooling arrangement of the Company's subsidiaries. Excluding the effect of the increased pool participation, the growth in earned premiums was about 9 percent in 1995.

Losses, loss adjustment expenses and underwriting expenses incurred totaled $113,088,970 in 1996 compared to $96,611,919 in 1995 and $86,325,820 in 1994. In 1996, losses and loss expenses incurred rose 19.9 percent to $85,070,861 in part due to the catastrophe losses previously described. In 1995 losses and loss expenses incurred rose 11 percent to $70,934,755. The increased participation in the intercompany reinsurance pooling arrangement was responsible for about 10 percent of the rise in loss and loss adjustment expense in 1995. Excluding the effect of the increased participation, the growth in loss and loss adjustment expense was about 1 percent compared to a 8.8 percent real growth in earned premiums. In 1994, loss and loss adjustment expenses incurred were $63,926,959 and were affected adversely by catastrophe losses as previously described.

Policy acquisition and underwriting expenses rose 9.1 percent to $28,018,109 in 1996 from $25,677,164 in 1995 and $22,398,861 in 1994.

The 1996 GAAP combined ratio for the Company's property/casualty operations was 111.4 compared to a ratio of 104.0 in 1995 and 110.6 in 1994. The GAAP combined ratio excluding catastrophe losses was 103.4 in 1996, 102.8 in 1995, and 102.7 in 1994.

Analysis of Investment Operations

Total revenue from investment operations was $36,198,425 in 1996, compared to $30,472,840 in 1995, and $16,938,761 in 1994, an increase of 18.8 percent and 79.9 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 and significant realized capital gains were earned in 1996. The Company's investment income consisted of interest and dividends from its investment portfolio, net realized gains (losses) on the sale of investments and equity in the earnings of EFL, an unconsolidated affiliate.

Interest and dividend income rose 23.9 percent to $25,794,260 in 1996 from $20,814,258 in 1995, which was consistent with the growth in the Company's cash, investments, and note receivable balances, which increased 21.1 percent in 1996. In 1994 interest and dividend income was $13,303,120. The Company had significant capital gains of $6,583,208 in 1996 as the Company took advantage of the strong bond and stock market conditions. During 1995 the Company had capital gains of $5,791,049, and during 1994 the Company incurred capital losses of $4,378.

The Company's earnings from its 21.6 percent ownership of EFL totaled $3,820,957 in 1996 down from $3,867,533 in 1995 versus $3,640,019 in 1994. This investment is accounted for under the equity method of accounting. Consequently, the Company's investment earnings in 1996, 1995, and 1994 were a direct result of its share of EFL's net income of $17,666,250, $17,881,592 and $16,829,678, respectively. 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

Invested assets at December 31, 1996 and 1995 consisted of the following:

Distribution of Invested Assets

at December 31, 1996
(thousands)

	Carrying Value	
	1996	1995
Fixed Maturities:		
Available-for-sale	310,176	241,961
Equity Securities:		
Common Stock	50,045	36,705
Preferred Stock	81,573	44,434
Total Equity Securities	131,618	81,139
Real Estate Mortgage Loans	7,294	4,432
Other Investments	7,010	5,143
Total Invested Assets	$456,098	$332,675

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 investments are also liquid in order to meet the short and long-term commitments of the Company. At December 31, 1996, 1995 and 1994, the Company's investment portfolio of investment-grade bonds, common stock, and preferred stock, all of which are readily marketable, and cash and short-term investments represent 40 percent, 37 percent, and 32 percent, respectively, of total assets, and provide the liquidity the Company requires to meet the demands on its funds.

The total investments of the Company consist of investments in fixed maturities, common stock, preferred stock, real estate mortgage loans and other invested assets. At December 31, 1996, 1995 and 1994, 96.9 percent, 97.1 percent, and 96.5 percent, respectively, of total investments were invested in fixed maturities and equity securities. Mortgage loans and other invested assets represented only 3.1 percent, 2.9 percent and 3.5 percent at December 31, 1996, 1995 and 1994, respectively. 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.

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. The Company's corporate and municipal bond investments may 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.

Fixed Maturities

At December 31, 1996, the amortized cost, carrying/market values, gross unrealized gains, and gross unrealized losses for fixed maturities were as follows:

Diversification of Fixed Maturities

at December 31, 1996 (thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying/ Market Value
U. S. Government	$ 12,000	$ 212	$ 72	$ 12,140
Foreign Governments	1,988	25	5	2,007
Obligations of states and political subdivisions	28,127	1,321	40	29,408
Special revenue	136,950	5,349	90	142,209
Public utilities	7,238	141	-	7,380
Industrial & miscellaneous	114,790	2,835	593	117,032
Total Fixed Maturities	$ 301,093	$ 9,883	$ 800	$ 310,176

The Company's objective is to maintain 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.

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 alternate minimum tax. At December 31, 1996, the carrying value of fixed maturity investments represented 68.0 percent of total invested assets.

The Company's fixed maturity investments consist of high-quality, marketable bonds all of which were rated at investment-grade levels (Baa/BBB or better) at December 31, 1996.

Included in this investment-grade category are $196.4 million or 63.3 percent of the highest quality bonds rated Aaa/AAA or Aa/AA or bonds issued by the United States government. At December 31, 1996, 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. The following table shows the quality classifications of the Company's fixed maturity portfolio at their carrying value at December 31, 1996.

Quality* of Fixed Maturities

at December 31, 1996

	Carrying/Market Value
U. S. Treasury and Agency Securities	$ 14,147,489
Aaa or AAA	119,642,371
Aa or AA	62,651,690
A	83,987,080
Baa or BBB	29,747,234
Total Fixed Maturities	$310,175,864

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

During the fourth quarter of 1995, the Financial Accounting Standards Board (FASB) released a special report on FAS 115, "Accounting for Certain Investments in Debt and Equity Securities." The special report was prepared as a guide in helping companies understand and comply with the provisions of FAS 115. The special report also included important transition provisions that gave reporting enterprises a limited period to reassess and reclassify their securities holdings into FAS 115's three reporting categories. This "fresh start" provision allowed reporting enterprises to reclassify "held-to-maturity" securities to either of the two other categories without restriction. Any security transferred from held-to-maturity to the available-for-sale or trading classification is to be marked-to-market at the time of transfer. At December 31, 1995, the Company reclassified $60,259,316 or 100 percent of its held-to-maturity fixed maturity securities to available-for-sale pursuant to the transition provisions of the FASB's Special Report. As a result, the Company recognized $2,202,002 of unrealized gains, net of deferred income taxes, at December 31, 1995, as an adjustment to shareholders' equity related to this reclassification. Management believes that having all fixed maturities classified as available-for-sale securities will allow 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 shareholders' gains and losses included in equity. At December 31, 1996 and 1995, unrealized gains (losses) on fixed maturities available-for-sale amounted to $5,904,000 and $7,825,000, respectively, net of deferred taxes. Prior to the adoption of FAS 115 in 1994, gains and losses on fixed maturities were not recognized in the Company's financial statements until they were sold or became impaired. Fixed maturities classified as held-to-maturity in 1994 are carried at the lower of cost or market value. (See Note 1 of the Notes to Financial Statements).

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 following table sets forth the amortized cost and carrying/market value of fixed maturities at December 31, 1996, by remaining term to maturity.

Term to Maturity of Fixed Maturities

at December 31, 1996:

	Cost	Carrying/ Market Value	Percent of Total Carrying/ Market Value
Maturity during the year ending December 31:			
1997	$ 17,694,593	$ 17,715,738	5.7 %
1998-2001	48,308,437	48,187,878	15.5
2002-2006	69,534,481	71,375,978	23.0
Subsequent to 2006	165,555,701	172,896,270	55.8
	$301,093,212	$310,175,864	100.0 %

The Amounts reported are based on actual maturity date. The amounts reported do not reflect expected future prepayments.

Equity Securities

At December 31, 1996, the cost, carrying/market values, gross unrealized gains and gross unrealized losses for equity securities were as follows:

Diversification of Equity Securities

at December 31, 1996 -
(in thousands)

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying/ Market Value
Common Stock:				
U.S. banks, trusts and insurance companies	$ 3,034	$ 1,705	$	$ 4,739
U.S. industrial and miscellaneous	33,969	12,862	1,525	45,306
Preferred Stock:				
Public utilities	10,652	196	27	10,821
U.S. banks, trusts and insurance companies	44,106	1,763	1	45,868
U.S. industrial and miscellaneous	24,309	580	5	24,884
Total Equity Securities	$ 116,070	$ 17,106	$ 1,558	$131,618

Equity securities consist of common stock and preferred stock which are carried on the consolidated statements of financial position at current market value. At December 31, 1996, common stock and preferred stock held by the Company had a cost of $116,070,434 and a market value of $131,618,139, representing an unrealized gain of $15,547,705. As with the fixed maturities portfolio, the Company's preferred stock portfolio provides a source of highly predictable current income that is very competitive with investment-grade bonds. The preferred stocks are of very high quality and marketable. Common stocks provide capital appreciation potential within the portfolio and represent only 11.0 percent of total invested assets.

Investment in EFL

The Company owns 21.6 percent of the outstanding common stock of EFL, a member company of the Erie Insurance Group. The Company's investment in EFL is accounted for under the equity method of accounting; consequently, the Company's carrying value of $28,686,137 represents 21.6 percent of the shareholders' equity of EFL at December 31, 1996.

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, 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 management fee receivable from the Exchange has been offset by monthly operating expenditures made by Erie Indemnity Company on behalf of the Exchange. Generally these operating expenditures do not exceed the management fee due for any month; therefore, the management fee receivable balance historically has increased.

During the third quarter of 1994, the Exchange began to pay the Company the balance of the management fee due for the month, less the operating expenditures paid by the Company on its behalf, plus or minus the change in the Erie Insurance Exchange's premium receivable balances times the management fee rate. Since management fees traditionally have not been collected by the Company from the Exchange until the premiums from Policyholders are collected, the change in the premium receivable balance is used in determining the monthly amount transferred. During 1996 and 1995, approximately $65.5 million and $50.4 million, respectively, were paid to the Company from the Exchange, in accordance with the calculation described above. These funds have been invested by the Company and the investment earnings are reflected in the investment operations of the Company.

At December 31, 1996, 1995 and 1994, the Company's receivables from its affiliates totaled $478,304,267, $451,777,577, and $433,109,143, 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.

The individual receivables from the Exchange and its affiliates at December 31, 1996 and December 31, 1995 are as follows:

Receivables from Erie Insurance Exchange and affiliates:

	1996	1995
Exchange-Management fee and expense reimbursements	$108,589,885	$105,612,765
EFL-Expense reimbursements	1,049,007	1,392,365
Exchange-Reinsurance recoverable from losses and unearned premium balances ceded	368,665,375	344,772,447
Total Receivables from Erie Insurance Exchange and affiliates	$478,304,267	$451,777,577

The Company generates sufficient net positive cash flow from its operations which is used 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 1996, 1995 and 1994 were $103,430,449, $111,825,472, and $98,128,023, respectively. Those statements also classify the other sources and uses of cash by investing activities and financing activities and disclose the amount of cash available at the end of the year to meet the Company's obligations.

On December 14, 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.

