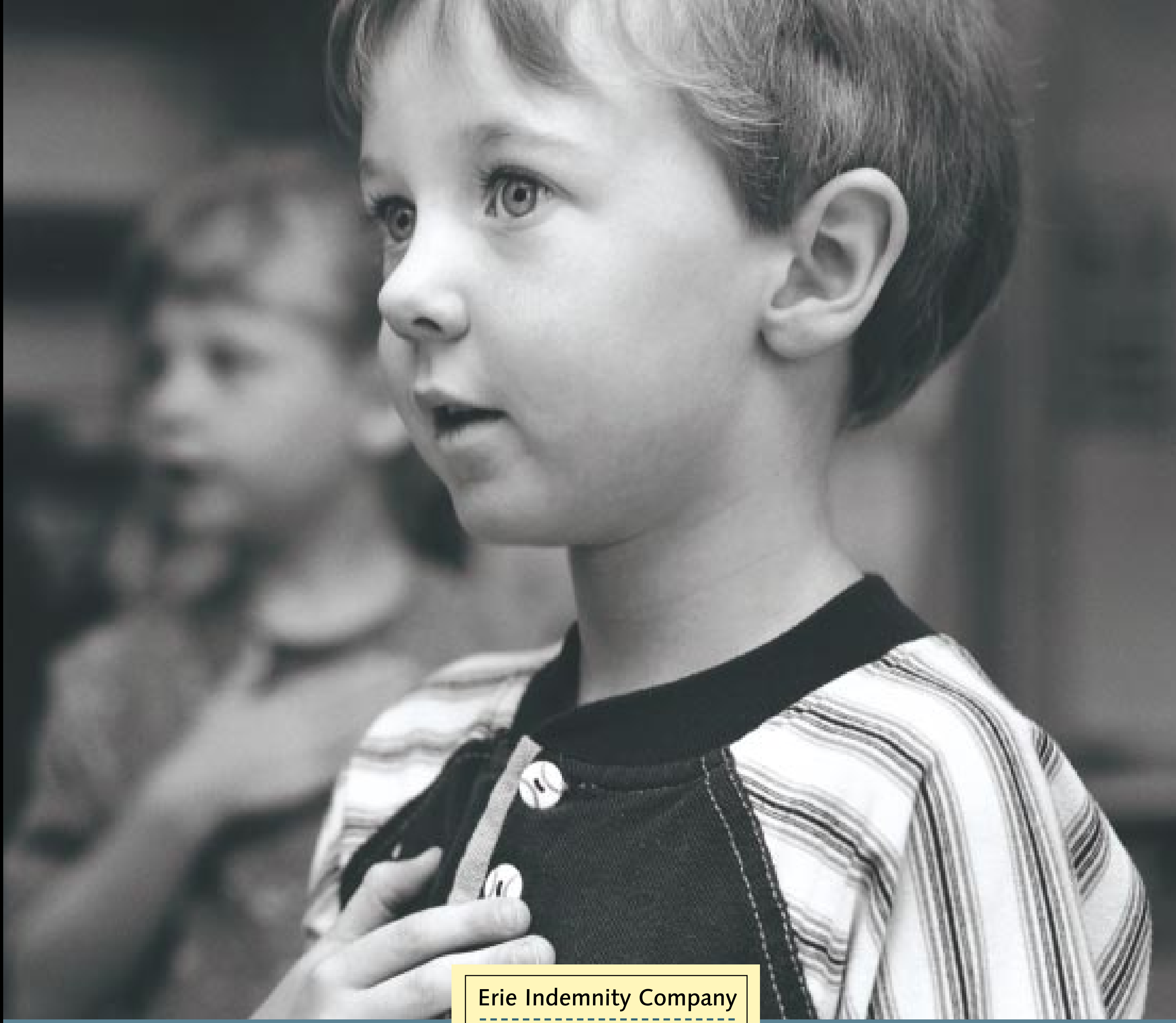

Erie Indemnity Company

Annual Report 2001

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"We have seen that the world can, and does, change. It is our duty to change it for the better."