Dividends declared to shareholders totaled $23,284,957, $18,785,419, and $15,185,813, in 1996, 1995, and 1994, 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 subsidiaries of the Company to the Company. No major capital expenditures were incurred in 1996, 1995 and 1994.

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 assets (liabilities) at December 31, 1996, 1995 and 1994 of $(2,035,054), $185,282, and $7,241,618, respectively. The primary reason for the reduction in the deferred tax asset is due to an increase in unrealized gains from available-for-sale securities from 1994. The deferred tax liability generated from these unrealized gains amounted to $8,620,624 as of 1996, and $7,655,453 as of 1995, an increase of $965,171. 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

In 1994, the Commonwealth of Pennsylvania imposed minimum risk-based capital requirements for property/casualty insurance companies as developed by the NAIC. Risk-based capital 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 risk-based capital formula will be 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 new minimum capital standards that will supplement the current system of low fixed minimum capital and surplus requirements on a state-by-state basis. Regulatory compliance is determined by a ratio of the Company's regulatory total adjusted capital, as defined by the NAIC, to its authorized control level risk-based capital, as defined by the NAIC. The NAIC provides for four different levels of regulatory action with respect to statutory annual statements for the calendar year 1994 and thereafter. The levels and ratios are as follows:

NAIC Risk-Based Capital Levels and Ratios

NAIC Required Regulatory Event	Ratio of Total Adjusted Capital to Authorized Control Level Risk-Based Capital (Less Than or Equal To)
Company Action Level	2.0 (or 2.5 with negative trends)
Regulatory Action Level	1.5
Authorized Control Level	1.0
Mandatory Control Level	0.7

At the Company Action Level, the insurer must submit a comprehensive plan to the regulatory authority which discusses proposed corrective actions to improve its capital position. At the Regulatory Action Level, the regulatory authority will perform a special examination of the insurer and issue an order specifying corrective actions that must be followed. At the Authorized Control Level, the regulatory authority is authorized (although not mandated) to take regulatory control of the insurer. And, at the Mandatory Control Level, the regulatory authority must take regulatory control of the insurer. Regulatory control may lead to rehabilitation or liquidation of an insurer.

Calculations using the NAIC formula and the Company's property/casualty insurance subsidiaries' financial statements prepared under Statutory Accounting Practices as of December 31, 1996 indicate that the Total Adjusted Capital was substantially above the Authorized Control Level Risk-Based capital requirements as the ratios are all in excess of three to one (3:1) at December 31, 1996.

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 positions 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 and 1994, the Company would not have recognized substantial recoveries from these discontinued treaties had they been in effect during the 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 net ultimate net loss in excess of the retention under the contract are retained net 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. This reinsurance treaty is excluded from the intercompany reinsurance pooling agreement. This reinsurance agreement replaces the earlier reinsurance agreements between the Company and Erie Insurance Company and Erie Insurance Company of New York, which are described below.

In 1995 and 1996, Erie Insurance Company of New York had in effect a property catastrophe excess of loss reinsurance agreement with the Exchange whereby Erie Insurance Company of New York reinsures its net retained share of the intercompany reinsurance pool such that once Erie Insurance Company of New York has sustained an ultimate net loss of $250,000 by reason of its .5 percent share of the results of the intercompany reinsurance pool, the Exchange was liable for the amount of the ultimate net loss for the Company's net retained share of the intercompany reinsurance pool in excess of $250,000 for a limit of liability to the Exchange of $2,250,000 for each occurrence. The annual premium for this reinsurance treaty with the Exchange was $150,000 in 1996. This reinsurance treaty was excluded from the intercompany reinsurance pooling agreement.

In 1994, 1995 and 1996, Erie Insurance Company had in effect a property catastrophe excess of loss reinsurance agreement with the Exchange whereby Erie Insurance Company reinsured its net retained share of the intercompany reinsurance pool such that once Erie Insurance Company has sustained an ultimate net loss of $10,000,000 by reason of its 5 percent share of the results of the intercompany reinsurance pool, the Exchange was liable for the amount of the ultimate net loss for the Company's net retained share of the intercompany reinsurance pool in excess of $10,000,000 for a limit of liability to the Exchange of $25,000,000 for each occurrence. The annual premium for this reinsurance treaty with the Exchange was $274,170 in 1996. This reinsurance treaty was excluded from the intercompany reinsurance pooling agreement.

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 bonds, notes and preferred stock. At December 31, 1996, the Company's investments totaled $456,097,673. Of this amount, $391,749,000 was invested in interest rate sensitive bonds and preferred stock. At December 31, 1996 the market value exceeded the book value of the Company's interest rate sensitive bonds and preferred stock by $11,589,000.

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, 1996 and 1995. 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

In establishing the liability for unpaid losses and loss adjustment expenses related to environmental, toxic waste and hazardous products 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 Company has incurred few environmental claims and as a result has 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. The Company does not believe that these claims will have a material impact on the Company's liquidity, results of operations, cash flows, or financial condition.

The Company had 31 reported open claims concerning environmental-related liabilities at December 31, 1996 and 47 and 26 such claims at December 31, 1995 and 1994, respectively. The Company's property/casualty subsidiaries' share of direct losses paid related to environmental-related claims was $5,308, $9,172, and $2,659 related to years ended December 31, 1996, 1995 and 1994, respectively. The Company's property/casualty subsidiaries' share of unpaid direct losses amounted to $42,194, $53,512, and $60,523 related to years ended December 31, 1996, 1995 and 1994, respectively.

Impact of Recent Accounting Standards

Accounting for Certain Investments in Debt and Equity Securities

On May 31, 1993, the Financial Accounting Standards Board issued Statement of Financial Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." FAS 115 addresses the accounting and reporting for investments in equity securities that have readily determinable fair values (other than those accounted for under the equity method or as investments in consolidated subsidiaries) and all investments in debt securities. FAS 115 changes the accounting treatment related to the Company's fixed maturity investments and requires segregation of these securities into three categories: held to maturity, available for sale and trading. The Company holds no trading securities. The Company adopted FAS 115 effective January 1, 1994. Unrealized gains related to this reclassification increased shareholders' equity by $3,782,071, as of January 1, 1994. This amount includes $2,053,550 from the effect of the change to FAS 115 by the Company's equity investee, Erie Family Life Insurance Company. The unrealized gain at January 1, 1994 is also net of deferred taxes of $930,742.

At December 31, 1995 the Company reclassified 100 percent of its held-to-maturity fixed maturity investments to the available-for-sale category in accordance with the transition provisions of the special report on FAS 115 released by the FASB. The Company currently holds no held-to-maturity securities.

Management Changes

On February 12, 1996, the Board of Directors of the Company elected Stephen A. Milne President and Chief Executive Officer of Erie Family Life Insurance Company, Erie Insurance Company, and the Company. On March 11, 1996 Mr. Milne was elected President and Chief Executive Officer of Flagship City Insurance Company, Erie Insurance Property & Casualty Company and Erie Insurance Company of New York. Mr. Milne previously served as Executive Vice President-Insurance Operations since 1993. Mr. Milne began his career with the Company in 1973 and has held several positions in the claims and sales functions of the Company. In 1984 he became a Vice President and in 1987 was named Senior Vice President of the Company's Marketing Services Division. Mr. Milne also was an ERIE Agent for three years.

The former President and CEO, and previous Chief Investment Officer of the Erie Insurance Group of Companies, John M. Petersen, who retired as an employee of the Company on December 31, 1995, entered into a consulting arrangement with the Company effective January 2, 1996. Under the terms of the arrangement, the Company engaged Mr. Petersen as a consultant to furnish the Company and its pension trust, the Erie Insurance Exchange, and Erie Family Life Insurance Company, with investment services with respect to their investments in common stocks.

Factors That May Affect Future Results

On January 30, 1997, the Erie Insurance Group announced its intention to expand its marketing territory to the state of Illinois. Although the Exchange and EFL currently are licensed in Illinois, a specific date for writing insurance in the state has not yet been determined. The Group plans to write all lines of insurance in Illinois that it currently offers elsewhere, including auto, home, business and life. The addition of new operating territories positively affects the growth of direct and affiliated assumed written premium of the Group, upon which the management fee revenue of the Company is based.

Broad challenges to the property/casualty insurance industry's traditional underwriting practices may continue in 1997 and beyond. So-called "anti-redlining" legislation, which would force insurance companies to collect and submit to the federal government a variety of data to help determine if insurers engage in certain practices in urban markets, was not acted upon during 1996, but could be enacted in the future. Regulatory action on the redlining issue also has been initiated by the Federal Department of Housing and Urban Development (HUD), which may subject insurers to administrative regulations. Traditional industry cost-based underwriting criteria and risk selection practices have been challenged by various groups. These groups, which use HUD's funds in their fair housing activities, have pushed for legislation or regulations to standardize underwriting guidelines and establish uniform rating territories that could lead to cross-product or territorial subsidization. These regulations, if enacted, could impose on the insurers managed by the Company excessive or unwarranted restrictions on underwriting and heavily regulated insurance rates. In 1996, however, the Congress passed the Veterans Administration, HUD, and Independent Agencies Conference report, which the President signed, which included language expressing Congressional concern over HUD's insurance-related activities. HUD recently testified that, due to Congressional concerns about such activities, it does not intend to focus its regulatory initiatives on property insurance.

Legislative changes in the federal Superfund liability structure proposed by Congress were not enacted in 1996. The insurance industry and other business groups had proposed basic reforms as part of a new Superfund reauthorization process. The industry continues to work for comprehensive reform and is opposed to the imposition of a federal premium tax on insurers as part of the reforms.

Federal Natural Disaster Protection legislation was introduced in both Houses of Congress in 1995. The legislation called the "Natural Disaster Protection and Insurance Act of 1995" was opposed by the Clinton administration thus ending further consideration of any type of natural disaster legislation by the 104th Congress. The proposal would have established a national insurance program to provide economic protection and help save lives in the event of natural catastrophes such as earthquakes and hurricanes. The legislation would have created a Natural Disaster Insurance Corporation to write earthquake and hurricane coverage in disaster-prone areas and provide excess reinsurance to participating insurers. The industry continues to promote a federal role in making property insurance markets more stable and easing the availability problem in natural catastrophe-prone regions. Alternatives to the legislation proposed in 1995 will be pursued by the industry in 1997.

On June 24, 1996, the Pennsylvania Workers' Compensation Reform Act was signed into law. This Act, now known as Act 57, calls for a reduction of workers' compensation premiums in the state of Pennsylvania by insurance companies that reflect reform outlined in the Act. This law is expected to reduce the premium income generated by the Exchange and its affiliated companies, Erie Insurance Company and Erie Insurance Property and Casualty Company on workers' compensation business written in the state of Pennsylvania. Any reduction in premiums written as a consequence of Act 57 will result in reduced management fee revenue for the Company as its management fee revenue is based on premiums written. However, commission expenses which are a cost of management operations, also will be reduced proportionally with the reduction in premiums written. The reduced workers' compensation premiums also will affect the Company's property/casualty insurance subsidiaries operating results; however, lower premium levels may be offset by lower loss costs arising from the cost containment provisions of Act 57. The effect of this Act on the overall financial condition of the Company is not expected to be material.

During 1996 federal banking reform legislation was proposed in Congress but was hampered by issues surrounding the integration of banking and other financial services, specifically banks affiliation with insurers and the sale of insurance products by banks. In 1997 Congress most likely will advance financial service and banking reform measures, including the issue of bank insurance powers. In addition, during 1996 the U. S. Supreme Court ruled in the Barnett Bank case that national banks can use subsidiary offices in small towns to sell insurance anywhere in the country. The Barnett Bank decision held that state insurance laws "that prevent or significantly interfere" with bank insurance activities are preempted by federal banking laws. Regulatory and legislative reforms affecting bank insurance powers and public policy will continue in 1997. The property-casualty insurers managed by the Company, and EFL, could be affected adversely by regulatory and/or legislative reforms which allow banks to sell property-casualty and life insurance products in the Group's markets. The Company, which derives a management fee based upon the direct and affiliated assumed written premiums of the Group, would be affected adversely if increased competition from banks resulted in lowered written premium growth.

"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," "Reinsurance," "Effects of Inflation," "Property/Casualty Loss Reserves" 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.

INCORPORATED BY REFERENCE, PAGE 21 OF THE COMPANY'S 1996 ANNUAL REPORT TO SHAREHOLDERS

Glossary of Selected Insurance Terms

o Affiliated assumed reinsurance business:

Reinsurance contracts entered into by the Exchange, which assumes risks, on a voluntary basis 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 margin 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 been incurred but which are not yet reported to the insurer.

- Losses:

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

- Loss adjustment expenses (LAE):

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

- Loss and LAE reserves:

  Loss reserves are estimated liabilities established by an insurer to reflect the estimated cost of claims payments and the related expenses that the insurer ultimately will be required to pay in respect of insurance it has written. 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.

- 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.

- Non-affiliated assumed reinsurance business:

  Reinsurance contracts entered into by the Exchange, which voluntarily assumes risks from insurance companies, that are not member companies of the Erie Insurance Group of property/casualty insurance companies.

- Property/Casualty insurance:

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

- Reciprocal insurance exchange:

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

- Reinsurance:

A procedure whereby 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 paid by 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 its portion of the loss based on the coverage ceded, 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):

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 recognized under GAAP.

- Statutory Surplus as regards Policyholders:

Under SAP, the sum remaining after all liabilities are subtracted from all assets. This sum is regarded as financial protection to policyholders in the event an insurance company suffers unexpected or catastrophic losses.

- Underwriting expenses:

The aggregate of policy acquisition expenses and general, administrative and other expenses attributable to underwriting operations.

- Underwriting results:

The excess or deficiency resulting from the difference between premiums earned and the sum of incurred losses, loss adjustment expenses and underwriting expenses.

INCORPORATED BY REFERENCE, PAGE 36 OF THE COMPANY'S 1996 ANNUAL REPORT TO SHAREHOLDERS

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

Common Stock Prices:

Effective October 2, 1995, the Class A non-voting common stock of the Company was listed and began trading on the NASDAQ National Market System under the symbol ERIE. The following sets forth the range of high and low bid and ask prices by quarter as reported by the NASDAQ National Market System.

Class A Sales Price

	Bid		Ask	
	Low	High	Low	High
1996:				
First Quarter	19	24 7/8	20 3/8	26 5/8
Second Quarter	24 1/2	39 1/2	26	44
Third Quarter	32 1/2	44	36 1/2	48 1/2
Fourth Quarter	24	35 1/2	27	37 1/2
1995:				
First Quarter	NA	NA	NA	NA
Second Quarter	NA	NA	NA	NA
Third Quarter	NA	NA	NA	NA
Fourth Quarter	15 1/8	19	16	20 1/2

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.

Prior to registering on the NASDAQ National Stock Market, the Company annually had engaged Duff & Phelps Capital Markets Co. (DPCM) to determine the current fair market value of the Company's Class A non-voting common stock. In making such determination, DPCM analyzed the Company's consolidated financial statements, other financial and operating data provided by the Company and DPCM's own research and other publicly available information. In conducting such analysis, DPCM used a comparative company approach and discounted cash flow analysis. The 1994 valuation of the Company's Class A common stock was completed by DPCM on November 7, 1994. As of November 7, 1994, it was the opinion of DPCM, after incorporating a 15 percent discount for limited marketability and lack of seasoning, that the fair market value of a minority interest position in the Company's Class A common stock was in the range of $12.00 to $13.00 per share (adjusted for the 1996 stock split of Class A common stock). Prior to registration on the NASDAQ National Market System, the Company annually mailed a summary of the DPCM opinion to all holders of record of Class A common stock and Class B common stock.

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 will permit Employees to invest a portion of the plan's contributions in shares of Erie Indemnity Class A common stock. The plan's Trustee will be authorized to buy Erie Indemnity Company class A common stock on behalf of 401(K) plan participants beginning May 8, 1997.

INCORPORATED BY REFERENCE, PAGE 36 OF THE COMPANY'S 1996 ANNUAL REPORT TO SHAREHOLDERS

Common Stock Dividends:

The Company historically has 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 1996 and 1995 are as follows:

	Dividends Declared	
	Class A Share	Class B Share
1996:		
First Quarter	$ .083333	$ 12.50
Second Quarter	.083333	12.50
Third Quarter	.083334	12.50
Fourth Quarter	.095	14.25
	.345	51.75
1995:		
First Quarter	$ .065	$ 9.75
Second Quarter	.065	9.75
Third Quarter	.065	9.75
Fourth Quarter	.083333	12.50
	.278333	41.75

As of February 28, 1997, there were approximately 1,391 shareholders of record of the Company's Class A non-voting common stock and 28 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 28, 1997, approximately 24,231,930 shares are freely transferable without restriction or further registration under the Securities Act of 1933, as amended (the Act) unless purchased by affiliates of the Company as that term is defined in Rule 144 under the Act. The 42,800,070 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 affect adversely 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 (i) one percent of the number of shares of Class A common stock then outstanding or (ii) the average weekly trading volume of the Class A common stock in the over-the-counter market 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 AND RETURN ON AVERAGE EQUITY
(In millions of dollars, except ratios)

	1994	1995	1996
Net Income for Year Ended December 31	$71,729	$93,551	$105,132
Return on Average Equity	30.5%	30.4%	26.6%

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

	1994	1995	1996
Net Revenues from Management Operations	$96.3	$111.3	$127.4
Gross Margin from Management Operations	23.5%	26.1%	28.4%

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

	1994	1995	1996
Premiums Earned for Year Ended December 31	$78.1	$92.9	$101.5
GAAP Combined Ratio Excluding Catastrophes	102.7	102.8	103.4

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

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

	1994	1995	1996
Realized Gain or Loss on Investments	$0.0	$5.8	$6.6
Equity in Earnings of EFL	$3.6	$3.9	$3.8
Interest and Dividends	$13.3	$20.8	$25.8
Total Revenue from Investment Oparations	$16.9	$30.5	$36.2

Graph #6 DISTRIBUTION OF INVESTED ASSETS
at December 31, 1996 - Carrying Value

Fixed Maturities	68%
Preferred Stocks	18%
Common Stocks	11%
Real Estate Mortgage Loans	2%
Other	1%

Graph #7 DIVERSIFICATION OF FIXED MATURITIES
at December 31, 1996 - Carrying/Market Value

Special Revenue	46%
Industrial & Miscellaneous	38%
Political Subdivisions	9%
U.S. Government	4%
Public Utilities	2%
Foreign Governments	1%

Graph #8 QUALITY* OF BOND PORTFOLIO
at December 31, 1996 - Carrying/Market Value

Aaa/AAA	39%
A	27%
Aa/AA	20%
Baa/BBB	10%
U.S. Treasury & Agency Securities	4%

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

Graph #9 DIVERSIFICATION OF EQUITY SECURITIES
at December 31, 1996 - Carrying/Market Value

(2) Banks & Insurance	35%
(1) Industrial & Miscellaneous	34%
(2) Industrial & Miscellaneous	19%
(2) Public Utilities	8%
(1) Banks & Insurance	4%

(1) Common Stocks
(2) Preferred Stocks

INCORPORATED BY REFERENCE, PAGE 23 OF THE COMPANY'S 1996 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, 1996 and 1995, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1996. 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, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996 in conformity with generally accepted accounting principles.

As described in Note 1 to the financial statements, the Company changed its method of accounting for debt and equity securities in 1994.

Erie, Pennsylvania
February 18, 1997

INCORPORATED BY REFERENCE, PAGE 25 OF THE COMPANY'S 1996 ANNUAL REPORT TO SHAREHOLDERS

ERIE INDEMNITY COMPANY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of December 31, 1996 and 1995

ASSETS	1996	1995
INVESTMENTS		
Fixed maturities available-for-sale, at fair value (amortized cost of $301,093,212 and $229,922,533, respectively)	$ 310,175,864	$ 241,960,567
Equity securities, at fair value (cost of $116,070,434 and $71,421,388, respectively)	131,618,139	81,139,076
Real estate mortgage loans	7,293,651	4,432,361
Other invested assets	7,010,019	5,142,585
Total investments	$ 456,097,673	$ 332,674,589
Cash and cash equivalents	18,719,624	56,856,983
Equity in Erie Family Life Insurance Company	28,686,137	27,880,363
Accrued interest and dividends	5,570,033	4,980,154
Premiums receivable from Policyholders	103,847,320	99,534,004
Reinsurance recoverable, non-affiliates	163,691	160,988
Deferred policy acquisition costs	9,540,998	9,011,734
Receivables from Erie Insurance Exchange and affiliates	478,304,267	451,777,577
Note receivable from Erie Family Life Insurance Company	15,000,000	15,000,000
Agent loans	7,945,946	6,034,680
Prepaid expenses	6,957,026	3,573,405
Property and equipment	9,841,538	8,241,937
Deferred and prepaid federal income taxes	4,056,974	1,117,661
Other assets	5,907,978	5,587,669
Total assets	$1,150,639,205	$1,022,431,744

INCORPORATED BY REFERENCE, PAGE 25 OF THE COMPANY'S 1996 ANNUAL REPORT TO SHAREHOLDERS

LIABILITIES AND SHAREHOLDERS' EQUITY	1996	1995
LIABILITIES		
Unpaid losses and loss adjustment expenses	$ 386,425,019	$ 357,334,127
Unearned premiums	216,938,069	202,806,574
Accounts payable	6,034,486	5,839,745
Accrued commissions	75,518,593	72,697,864
Accrued payroll and payroll taxes	5,268,275	8,093,690
Accrued vacation and sick pay	7,435,360	6,740,212
Deferred compensation	1,587,570	1,739,216
Deferred income taxes	2,035,054	
Dividends payable	6,411,788	5,624,375
Benefit plans liability	7,226,300	7,491,700
Total liabilities	$ 714,880,514	$ 668,367,503
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)	17,490,491	17,643,443
Retained earnings	408,268,200	326,420,798
Total shareholders' equity	$ 435,758,691	$ 354,064,241
Total liabilities and shareholders' equity	$1,150,639,205	$1,022,431,744

The notes to consolidated financial statements are an integral part of these statements.