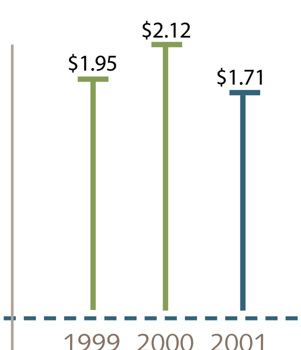
- - - Steve Milne, retired president and chief executive officer

financial highlights

(Amounts in thousands, except per share data)

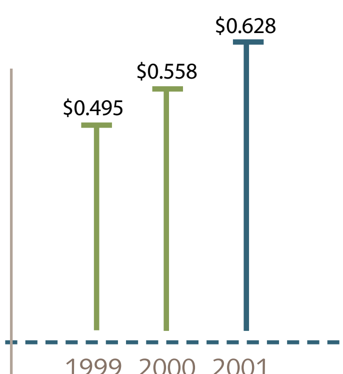
	2001	2000	1999
For the years ended December 31			
Net revenue from management operations	$ 184,568	$ 158,746	$ 148,518
Underwriting loss	(20,463)	(10,402)	(3,539)
Net revenue from investment operations	18,771	75,594	63,776
Income before income taxes	182,876	223,938	208,755
Provision for income taxes	60,615	71,545	65,649
Net income	122,261	152,393	143,106
Operating income(1)	142,983	141,364	133,521
Per Class A common share equivalents			
Net income	$ 1.71	$ 2.12	$ 1.95
Operating income(1)	2.00	1.96	1.82
Book value	12.15	10.91	9.62
Cash dividend declared			
Class A	0.6275	0.5575	0.4950
Class B	94.125	83.625	74.25
Financial ratios			
Gross margins from management operations	27.9%	27.6%	28.1%
GAAP combined ratios	114.9	108.4	103.0
GAAP combined ratios excluding direct catastrophe losses	113.7	106.7	99.3
Return on average equity	14.9	20.6	21.2
At year end, December 31			
Total investments	$ 840,967	$ 810,815	$ 748,251
Total assets	1,935,566	1,680,599	1,518,794
Shareholders' equity	$ 865,255	$ 779,015	$ 697,599
Outstanding Class A common and equivalent shares	71,204	71,424	72,500

(1) Operating income excludes net realized gain (loss) on investments and related federal income taxes.



Net income per share

Book value per share



Class A common stock dividends declared per share

to our shareholders

In 76 years, Erie Insurance has persisted with strength and steadiness through the events that indelibly stamp our lifetimes. Through military uprisings and moon landings, through economic recession and bicentennial celebration, through moments of great tragedy and greater courage.

In that context, 2001 was no different. When we look at the year, our eyes are drawn inevitably to the event that influenced our industry, and our lives: September 11th. The incredible loss of life, and the desecration and devastation of American symbols of strength, shocked and saddened all of us. To the same extent, the heroic acts born of that tragedy have given us hope and drawn Americans together in a way we've not experienced in decades.

You already know that the insurance industry encountered unprecedented losses from this catastrophe and its impact on the previously declining stock market. At the same time, the disaster has drawn due attention to needs that have existed for several years. In the wake of the terrorist acts, insurance industry leaders are urging legislation for the future protection of the American economy.

We at The ERIE have much for which to be thankful. We remain a financially solid, grounded company. Like most insurance providers, ERIE was affected by the economic repercussions of September 11th. Our superior financial strength has provided us with ample cushion to absorb the losses without compromising our stature. In addition, the momentum begun last year with the firming of the commercial market has continued throughout this time of tumult. ERIE's business is growing stronger than ever.

In 2001, we again saw record increases in the number of policies and the continued expansion of our agency force and geographic footprint. Direct written premiums, upon which the management fee revenue of the Erie Indemnity Company is calculated, grew 15.1 percent in 2001 based on continued new policy growth, improved commercial lines pricing and more stable personal lines pricing. Commercial lines written premium rose 25.9 percent over the previous year, while personal lines premium written grew 11.5 percent compared to 2000. Our overall policy retention remained strong at 90.9 percent in 2001, spurring our continued growth in policies in force to almost 3.2 million.

That growth is also reflected in the net revenue from the management operations of the Erie Indemnity Company, which serves as attorney-in-fact for the Erie Insurance Exchange. Management fee revenue increased 15.1 percent to $634,965,490 in 2001.