INCORPORATED BY REFERENCE, PAGE 24 OF THE COMPANY'S 1996 ANNUAL REPORT TO SHAREHOLDERS

ERIE INDEMNITY COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 1996, 1995 and 1994

	1996	1995	1994
MANAGEMENT OPERATIONS:			
Management fee revenue	$442,904,376	$420,003,739	$407,275,573
Service agreement revenue	5,069,140	4,401,232	
Other operating revenue	1,218,573	1,387,578	1,793,086
Total revenue from management operations	$449,192,089	$425,792,549	$409,068,659
Cost of management operations	321,763,512	314,516,322	312,741,049
Net revenue from management operations	$127,428,577	$111,276,227	$ 96,327,610
INSURANCE UNDERWRITING OPERATIONS:			
Premiums earned	$101,509,759	$ 92,874,301	$ 78,075,920
Losses and loss adjustment expenses incurred	$ 85,070,861	$ 70,934,755	$ 63,926,959
Policy acquisition and other underwriting expenses	28,018,109	25,677,164	22,398,861
Total losses and expenses	$113,088,970	$ 96,611,919	$ 86,325,820
Underwriting loss	($ 11,579,211)	($ 3,737,618)	($ 8,249,900)
INVESTMENT OPERATIONS:			
Equity in earnings of Erie Family Life Insurance Company	$ 3,820,957	$ 3,867,533	$ 3,640,019
Interest and dividends	25,794,260	20,814,258	13,303,120
Realized gain (loss) on investments	6,583,208	5,791,049	(4,378)
Total revenue from investment operations	$ 36,198,425	$ 30,472,840	$ 16,938,761
Income before income taxes	$152,047,791	$138,011,449	$105,016,471
Provision for income taxes	46,915,432	44,460,652	33,287,639
NET INCOME	$105,132,359	$ 93,550,797	$ 71,728,832
Net income per share	$ 1.41	$ 1.26	$ .96

The notes to consolidated financial statements are an integral part of these statements.

INCORPORATED BY REFERENCE, PAGE 27 OF THE COMPANY'S 1996 ANNUAL REPORT TO SHAREHOLDERS

ERIE INDEMNITY COMPANY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years Ended December 31, 1996, 1995 and 1994

	Class A Shares Issued and Outstanding	Capital Stock Class A Amount	Capital Stock Class B Amount	Class B Shares Issued and Outstanding
Balance, January 1, 1994	67,032,000	$1,955,100	$214,900	3,070
Net income				
Adjustment to beginning balance for change in accounting method - FAS 115				
Net unrealized losses on available-for-sale securities				
Dividends:				
Class A - $.225 per share				
Class B - $33.75 per share				
Balance, December 31, 1994	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
	==========	==========	========	=====

The notes to consolidated financial statements are an integral part of these statements.

INCORPORATED BY REFERENCE, PAGE 27 OF THE COMPANY'S 1996 ANNUAL REPORT TO SHAREHOLDERS

ERIE INDEMNITY COMPANY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY - CONTINUED
Years Ended December 31, 1996, 1995 and 1994

	Additional Paid-in Capital	Net Unrealized Gain (Loss) on Available-for-sale Securities	Retained Earnings	Total Shareholders' Equity
Balance, January 1, 1994	$7,830,000	$ 5,075,454	$195,112,401	$210,187,855
Net income			71,728,832	71,728,832
Adjustment to beginning balance for change in accounting method - FAS 115		3,782,071		3,782,071
Net unrealized losses on available-for-sale securities		(9,578,995)		(9,578,995)
Dividends:				
Class A - $.225 per share			(15,082,200)	(15,082,200)
Class B - $33.75 per share			(103,613)	(103,613)
Balance, December 31, 1994	$7,830,000	($ 721,470)	$251,655,420	$260,933,950
Net income			93,550,797	93,550,797
Net unrealized gains 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

The notes to consolidated financial statements are an integral part of these statements.

ERIE INDEMNITY COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 1996, 1995 and 1994

	1996	1995	1994
CASH FLOW FROM OPERATING ACTIVITIES			
Net income	$105,132,359	$ 93,550,797	$ 71,728,832
Adjustment to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,428,376	1,019,784	921,498
Deferred income tax expense (benefit)	1,255,163	(49,439)	(337,046)
Realized (gain) loss on investments	(6,583,208)	(5,791,049)	4,378
Amortization of bond discount	(19,640)	(227,667)	(195,591)
Undistributed earnings of Erie Family Life	(2,799,190)	(2,982,739)	(2,847,373)
Deferred compensation	(151,646)	263,283	79,180
Increase in accrued interest and dividends	(589,879)	(1,542,037)	(792,990)
(Increase) decrease in receivables	(30,842,709)	(30,929,496)	30,072,795
Increase in policy acquisition costs	(529,264)	(1,344,082)	(621,978)
(Increase) decrease in prepaid expenses and other assets	(3,587,508)	(937,221)	863,245
(Decrease) increase in accounts payable and accrued expenses	(2,200,926)	2,887,942	1,430,529
Increase in accrued commissions	2,820,729	17,367,002	819,501
(Decrease) increase in income taxes payable	(3,124,595)	2,525,058	(5,660,444)
Increase (decrease) in loss reserves	29,090,892	12,510,419	(9,114,808)
Increase in unearned premiums	14,131,495	25,504,917	11,778,295
Net cash provided by operating activities	$103,430,449	$111,825,472	$ 98,128,023

(Continued on next page)

The notes to consolidated financial statements are an integral part of these statements.

INCORPORATED BY REFERENCE, PAGE 26 OF THE COMPANY'S 1996 ANNUAL REPORT TO SHAREHOLDERS

ERIE INDEMNITY COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
Years Ended December 31, 1996, 1995 and 1994

	1996	1995	1994
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of investments:			
Fixed maturities	($129,218,290)	($ 73,178,269)	($39,672,895)
Equity securities	(71,925,472)	(47,294,618)	(18,181,841)
Mortgage loans	(2,933,110)		(1,004,729)
Other invested assets	(3,114,141)	(2,460,336)	(1,599,684)
Sales/maturities of investments:			
Fixed maturities	58,677,994	23,374,067	2,574,954
Equity securities	32,959,337	27,869,655	8,685,805
Mortgage loans	68,519	569,555	2,794,816
Other invested assets	1,422,557	561,956	2,895,684
Issuance of note receivable to Erie Family Life Insurance Company		(15,000,000)	
Purchase of property and equipment	(2,129,961)	(98,249)	(367,467)
Purchase of computer software	(898,016)	(1,491,911)	(280,839)
Loans to agents	(3,086,074)	(3,268,595)	(1,302,238)
Collections on agent loans	1,174,808	990,733	755,834
(Increase) decrease in cash value of officer life insurance	(68,415)	(104,898)	377,957
Net cash used in investing activities	($119,070,264)	($ 89,530,910)	($ 44,324,643)
CASH FLOW FROM FINANCING ACTIVITIES			
Principal payments on mortgage payable			($ 2,433,899)
Dividends paid to shareholders	($ 22,497,544)	($ 17,548,053)	(13,948,446)
Net cash used in financing activities	($ 22,497,544)	($ 17,548,053)	($ 16,382,345)
Net (decrease) increase in cash and cash equivalents	($ 38,137,359)	$ 4,746,509	$ 37,421,035
Cash and cash equivalents at beginning of year	56,856,983	52,110,474	14,689,439
Cash and cash equivalents at end of year	$ 18,719,624	$ 56,856,983	$ 52,110,474

Net cash paid during 1996, 1995 and 1994 for income taxes was $48,784,864, $41,985,033 and $39,923,500, respectively.

The notes to consolidated financial statements are an integral part of these statements.

ERIE INDEMNITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

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 all of its management fee for administrative and underwriting services provided to the Exchange and its affiliates. The Exchange is a property/casualty insurer rated A++, Superior, by A. M. Best. See also Note 8.

The Company also shares proportionately in the results of all property/casualty insurance underwriting operations of the Exchange. Effective January 1, 1992, the Exchange and Erie Insurance Company (EIC), a wholly-owned subsidiary of the Company, entered into a reinsurance pooling agreement. Beginning January 1, 1995, the Erie Insurance Company of New York (EINY), a wholly-owned subsidiary of the EIC, also became a part of this intercompany reinsurance pooling agreement. Per this agreement, EIC and EINY cede 100% of their property/casualty insurance business, including property/casualty insurance operation assets and liabilities, to the Exchange. Insurance ceded by EIC and EINY to the Exchange does not relieve EIC and EINY from their primary liability as the original insurers. Following the assumption and reinsurance of the business from EIC and EINY, the Exchange retrocedes to EIC and EINY a specified percentage (5% for EIC during 1996, 1995 and 1994 and .5% for EINY during 1996 and 1995) of all Erie Insurance Group pooled property/casualty insurance business, including insurance operation assets and liabilities.

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 insurance and workers' compensation business in Pennsylvania, Ohio, West Virginia, Maryland and Virginia.

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.

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.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Effective January 1, 1994, the Company adopted the provisions of Financial Accounting Standards (FAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Initial adoption of FAS 115 had no effect on income of the Company. FAS 115 required management to determine the appropriate classification of securities as held-to- maturity, trading or available-for-sale at the date of adoption, and thereafter at the date individual investment securities are acquired. As a result, upon adoption of FAS 115, the Company changed its intent with respect to holding certain debt securities to maturity and reclassified some of its debt securities to securities available-for- sale.

Management determines the classification of fixed maturities at the time of purchase and reevaluates such designation as of each Statement of Financial Position date. Fixed maturities are classified as held-to- maturity when the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost. The amortized cost of fixed maturities classified as held-to-maturity is adjusted for amortization of premiums and accretion of discounts to maturity. The Company currently does not hold held-to- maturity securities.

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.

During 1995, the Financial Accounting Standards Board (FASB) allowed a one-time reclassification of held-to-maturity securities to available- for-sale securities. At December 31, 1995, the Company transferred all of its held-to-maturity securities to available-for-sale pursuant to the transition provisions of the FASB's Special Report on FAS 115. The Company recognized $2,202,002 of unrealized gains, net of deferred income taxes, at December 31, 1995 because of this reclassification.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 income statement in realized gain (loss) on investments.

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

Financial Instruments - Disclosures About Fair Value

Included in the Notes to Consolidated Financial Statements are various disclosures relating to the methods and assumptions used to estimate fair value of each material type of financial instrument. 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 Consolidated Statements of Financial Position approximate fair value due to the short-term maturity of these investments.

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 consolidated 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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 $18,909,000, $17,041,000 and $14,908,000 in 1996, 1995 and 1994, 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 implicitly 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 adequate, the ultimate liability may be in excess of or less than 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 $2,863,000 and $2,967,000 at December 31, 1996 and 1995, respectively.

Environmental-related claims

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. Estimates of the liabilities are reviewed and updated continually.

Guarantee fund 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 notified of insolvencies. The Company's estimated liability for guarantee fund assessments at December 31, 1996 and 1995 totalled $302,180 and $393,510, respectively.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Income tax provisions are based on earnings reported for financial statement purposes. 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.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

	1996	1995
Land	$ 736,648	$ 736,648
Buildings	5,833,709	5,833,709
Transportation equipment	450,528	450,528
Leasehold improvements	228,496	221,884
Computer equipment	2,123,350	
Computer software	7,013,479	6,115,463
	$16,386,210	$13,358,232
Less accumulated depreciation	6,544,672	5,116,295
	$ 9,841,538	$ 8,241,937

Earnings per share

Earnings per share is based on the weighted average number of Class A shares outstanding, also 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.

Reclassifications

Certain amounts, as previously reported in the 1995 and 1994 financial statements, have been reclassified to conform to the current year's financial statement presentation. These reclassifications had no effect on previously reported net income or shareholders' equity.

INCORPORATED BY REFERENCE, PAGE 29 OF THE COMPANY'S 1996 ANNUAL REPORT TO SHAREHOLDERS

NOTE 2. INVESTMENTS

The following tables contain cost and market value information on equity securities (common and non-redeemable preferred stocks) and debt securities (bonds) classified as available-for-sale at December 31, 1996 and 1995:

	Available-for-Sale Securities			
(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 1996				
U.S. Treasuries	$ 12,000	$ 212	$ 72	$ 12,140
Foreign governments	1,988	25	5	2,008
Obligations of states and political subdivisions	28,127	1,321	40	29,408
Special revenue	136,950	5,349	90	142,209
Public utilities	7,238	141		7,379
Industrial and miscellaneous	114,790	2,835	593	117,032
Total fixed maturities	$301,093	$ 9,883	$ 800	$310,176
Common stock:				
Banks, trusts & insurance companies	$ 3,034	$ 1,705	$	$ 4,739
Industrial and miscellaneous	33,969	12,862	1,525	45,306
Non-redeemable preferred stock:				
Public utilities	10,652	196	27	10,821
Banks, trusts & insurance companies	44,106	1,763	1	45,868
Industrial and miscellaneous	24,309	580	5	24,884
Total equity securities	$116,070	$17,106	$1,558	$131,618
	$417,163	$26,989	$2,358	$441,794

NOTE 2. INVESTMENTS (CONTINUED)

(In Thousands)	Available-for-Sale Securities Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 1995				
U. S. Treasuries	$ 6,991	$ 324	$ 1	$ 7,314
Obligations of states and political subdivisions	25,024	1,122		26,146
Special revenue	160,678	7,387		168,065
Public utilities	7,939	103	47	7,995
Industrial and miscellaneous	29,291	3,157	7	32,441
Total fixed maturities	$229,923	$12,093	$ 55	$241,961
Common stock:				
Public utilities	$ 470	$ 172	$	$ 642
Banks, trusts & insurance companies	2,513	1,111		3,624
Industrial and miscellaneous	24,195	9,354	1,110	32,439
Non-redeemable preferred stock:				
Public utilities	9,144	234	28	9,350
Banks, trusts & insurance companies	24,377	629	969	24,037
Industrial and miscellaneous	10,722	364	39	11,047
Total equity securities	$ 71,421	$11,864	$2,146	$ 81,139
	$301,344	$23,957	$2,201	$323,100

During the years ended December 31, 1996, 1995 and 1994, fixed maturity and equity available-for-sale securities were sold with proceeds of $91,637,331, $51,243,722 and $11,260,759, respectively. Gross realized gains on such sales totaled $6,983,685 (equity securities equal $5,968,966 and fixed maturities equal $1,014,719), $6,822,814 and $671,260 in 1996, 1995 and 1994, respectively, and the gross realized losses totaled $576,329 (equity securities equal $378,204 and fixed maturities equal $198,125), $1,011,064 and $1,084,128, in 1996, 1995 and 1994, respectively.

The Company has no significant investment concentrations of credit risk by issuer or industry. Approximately 14.5% of the recorded fixed maturity investments are special revenue bonds issued from political subdivisions in West Virginia.

NOTE 2. INVESTMENTS (CONTINUED)

Changes in unrealized gains (losses) include the following for the years ended December 31:

(In Thousands)	1996	1995	1994
Equity securities	$5,830	$ 5,926	($2,736)
Debt securities available-for-sale	(2,955)	10,868	(4,878)
Held-to-maturity securities transferred to available-for-sale securities		3,388	
Other	(69)		
Equity in unrealized gains (losses) of Erie Family Life Insurance	(1,994)	5,289	(2,582)
Deferred federal income taxes	(965)	(7,106)	2,671
Net unrealized gain (loss) on available-for-sale securities	($ 153)	$18,365	($7,525)

The amortized cost and estimated fair value of fixed maturity securities at December 31, 1996, by remaining term to maturity, are shown below.

	Amortized Cost	Estimated Fair Value
Available-for-Sale		
Maturity during the year ending December 31:		
1997	$ 17,694,593	$ 17,715,738
1998 - 2001	48,308,437	48,187,878
2002 - 2006	69,534,481	71,375,978
Subsequent to 2006	165,555,701	172,896,270
	$301,093,212	$310,175,864

NOTE 2. INVESTMENTS (CONTINUED)

Other invested assets

Other invested assets include, primarily, investments in limited partnerships which are engaged in real estate activities. The fair value of these investments approximates the recorded amounts. Fair values were determined based on analyses of cash flows. The Company had realized gains (losses) of $175,852, ($20,000) and $408,490 from its other invested assets in 1996, 1995, and 1994, respectively.

NOTE 3. EQUITY IN ERIE FAMILY LIFE INSURANCE COMPANY (EFL)

The Company owns 21.6% of EFL's common shares outstanding 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 following represents condensed financial information for EFL:

	1996	1995	1994
Investments	$653,916,816	$569,425,117	$459,629,034
Total assets	740,650,660	673,794,161	528,632,132
Liabilities	608,020,171	544,888,759	437,776,551
Shareholders' equity	132,630,489	128,905,402	90,855,581
Revenues	82,720,238	78,349,951	66,768,822
Net income	17,666,250	17,881,592	16,829,678
Dividends paid to shareholders	4,614,756	4,158,000	3,701,253

The Company's share of EFL's net unrealized gain (loss) on securities is reflected in shareholders' equity. Such amounts equalled $1,545,188, $3,538,604 and ($1,750,055) at December 31, 1996, 1995 and 1994, respectively. The 1996, 1995 and 1994 changes in this net unrealized gain (loss) on securities were ($1,993,416), $5,288,659 and ($4,635,745), respectively. The effect on the Erie Indemnity Company of EFL implementing FAS 115 in 1994 was an unrealized gain of $2,053,550.

NOTE 3. EQUITY IN ERIE FAMILY LIFE INSURANCE COMPANY (EFL) (CONTINUED)

Deferred federal income taxes have not been provided on the Company's equity in undistributed earnings of EFL. It is Company management's current intent to reinvest undistributed earnings indefinitely and not liquidate its investment in EFL. The unrecognized deferred tax liability at December 31, 1996, 1995 and 1994 is $1,981,000, $1,923,000 and $1,348,000, respectively.

NOTE 4. BENEFIT PLANS

Pension plan for Employees

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

	1996	1995	1994
Service cost for benefits earned during the year	$4,302,900	$4,629,000	$4,547,000
Interest cost on projected benefit obligation	5,127,800	5,441,700	5,117,800
Actual return on plan assets	(12,400,700)	(16,991,300)	(132,310)
Net amortization and deferral	5,171,000	11,323,600	(5,305,490)
Net pension expense	$2,201,000	$4,403,000	$4,227,000

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

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

	1996	1995	1994
Discount rate used in determining present values	7.50%	7.25%	7.50%
Annual increase in future compensation levels	5.00%	5.00%	7.00%
Expected long-term rate of return on assets	8.25%	8.25%	8.25%

NOTE 4. BENEFIT PLANS (CONTINUED)

The following table sets forth the funded status of the plan at December 31, 1996 and 1995:

	1996	1995
Accumulated benefit obligation:		
Vested	$39,253,700	$39,751,100
Non-vested	4,190,400	1,079,600
Total	$43,444,100	$40,830,700
Fair value of plan assets	$98,761,400	$87,588,400
Less projected benefit obligation	72,016,400	65,425,200
Plan assets in excess of projected benefit obligation	$26,745,000	$22,163,200
Unrecognized net gain	(27,879,500)	(25,962,700)
Unrecognized net initial transition asset	(1,635,600)	(1,869,200)
Unrecognized prior service cost	3,823,700	4,271,100
Prepaid asset/(accrued liability)	$ 1,053,600	($ 1,397,600)

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 equalled $4,894,042, $6,024,125 and $8,880,714 in 1996, 1995 and 1994, respectively. These are non-participating annuity contracts under which the Erie Family Life Insurance Company 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 the Erie Family Life Insurance Company would not honor the annuity contracts. The benefit obligation has been reduced for these annuities purchased for retirees.

NOTE 4. BENEFIT PLANS (CONTINUED)

Supplemental pension plan for officers

Pension expense includes the following:

	1996	1995	1994
Service cost component	$ 152,100	$140,800	$134,100
Interest cost on projected benefit obligation	226,900	387,800	313,600
Net amortization and deferral	331,500	301,600	282,900
Net pension expense	$ 710,500	$830,200	$730,600
Settlement expenses		3,577,400	
Total pension expense	$ 710,500	$4,407,600	$730,600

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 plan at December 31, 1996 and 1995:

	1996	1995
Accumulated benefit obligation	$1,844,600	$1,199,500
Projected benefit obligation	$3,501,100	$2,166,600
Unrecognized net loss	(2,669,900)	(1,021,600)
Unrecognized prior service cost	(770,100)	(953,600)
Accrued pension liability	$ 61,100	$ 191,400

The actuarial present value of benefits was determined using a discount rate of 7.50%, 7.25% and 7.50% in 1996, 1995 and 1994, respectively.

NOTE 4. BENEFIT PLANS (CONTINUED)

The additional pension liability recognized on the statement of financial position is as follows at December 31:

	1996	1995
Accumulated benefit obligation	$1,844,600	$1,199,500
Less accrued cost	61,100	191,400
Additional accrued pension liability	$1,783,500	$1,008,100

Pension plan for outside directors

The Company also has an unfunded pension plan for outside directors.

The director pension expense consisted of the following:

	1996	1995	1994
Interest cost on projected benefit obligation	$30,300	$25,100	$20,900
Net amortization and deferral	39,400	37,400	31,200
Net pension expense	$69,700	$62,500	$52,100

The unrecognized prior service cost is being amortized over a 15-year period.

The following table sets forth the funded status of the plan at December 31, 1996 and 1995:

	1996	1995
Vested accumulated benefit obligation	$414,300	$385,900
Projected benefit obligation	$414,300	$385,900
Unrecognized net loss	(225,500)	(184,700)
Unrecognized prior service cost	(124,700)	(150,800)
Accrued pension liability	$ 64,100	$ 50,400

	1996	1995
Accumulated benefit obligation	$414,300	$385,900
Less accrued cost	64,100	50,400
Additional accrued pension liability	$350,200	$335,500

The actuarial present value of benefits was determined using an average discount rate of 7.50%, 7.25% and 7.50% in 1996, 1995 and 1994, respectively.

NOTE 4. BENEFIT PLANS (CONTINUED)

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, 1996 and 1995 for the supplemental pension plan and pension plan for outside directors equals $894,800 and $1,104,400, respectively.

Employee savings plan

The Company has an Employee Savings Plan for its Employees. Eligible participants are permitted to make contributions of 1% to 7% 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. Beginning on October 12, 1995 the Company began matching one-half of the participant contributions up to 6% of compensation. Prior to this change the Company matched one-half of the participant contributions up to 5% of compensation. All Employees are eligible to participate in the plan. The Company's contributions to the plan in 1996, 1995 and 1994 were $2,687,907, $2,227,221 and $2,060,822, respectively. Effective May, 1997, employees will be permitted to invest a portion of employer contributions in common stock (Class A) of the Company. The Company will buy these shares in the open market.