The ERIE made other significant strides in 2001, including the launch of an expansive eCommerce initiative. Over the next few years, ERIE*Connection*SM will dramatically enhance our interactions with Policyholders and Agents. This investment in our service capability is joined by other process improvements, such as the centralization of minor claims into our Claims Service & Support Department.

In 2001, we also established our Waukesha Branch, kicking off business in Wisconsin, ERIE's 11th state, and announced our plans for expansion further west—into "the land of 10,000 lakes," Minnesota.

ERIE continues to earn national acclaim for service. For the second year, Erie Insurance was ranked the top agency-represented insurer and second overall for customer satisfaction in J.D. Power and Associates 2001 Auto Insurance Study. And in its inaugural study of homeowners insurance, J.D. Power and Associates awarded ERIE its highest customer satisfaction rating out of 15 major homeowner insurers in the country.

These signs of growth in service and sales stand firm against the backdrop of last year's national tragedy. Though our deep, personal concern remains with those directly affected by the events of September 11th, we continue to monitor the economic impact of that devastation, and are grateful that the tragedy has not resulted in a significant financial loss to our shareholders.

While the incurred reinsurance losses recognized by the Erie Insurance Group from the events of September 11th were $150 million, the Erie Indemnity Company's share of net reinsurance losses stemming from the attacks on the World Trade Center were $5.8 million before federal income taxes. The after-tax effect on the Company amounted to $.06 per share for the year.

The underwriting loss was offset by increased revenue from management operations. As a result, operating income for the Company increased from $141,363,933 in 2000 to $142,982,859 in 2001. Book value per share improved during the year to $12.15 at December 31, 2001, up 11.4 percent from $10.91 in 2000. Net income for 2001 was affected by the continued weakness in the stock market and the implementation of a year-end tax selling strategy applied to the investment portfolio. As a result, net income per share declined to $1.71 per share from $2.12 per share in 2000.

ERIE's executive officers are (top photo, left to right) Philip A. Garcia, CPA, FLMI, ACS, Executive Vice President and Chief Financial Officer; Jeffrey A. Ludrof, CPCU, AIC, CIC, LUTCF, Executive Vice President, Insurance Operations; Stephen A. Milne, CIC, Retired President and Chief Executive Officer; Jan R. Van Gorder, Esq., Acting President and Chief Executive Officer, Senior Executive Vice President, Secretary and General Counsel; Douglas F. Ziegler, Senior Vice President, Treasurer and Chief Investment Officer; John J. Brinling Jr., CPCU, Executive Vice President, Erie Family Life Insurance Company.

Though I am retiring after six years as president and CEO, I do so knowing that the years ahead promise the sureness of a business model that has served us exceptionally well through more than seven decades. From the start, Erie Insurance has held fast to the mission of providing near perfect protection and unparalleled personal service. We have seen in recent months how Americans have reached out to one another so that we have become less a nation of strangers, and much more a nation of friends and neighbors. That same genuine concern continues to be ERIE's greatest strength and—as other providers explore depersonalized avenues of sales and service—it remains our greatest opportunity.

Whatever the challenges ahead, we can be sure Americans will pull together and meet them with the courage and compassion synonymous with September 11th. As a company, The ERIE is proud to play a role in the recovery and rebuilding effort of our nation. Through the united efforts of our Employees and independent Agents, we'll continue to do what we do best—provide financial protection and unwavering service to our friends and neighbors.

Stephen A. Milne

Stephen A. Milne
President and Chief Executive Officer
January 2002
(Retired January 18, 2002)

"If you give your Policyholders the proper service that they have a right to expect, you will grow and you will prosper. That is the secret of the success of Erie Insurance."

- - - H.O. Hirt, founder

commitment

H.O. Hirt knew it when he wrote the words decades ago, just as those who follow in our founder's footsteps know it today.

It's all about service.

At The ERIE, we're continuing to forge the legacy of superior service to our Policyholders. In 2001, ERIE was named the top insurer for customer satisfaction in J.D. Power and Associates inaugural Homeowners Insurance Study. We also repeated our success in J.D. Power and Associates 2001 Auto Insurance Study. Of the 21 largest providers of auto insurance in the country, ERIE again ranked first among agency-represented companies and second overall.

That distinction in service echoes ERIE's most recent internal gauges of customer satisfaction. A survey of more than 14,000 Policyholders, conducted over a 12-month period, yielded high marks for ERIE's claims service. Nearly all of the more than 5,000 Policyholders responding to the survey—96 percent—rated ERIE's overall claims service as excellent, very good or good.