Deferred compensation plan

The Company has a deferred compensation plan for certain eligible Employees of the Company and its affiliates. Operating expenses have been charged with $258,857, $224,280 and $227,467 to provide for the compensation deferred during 1996, 1995 and 1994, respectively.

Health and dental benefits

The Company has self-funded health and dental care plans for all of its Employees. Estimated unpaid claims incurred are accrued as a liability at December 31, 1996 and 1995. Operations were charged $9,899,000, $10,828,000 and $9,701,000 in 1996, 1995 and 1994, respectively, for the cost of health and dental care provided to Employees.

Postretirement benefits other than pensions

The Company provides postretirement medical coverage for eligible retired Employees and dependents. The Company pays the obligation when due.

The Company accounts for these benefits in accordance with Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Other Than Pensions," which requires the accrual method of accounting for postretirement health care cost benefits based on actuarially determined costs to be recognized over the period the Employee provides service to the Company.

NOTE 4. BENEFIT PLANS (CONTINUED)

The expense for postretirement health benefits for the years ended December 31, 1996, 1995 and 1994 was $656,900, $675,300 and $734,200, respectively. The cash payments for such benefits were $213,500, $184,900 and $178,300 in 1996, 1995 and 1994, respectively.

The periodic expense for postretirement benefits included the following components for the years ended December 31, 1996, 1995 and 1994:

	1996	1995	1994
Service cost for benefits earned during the year	$337,400	$353,500	$387,100
Interest cost on accumulated benefit obligation	319,500	321,800	325,200
Amortization of unrecognized net loss			21,900
Total expense	$656,900	$675,300	$734,200

The recorded liabilities for postretirement health benefits, none of which have been funded, at December 31, 1996 and 1995, are as follows:

	1996	1995
Accumulated postretirement benefit obligation:		
Retirees	$ 201,700	$ 257,900
Fully eligible active plan participants	889,300	704,700
Other active plan participants	3,384,000	3,399,500
Unrecognized gain	492,400	146,600
Accrued postretirement liability	$4,967,400	$4,508,700

The accumulated benefit obligation for 1996, 1995 and 1994 was determined using a discount rate of 7.50%, 7.25% and 7.50%, respectively. The December 31, 1996 accumulated benefit obligation was based on a 10.0% increase in the cost of covered health care benefits during 1996. The expected health care cost trend rate for 1997 is 9.5%. This rate is assumed to decrease gradually to 5% per year in 2006 and to remain at that level thereafter.

The effect on the present value of the accumulated benefit obligation at December 31, 1996 of a 1% increase each year in the health care cost trend rate used would increase the amount of such obligation by $695,500, and the 1996 net periodic expense would have increased by $115,400.

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NOTE 5. INCOME TAXES

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

	1996	1995	1994
Federal			
Current	$45,660,269	$44,510,091	$33,624,685
Deferred	1,255,163	(49,439)	(337,046)
	$46,915,432	$44,460,652	$33,287,639

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:

	1996	1995	1994
Income tax at statutory rates	$53,216,727	$48,304,007	$36,755,765
Add (deduct):			
Undistributed earnings of affiliate	(979,717)	(1,029,339)	(987,847)
Tax-exempt interest	(3,337,942)	(3,041,318)	(1,915,612)
Dividends received deduction	(1,482,751)	(1,004,348)	(738,363)
Other items	(500,885)	1,231,650	173,696
	$46,915,432	$44,460,652	$33,287,639

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

	December 31, 1996	1995
Loss reserve discount	$4,143,700	$4,063,554
Unearned premiums - 20% inclusion	3,528,043	3,282,323
Pension and other benefits	132,587	1,906,644
Deferred policy acquisition costs	(3,339,349)	(3,154,107)
Deferred compensation	555,650	608,729
Fixed assets - depreciation	(72,225)	(86,242)
Accrued vacation and other accruals	1,773,642	1,590,396
Unrealized gains	(8,620,624)	(7,655,453)
Other	(136,478)	(370,562)
	($2,035,054)	$ 185,282

NOTE 5. INCOME TAXES (CONTINUED)

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

NOTE 6. 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.

Redemption provisions

On December 14, 1989, the shareholders adopted the Erie Indemnity Company Stock Redemption Plan. The 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 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% 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 restated 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.

NOTE 6. CAPITAL STOCK (CONTINUED)

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.

NOTE 7. UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES (LAE)

The following table provides a reconciliation of beginning and ending liability balances for 1996, 1995 and 1994 for the Company's wholly-owned property/casualty subsidiaries.

(in thousands)	1996	1995	1994
Total unpaid losses and loss adjustment expenses at January 1, gross	$357,334	$344,824	$353,939
Less reinsurance recoverables	278,325	275,923	288,564
Net balance at January 1	79,009	68,901	65,375
Incurred related to:			
Current year	85,311	73,145	68,694
Prior years	(240)	(2,210)	(4,767)
Total incurred	85,071	70,935	63,927
Paid related to:			
Current year	49,901	38,039	36,598
Prior years	29,307	22,788	23,803
Total paid	79,208	60,827	60,401
Net balance at December 31	84,872	79,009	68,901
Plus reinsurance recoverables	301,553	278,325	275,923
Total unpaid losses and loss adjustment expenses at December 31, gross	$386,425	$357,334	$344,824

NOTE 8. 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 rate of 25% of premiums written in the first quarter of 1995 and for all of 1994. Effective April 1, 1995 the management fee rate was reduced to 24.5%. For the period beginning April 1, 1996 through December 31, 1996, the Board elected to reduce the management fee rate from 24.5% to 24%. The Board elected to maintain the 24% management fee rate for all of 1997. 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.

Expense reimbursements

The Company is reimbursed by the Exchange for adjusters' salaries and other expenses incurred in connection with adjustment of claims. The Company also incurs administrative expenses on behalf of EFL. Reimbursements are made to the Company from these affiliates monthly. The amounts of such reimbursements were as follows for the years ended December 31:

	1996	1995	1994
Erie Insurance Exchange	$ 95,820,000	$83,662,000	$74,812,000
Erie Family Life Insurance Company	10,095,000	10,231,000	8,664,000
	$105,915,000	$93,893,000	$83,476,000

Also, see Note 10 regarding real estate leased from affiliates.

NOTE 8. RELATED PARTY TRANSACTIONS (CONTINUED)

Note receivable from EFL

On December 29, 1995, EFL issued a surplus note to the Company in return for a cash (or cash equivalent) sum of $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 prior approval of the Pennsylvania Insurance Commissioner. Interest on the surplus note is scheduled to be paid quarterly. The note will be payable on demand on or after December 31, 2005. During 1996, EFL received approval for the payment of interest totaling $967,500, which was paid to the Company by EFL.

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 equalled $742,772, $1,235,722 and $583,263 in 1996, 1995 and 1994, respectively.

NOTE 9. 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 $478,304,267 at December 31, 1996 and $451,777,577 at December 31, 1995, are from the Exchange and affiliates.

Receivables from the Exchange and affiliates at December 31, 1996 and 1995 are as follows:

	1996	1995
Exchange - Management fee and expense reimbursements	$108,589,885	$105,612,765
EFL - Expense reimbursements	1,049,007	1,392,365
Exchange - Reinsurance recoverable from losses and unearned premium balances ceded to pool	368,665,375	344,772,447
	$478,304,267	$451,777,577

Premiums receivable from Policyholders at December 31, 1996 and 1995 equalled $103,847,320 and $99,534,004, respectively. A significant amount of these receivables are ceded to the Exchange as part of the reinsurance pooling arrangement.

NOTE 9. RECEIVABLES FROM ERIE INSURANCE EXCHANGE AND CONCENTRATIONS OF CREDIT RISK (CONTINUED)

The property/casualty insurance business relates primarily to private passenger and commercial automobile, homeowners 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 10. LEASES

The Company occupies certain office facilities with initial or remaining noncancellable lease terms in excess of one year. The Allentown office is leased from EFL. The Company's aggregate lease commitments for such facilities are as follows:

	Unaffiliated Lessors	EFL	Total
1997	$1,011,944	$423,120	$1,435,064
1998	604,292	423,120	1,027,412
1999	300,934	423,120	724,054
2000	273,340	423,120	696,460
2001	155,715	0	155,715

The Company also leases office space on a year-to-year basis from the Exchange.

The Company has lease agreements covering certain computer equipment and software. These leases contain various early termination provisions which allow the Company to cancel the leases generally after three years from inception of the lease. The Company's automobiles are leased for a minimum term of one year. After one year, the lease term may be continued at the Company's option for successive monthly renewal periods.

NOTE 10. LEASES (CONTINUED)

Rental expense is summarized below:

(In Thousands)	Year Ended December 31, 1996	1995	1994
Office:			
Erie Insurance Exchange	$ 10,949	$ 10,814	$ 12,312
Erie Family Life Insurance Company	423	423	423
Unaffiliated lessors	1,062	1,009	973
Computer equipment and software	5,358	7,115	7,157
Automobiles	2,977	2,785	2,488
	$ 20,769	$ 22,146	$ 23,353
Reimbursements from affiliates	9,686	10,373	10,461
	$ 11,083	$ 11,773	$ 12,892

NOTE 11. REINSURANCE

EIC has a pooling arrangement with the Exchange, whereby EIC cedes all its direct property/casualty insurance to the Exchange and then assumes 5% of the total of the Exchange's insurance business (including the business assumed from EIC and EINY).

Beginning January 1, 1995, the Exchange retroceded to EINY, as part of the existing intercompany reinsurance pooling arrangement, 0.5% of its total direct and assumed writings. EIC maintained its 5% participation in the reinsurance pool, resulting in an increase in the total participation of the Company's subsidiaries in the pooling arrangement to 5.5%.

The Company and Exchange limit the maximum net loss which can arise from certain individual risks by reinsuring (ceding) certain levels of risks with other insurers or reinsurers, by negotiation on individual risks in excess of $10,000,000. Effective January 1, 1994, EIC purchased from the Exchange, a Property Catastrophe Excess of Loss Reinsurance Treaty. The coverage included in the treaty is $25 million in excess of $10 million and is excluded from the aforementioned pooling arrangement. The annual premium to the Exchange for the treaty equalled $274,170, $562,500 and $625,000 in 1996, 1995 and 1994, respectively.

Similarly, effective January 1, 1995, the EINY purchased from the Exchange a Property Catastrophe Excess of Loss Reinsurance Treaty. The coverage included in the treaty is $2,250,000 in excess of $250,000 and is excluded from the aforementioned pooling arrangement. The annual premium to the Exchange for the treaty equalled $150,000 and $78,750 in 1996 and 1995, respectively.

NOTE 11. REINSURANCE (CONTINUED)

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 percent of EIC and EINY'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 EIC and EINY's net premium earned. Losses equal to 5 percent 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 percent of the net premium earned by EIC and EINY during the term of this agreement subject to a minimum premium of $800,000. This reinsurance treaty is excluded from the intercompany reinsurance pooling agreement.

To the extent that the Exchange assumes reinsurance business, the Company participates because of its pooling arrangement with the Exchange. Similarly, the Company also participates in the business cessions assumed 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.