Providing service that exceeds our Policyholders' expectations is the motivation for ERIE's independent Agents and for every Employee in our Home Office and 23 field offices spread throughout 11 states and the District of Columbia. It's a commitment we make to uphold what is most cherished from ERIE's past and what is most promising for our future.

initiative

In March 2001, ERIE introduced a program that will take us to a new level in responsiveness, communication and service. ERIE's eCommerce investment will enhance our ability to interact with Policyholders and Agents and improve the convenience of the processes we use to serve them.

Through the eCommerce initiative, Employees and technology consultants are developing ERIE***Connection***, an Internet-enabled customer relationship management system, integrated with an online policy processing

"Decisions always involve the question, 'What is the right thing to do?' ERIE embodies a very special way of treating people and doing business."

- - - Eric Root, regional vice president

system, that is being phased in over the next three years. Components of ERIE***Connection***SM will be customized to meet the expectations—and add to the convenience—of our Agents, Employees and Policyholders. The eCommerce program also provides the critical educational component that will give Agents and Employees immediate online access to the training tools they need.

Our approach to technology is decidedly ERIE. While other insurers explore impersonal distribution possibilities, ERIE is applying Web technology to better the independent agency business model that has proven itself over and over again.

Record production numbers and agency appointments. Another new state and westward expansion on the horizon. The signposts of ERIE's steady progress are many and varied.

In 2001, Erie Insurance hit production milestones—3 million property/casualty policies in force, including 1 million HomeProtector policies in force—while bringing in business that accounted for a substantial increase in activity over the previous year. Personal lines policies in force grew by 8.2 percent over 2000, while commercial lines increased 10.7 percent over the same period.

In 2001, ERIE noted a second consecutive year of record growth in the expansion of our agency force with the appointment of 247 Agents. That includes 38 Agents appointed as the pioneer ERIE representatives in our

integrity

most westward territory. ERIE began writing business in Wisconsin on September 1, 2001. In December, we announced the next frontier for our business—another Heartland state, Minnesota.

This growth is continuing evidence of the success of ERIE's long-held business model: a quality agency force brings in superior Policyholders who yield lower loss experiences, allowing for the more competitive products and prices.

ERIE remains committed to the independent Agents who are the face-to-face connection with our Policyholders. The complexity of insurance underscores the value of the insurance adviser, backed by a trusted company. ERIE's retention rate affirms that belief. At 90.9, it remains among the strongest in the industry.

"The people in Wisconsin are wonderful–they truly do business on a handshake. That's why we'll fit right in."

- - - Sandy Dorsey, branch manager

"The best part of volunteering is helping people. Some are pleasant, many are anxious, and some are upset. I try to be kind and apply the Golden Rule with everyone I meet."