NOTE 11. REINSURANCE (CONTINUED)

The following summarizes insurance and reinsurance activities for the Company:

	1996	1995	1994
Premiums Earned			
Direct	$321,735,580	$289,801,421	$266,091,231
Assumed-nonaffiliates	2,882,381	3,330,976	3,062,540
Ceded to Erie Insurance Exchange	(324,617,961)	(293,132,397)	(269,153,771)
Assumed from Erie Insurance Exchange	101,509,759	92,874,301	78,075,920
Net	$101,509,759	$ 92,874,301	$ 78,075,920
Losses and Loss Adjustment Expenses Incurred			
Direct	$261,097,544	$236,611,754	$217,515,123
Assumed-nonaffiliates	2,511,009	3,023,989	2,953,197
Ceded to Erie Insurance Exchange	(263,608,553)	(239,635,743)	(220,468,320)
Assumed from Erie Insurance Exchange	85,070,861	70,934,755	63,926,959
Net	$ 85,070,861	$ 70,934,755	$ 63,926,959

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 these 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:

	1996	1995	1994
Shareholders' equity at December 31,	$414,674,000	$328,457,000	$246,115,000
Net income for the year ended December 31,	104,007,000	91,550,000	69,794,000

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

NOTE 12. STATUTORY INFORMATION (CONTINUED)

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, 1996, the maximum dividend payable to the Company from its property/casualty insurance subsidiaries was $6,000,327. No dividends were paid to the Company from its property/casualty insurance subsidiaries in 1996 or 1995.

As a Pennsylvania-domiciled life insurance company, EFL may pay dividends within the preceding twelve months of not more than the greater of (i) 10% of its statutory surplus or (ii) the statutory net gain from operations after dividends to Policyholders and federal income taxes and before realized gains or losses for the period covered by such statement. Dividends exceeding these limits are subject to approval of the Pennsylvania Insurance Department. At December 31, 1996, the Company's share of the maximum dividend which could be paid by EFL was $2,274,000.

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, 1996 and 1995, 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.

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 with the Exchange. The Company also has 21.6% equity interest in EFL which comprises its life insurance operations segment.

NOTE 13. SEGMENT INFORMATION (CONTINUED)

Summarized financial information for these operations is presented below. Income amounts include each industry segment's share of investment income.

	1996	1995	1994
Total revenue:			
Management operations	$ 470,537,814	$442,055,097	$414,333,609
Property/casualty insurance operations	112,541,501	103,217,060	86,109,712
Life insurance operations	3,820,957	3,867,533	3,640,019
	$ 586,900,272	$549,139,690	$504,083,340
Income (loss) before income taxes:			
Management operations	$ 148,774,303	$127,538,775	$101,592,560
Property/casualty insurance operations	(547,469)	6,605,141	(216,108)
Life insurance operations	3,820,957	3,867,533	3,640,019
	$ 152,047,791	$138,011,449	$105,016,471
Net income:			
Management operations	$ 99,044,942	$ 84,431,472	$ 66,372,483
Property/casualty insurance operations	2,337,984	5,316,652	1,773,562
Life insurance operations	3,749,433	3,802,673	3,582,787
	$ 105,132,359	$ 93,550,797	$ 71,728,832
Identifiable assets:			
Management operations	$ 456,598,004	$ 369,600,128	$259,444,417
Property/casualty insurance operations	665,355,064	624,951,253	590,435,375
Life insurance operations	28,686,137	27,880,363	19,650,736
	$1,150,639,205	$1,022,431,744	$869,530,528

INCORPORATED BY REFERENCE, PAGE 33 OF THE COMPANY'S 1996 ANNUAL REPORT TO SHAREHOLDERS

NOTE 14. QUARTERLY FINANCIAL DATA - UNAUDITED

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1996				
Net revenue from management operations	$30,687,956	$33,444,575	$35,717,734	$27,578,312
Underwriting loss	(5,817,156)	(1,257,113)	(2,717,648)	(1,787,294)
Revenue from investment operations	7,068,530	7,483,154	9,813,062	11,833,679
Net income	23,498,077	26,466,344	29,186,786	25,981,152
Per share data:				
Net income per share	$ .32	$ .36	$ .39	$ .35
Dividends declared:				
Class A	$ .0833	$ .0833	$ .0833	$ .095
Class B	$ 12.50	$ 12.50	$ 12.50	$ 14.25
1995				
Net revenue from management operations	$26,316,860	$30,725,676	$31,697,844	$22,535,847
Underwriting (loss) income	(1,798,283)	(1,942,929)	(736,208)	739,802
Revenue from investment operations	5,203,126	6,008,460	9,473,606	9,787,648
Net income	20,096,875	23,115,732	27,269,453	23,068,737
Per share data:				
Net income per share	$ .27	$ .31	$ .37	$ .31
Dividends declared:				
Class A	$ .065	$ .065	$ .065	$ .0833
Class B	$ 9.75	$ 9.75	$ 9.75	$ 12.50

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE DECEMBER 31, 1996 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	YEAR	YEAR
DEC-31-1996	DEC-31-1995	DEC-31-1994
DEC-31-1996	DEC-31-1995	DEC-31-1994
310,176	241,961	0
0	0	0
0	0	0
131,618	81,139	0
7,294	4,432	0
0	0	0
456,098	332,675	0
18,720	56,857	0
164	161	0
9,541	9,012	0
1,150,639	1,022,432	0
386,425	357,334	0
216,938	202,807	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
2,170	2,170	0
433,589	351,894	0
1,150,639	1,022,432	0
101,510	92,874	78,076
29,615	24,682	16,943
6,583	5,791	(4)
0	0	0
85,071	70,935	63,927
28,018	25,677	22,399
0	0	0
152,048	138,011	105,016
46,915	44,461	33,288
0	0	0
0	0	0
0	0	0
0	0	0
105,132	93,551	71,729
1.41	1.26	.96
1.41	1.26	.96
357,334	344,824	353,939
85,311	73,145	68,694
(240)	(2,210)	(4,767)
49,901	38,039	36,598
29,307	22,788	23,803
386,425	357,334	344,824
132,649	200,024	247,339

ALL PER SHARE DATA HAS BEEN RESTATED TO REFLECT THE COMMON STOCK SPLIT APPROVED BY THE COMPANY'S SHAREHOLDERS ON MAY 1, 1996.

ERIE INSURANCE COMPANY and
ERIE INSURANCE COMPANY OF NEW YORK
Erie, Pennsylvania

AGGREGATE EXCESS OF LOSS REINSURANCE

This REINSURANCE CONTRACT is made between ERIE INSURANCE EXCHANGE, by and through its Attorney-in-Fact, ERIE INDEMNITY COMPANY, of Erie, Pennsylvania (hereafter called the "REINSURER"), and ERIE INSURANCE COMPANY and its wholly owned subsidiary ERIE INSURANCE COMPANY OF NEW YORK, both of Erie, Pennsylvania (herein referred to collectively (or individually as the context requires) as the "COMPANY").

In consideration of the agreements and mutual promises contained herein, the parties hereby agree that this Reinsurance Contract covers 95% of the Ultimate Net Loss, as herein provided and specified, which may accrue to the COMPANY under all policies, contracts, and binders of insurance and reinsurance as respects coverages classified by the COMPANY as Property and Casualty as a result of any loss or losses thereunder occurring during the term of this Reinsurance Contract, subject to the following terms and conditions:

ARTICLE 1 - Term

This Reinsurance Contract shall cover the period commencing on the first day of January, 1997, and ending on the thirty-first day of December, 1997, both days inclusive.

ARTICLE 2 - Retention and Limit

No claim shall be made hereunder unless the COMPANY'S total Ultimate Net Losses, as herein defined, occurring during the term of this Contract exceed an amount equal to 72.5% of the COMPANY'S Net Premiums, as herein defined, earned during the term of this Reinsurance Contract. The REINSURER shall then be liable for 95% of the amount of such excess up to but not exceeding an amount equal to 95% of 15% of the COMPANY'S net premium earned during the term of this Reinsurance Contract.

It is understood and agreed that losses equal to 5% of the Ultimate Net Loss in excess of the retentions hereunder, shall be retained net by the COMPANY for its own account.

ARTICLE 3 - Definition of Ultimate Net Loss

The term "Ultimate Net Loss" shall mean the liabilities incurred by the COMPANY under insurance or reinsurance agreements, contracts, policies, certificates, binders, endorsements or agreements of

insurance or reinsurance and shall include those liabilities of the COMPANY incurred under that certain Reinsurance Pooling Agreement between Erie Insurance Exchange, Erie Insurance Company and Erie Insurance Company of New York effective January 1, 1995 ("Reinsurance Pooling Agreement") as it currently exists or may hereafter be amended, except that "Ultimate Net Loss" as used herein shall not include unallocated loss adjustment expenses incurred by the Company.

Nothing in this Article shall be construed to mean that losses are not recoverable hereunder until the COMPANY'S Ultimate Net Loss has been ascertained.

ARTICLE 4 - Definition of Net Premiums

The term "Net Premiums" shall mean direct premiums, less return premiums, received by the COMPANY under insurance or reinsurance agreements, contracts, policies, certificates, binders, endorsements, or agreements of insurance or reinsurance, and shall include the COMPANY'S respective share of the premiums received under the Reinsurance Pooling Agreement as it currently exists or may hereafter be amended, less premiums for all reinsurances inuring to the benefit of this Reinsurance Contract without deduction of dividends declared, paid, or credited to policyholders.

ARTICLE 5 - Underwriting Warranty

It is warranted by the COMPANY that it will not knowingly retain net liability in excess of the following respective amounts:

Property coverages: $10,000,000 as respects any one risk.

Casualty coverages: $5,000,000 as respects any one policy other than Workers' Compensation policies.

It is understood that the COMPANY shall be the sole judge of what constitutes any one risk as respects property coverages and any one policy as respects casualty coverages.

ARTICLE 6 - Net Retained Liability

This Reinsurance Contract shall apply only to that portion of any insurance or reinsurance which the COMPANY retains net for its own account, and in calculating the amount of any loss hereunder, and also in computing the amount in excess of which this Reinsurance Contract attaches, only loss or losses in respect to that portion of any insurance or reinsurance which the COMPANY retains net for its own account shall be included. It is, however, understood and agreed that the amount of the REINSURER'S liability hereunder in respect to any loss or losses shall not be increased by reason of the inability of the COMPANY to collect from any other reinsurers, whether specific or general, any amounts which may have become due from them, whether such inability arises from the insolvency of such other reinsurers or otherwise.

ARTICLE 7 - Quota Share Reinsurance

Unless otherwise specially agreed, it is understood that, in the event the COMPANY cedes reinsurance on a quota share or portfolio basis, the provisions of this Reinsurance Contract shall apply as if such reinsurance had not been effected.

ARTICLE 8 - Notice of Loss

In the event of a claim arising hereunder, notice shall be given to Erie Insurance Exchange, 100 Erie Insurance Place, Erie, Pennsylvania, 16530-0001, to the attention of the Managing Director of Reinsurance as soon as practicable.

ARTICLE 9 - Loss Settlements

All loss settlements made by the COMPANY, providing the same are within the terms of this Reinsurance Contract, shall be unconditionally binding upon the REINSURER, and amounts falling to the share of the REINSURER shall be payable by it upon reasonable evidence of the amount due or to be due being given by the COMPANY.

Should the COMPANY'S Ultimate Net Losses occurring during the term of this Reinsurance Contract exceed, at any time, an amount equal to 72.5% of the Net Premiums earned through that period of time, it is understood and agreed that, at the option of the COMPANY, 95% of such excess and 95% of all such additional Ultimate Net Losses occurring thereafter will be paid by the REINSURER, subject to a limit of 95% of 15% of the Net Premiums earned as respects any losses occurring during the term of this Reinsurance Contract. Any such payment shall be subject to adjustment in accordance with the provisions of Article 3 after the REINSURER'S ultimate liability hereunder has been determined.

ARTICLE 10 - Governing Law; Jurisdiction

Subject to "Article 15 - Arbitration", if the REINSURER fails to pay any amount claimed to be due hereunder, the REINSURER, at the request of the COMPANY, will submit to the jurisdiction of a court of competent jurisdiction within the United States. Nothing in this clause constitutes or should be understood to constitute a waiver of the REINSURER'S rights to commence an action in any court of competent jurisdiction in the United States, to remove an action to a United States District Court, or to seek a transfer of a case to another court as permitted by the laws of the United States or of any state in the United States.

It is further agreed that service of process in such suit may be made upon the REINSURER, and that the reinsurer will abide by the final decision of such court or of any appellate court in the event of an appeal.

Further, pursuant to any statute of any state, territory, or district of the United States which makes provision therefor, the REINSURER hereby designates the Superintendent, Commissioner, or Director of Insurance, or other officer specified for that purpose in the statute, or his successor or successors in office, as its true and lawful attorney upon whom may be served any lawful process in any action, suit, or proceeding instituted by or on behalf of the COMPANY or any beneficiary hereunder arising out of this Reinsurance Contract, and hereby authorizes the said officer to mail such process, or a true copy thereof, to the COMPANY.

ARTICLE 11 - Insolvency

In the event of insolvency of the COMPANY, the reinsurance under this Reinsurance Contract shall be payable by the REINSURER to the COMPANY or to its liquidator, receiver, or statutory successor, on the basis of the liability of the COMPANY under the policy or policies reinsured without diminution because of the insolvency of the COMPANY.

It is further agreed that the liquidator, or receiver, or statutory successor of the COMPANY, shall give written notice to the REINSURER of the pendency of any claim against the COMPANY on the policies reinsured within a reasonable time after such claim is filed in the insolvency proceeding, and that, during the pendency of such claim, the REINSURER may investigate such claim and interpose, at their own expense, in the proceeding where such claim is to be adjudicated, any defense or defenses which they may deem available to the COMPANY or to its liquidator, or receiver, or statutory successor. The expense thus incurred by the REINSURER shall be chargeable, subject to court approval, against the COMPANY as part of the expense of liquidation to the extent of a proportionate share of the benefit which may accrue to the COMPANY solely as a result of the defense undertaken by the REINSURER.

ARTICLE 12 - Premium

The premium for this reinsurance shall be 1.01% of the subject Net Premiums earned by the COMPANY during the period this Reinsurance Contract remains in force, and shall be subject to a minimum premium of $800,000.

The COMPANY shall pay to the REINSURER a deposit premium of $900,000 which shall be payable in equal installments of $450,000 each on the first days of January and July during the period this Reinsurance Contract remains in force. Final adjustment of the premium hereunder shall be made as soon as may be reasonably practicable after expiration of this Reinsurance Contract.

ARTICLE 13 - Premium and Loss Payments

Premiums shall be payable directly to the REINSURER and losses shall be paid directly to the COMPANY in United States currency.

ARTICLE 14 - Access to Records

The REINSURER, by its duly appointed representative, shall have the right, at any reasonable time, to examine all papers in the possession of the COMPANY referring business effected hereunder.

ARTICLE 15 - Arbitration

Except as provided in "Article 16 - Loss Commutation", should an irreconcilable difference of opinion arise between the COMPANY and the REINSURER as to the interpretation or payment under this Reinsurance Contract, it is hereby mutually agreed that, as a condition precedent to any right of action hereunder, such difference, upon the written request of either party, shall be submitted to arbitration, one arbitrator to be chosen by the COMPANY, one by the REINSURER, and an umpire to be chosen by the two arbitrators before they enter upon arbitration.

In the event that either party should fail to choose an arbitrator within sixty days following a written request by the other party to enter upon arbitration, the requesting party may choose two arbitrators who shall in turn choose an umpire before entering upon arbitration. If the arbitrators have not chosen an umpire at the end of ten days following the last day of the selection of the two arbitrators, each of the arbitrators shall name three, of whom the other declines two, and the decision shall be made of the remaining two by drawing lots. The arbitrators and the umpire shall be active or retired disinterested officers of insurance or reinsurance companies or Underwriters at Lloyd's, London, not under the control of either party to this Reinsurance Contract. Each party shall present its case to the arbitrators within sixty days following the date of their appointment.

The decision, in writing, of the arbitrators shall be final and binding upon both parties as to questions of fact, but failing to agree, they shall call in the umpire and the decision of the majority shall be final and binding as to questions of fact upon both parties. Judgment upon the award rendered may be entered in any court having jurisdiction. Each party shall bear the expense of its own arbitrator and shall jointly and equally bear with the other the expense of the umpire and of the arbitration. In the event that the two arbitrators are chosen by one party, as above provided, the expense of the arbitrators, the umpire, and the arbitration shall be equally divided between the two parties.

Any such arbitration shall take place at Erie, Pennsylvania, unless some other location is mutually agreed upon by the two parties in interest.

ARTICLE 16 - Loss Commutation

Sixty months after expiration of this Reinsurance Contract, the COMPANY and the REINSURER agree to commute any unpaid net losses recoverable hereunder occurring during the term of this Reinsurance Contract.

The COMPANY shall submit a statement of valuation of the net losses recoverable showing the elements considered reasonable to establish the net losses to be commuted. The COMPANY and the REINSURER shall agree upon the capitalized value of such losses and the REINSURER shall pay to the COMPANY the amount so determined. Payment by the REINSURER of the capitalized value of such losses shall constitute a complete and final release of the REINSURER'S liability in respect of such losses.

If the COMPANY and the REINSURER fail to agree on the capitalized value of such losses within sixty days of receipt of the statement of valuation, then any difference shall be settled by a panel of three Actuaries or Appraisers, one to be chosen by each party and the third by the two so chosen. If either party refuses or neglects to appoint an Actuary or Appraiser within sixty days after the request in writing that the difference be settled by a panel of three Actuaries or Appraisers, the other party may appoint two Actuaries or Appraisers. If the two Actuaries or Appraisers fail to agree on the selection of a third Actuary or Appraiser within thirty days of their appointment, then each of them shall name two, one of whom the other shall decline and the determination of the Actuary or Appraiser shall be made by drawing lots. All the Actuaries or Appraisers shall be regularly engaged in the valuation of claims subject to the provisions of this Article 16 - Commutation. None of the Actuaries or Appraisers shall be under the control of either party to this Reinsurance Contract nor shall they have any interest in the net losses being commuted other than that which is required to fulfill their obligations hereunder.

Each party shall submit its case to its Actuary or Appraiser within thirty days of the appointment of the third Actuary or Appraiser. The decision in writing of any two Actuaries or Appraisers, when filed with the COMPANY and the REINSURER, shall be final and binding on both parties. The expense of the Actuaries or Appraisers and of the Commutation shall be equally divided between the COMPANY and the REINSURER. Said Commutation shall take place in Erie, Pennsylvania, unless some other place is mutually agreed upon by the COMPANY and the REINSURER.

The term "capitalized value" as used herein shall mean the estimated value of all future payments hereunder, excluding any provision for incurred but not reported losses, reduced to present value at an agreed upon rate of interest to be determined at the time of commutation or the prime rate, whichever is less.

ARTICLE 17 - Extended Expiration

Should this Reinsurance Contract terminate while a loss occurrence covered hereunder is in progress, it is understood and agreed that, subject to the other conditions of this Reinsurance Contract, the REINSURER shall be responsible for their proportion of the entire loss or damage caused by such occurrence.

ARTICLE 18 - Singular Contains the Plural

In interpretation of this Reinsurance Contract, the singular includes the plural and the plural includes the singular, should the context so require to give full force and effect to the intent of the parties and the provisions hereunder.

ARTICLE 19 - Notice of Default; Cure

In the event of a default of any of the terms of this Reinsurance Contract, notice of the default shall be given and the party against which a default is alleged shall have fifteen days in which to cure such default, prior to any action being taken hereunder.

ARTICLE 20 - Notices

Notice to REINSURER shall be given at the following address or at any address specified in writing by REINSURER:

Erie Insurance Exchange
100 Erie Insurance Place
Erie, PA 16530

Notice to COMPANY shall be given at the following addresses or at any addresses specified in writing by COMPANY:

Erie Insurance Company
100 Erie Insurance Place
Erie, PA 16530

Erie Insurance Company of New York
4 West Avenue
Spencerport, NY 14559

Notice is effective when given in writing, upon personal delivery, or sent postage pre-paid by regular mail, Federal Express or similar service, telex or telecopier to the address specified herein.

ARTICLE 21 - Amendments

This Reinsurance Contract may be altered or amended in any of its terms and conditions by the written mutual consent of the parties, and such amendment shall be considered as part of this Reinsurance Contract.

ARTICLE 22 - Binding Effect

The provisions of this Reinsurance Contract shall be binding on both parties and their respective heirs, legal representatives, successors and assigns, binding any receivers, trustees or other fiduciaries appointed in any federal state insolvency proceeding or federal bankruptcy case.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized representatives.

In Erie, Pennsylvania, this 26th day of February, 1997.

ERIE INSURANCE COMPANY

ATTEST:
/s/ Mark Torok — /s/ T. M. Sider

ERIE INSURANCE COMPANY
OF NEW YORK

ATTEST:
/s/ Mark Torok — /s/ J. R. Van Gorder

ERIE INSURANCE EXCHANGE, by
ERIE INDEMNITY COMPANY,
Attorney-in-Fact

ATTEST:
/s/ J.R. Van Gorder — /s/ Michael S. Zavasky

EXHIBIT 11. - STATEMENT RE COMPUTATION OF PER SHARE EARNINGS

	1996	1995	1994
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 Class A 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	$105,132,359	$93,550,797	$71,728,832
Per-share amount	$1.41	$1.26	$ .96

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 and 1994 have been restated to reflect this transaction. See also Note 6 of the Notes to Consolidated Financial Statements included on page 31 of the Annual Report for the year ended December 31, 1996.

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

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 expenses reported on the Company's December 31, 1996 Consolidated Statements of Financial Position, contained in the Company's 1996 Annual Report, page 25, 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, 1996 Annual Statements.

Loss and loss adjustment expense per Annual Statement:	
Erie Insurance Company	$ 79,758,662
Erie Insurance Property & Casualty Company	0
Erie Insurance Company of New York	7,975,867
Subtotal - Loss and loss adjustment expense, net of reinsurance	$ 87,734,529
SFAS113 Reinsurance gross-up adjustment:	
Erie Insurance Company	253,868,159
Erie Insurance Property & Casualty Company	44,711,792
Erie Insurance Company of New York	110,539
Loss and loss adjustment expense per Erie Indemnity Company Consolidated Financial Statements	$386,425,019