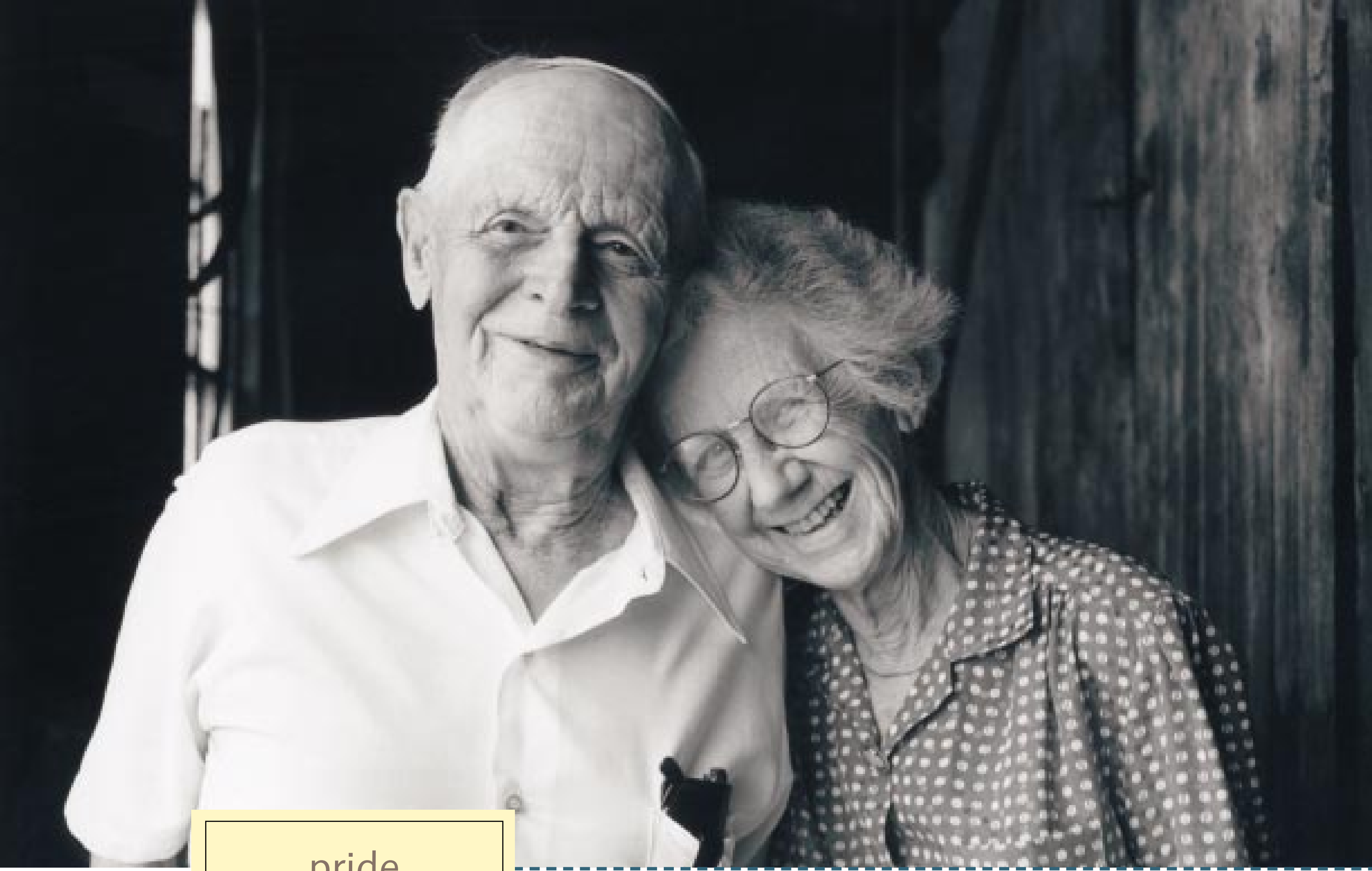
- - - Fran Calkins, ERIE Pioneer

concern

When phone lines at American Red Cross offices across the country began ringing in the days following September 11th, ERIE Employees were poised to help. Less than a year earlier, we had launched a community partnership with the Red Cross, called "Serving Together." Its purpose: to train volunteers to help in times of need and assist in disaster preparedness and prevention.

In the weeks after the national tragedy, ERIE representatives stepped in to help with blood drives, fundraisers and staff support at American Red Cross offices in several of our states. With more than 250 ERIE Employees and Agents already signed on, the network continues to provide a quick and effective means of gathering volunteers.

ERIE's community involvement extends to other ventures that reflect our values—and support our business, too. Erie Insurance, for example, was influential in passage of a graduated drivers licensing bill in Virginia in 2001. The new law allows youthful drivers to build toward full driving privileges. This gives teen drivers, a particularly vulnerable group, more opportunity to gain precious driving experience under less risky conditions.



pride

With a heritage built on 76 years of steady success, we at The ERIE have much for which to be thankful. The confidence and loyalty of our Policyholders. The integrity and commitment of our Employees and independent Agents. And recognition for our superior service.

In a year of economic recession, we've maintained our workforce legacy unblemished by layoffs. And in a year beset by stock market declines and terrorist catastrophes, we've retained the strong financial stature for which we're known in the industry.

In 2001, ERIE again received the highest rating A++ (superior) for financial strength from the A.M. Best Co. And we continue to earn recognition for outstanding customer service.

In addition to the J.D. Power and Associates' ranking in auto and homeowners insurance, ERIE was ranked number one for best performance in the annual ranking of automobile insurance complaints by the New York Department of Insurance.

These are exemplary of the strides ERIE makes from year to year. They are sources of pride for those who embody the ERIE family spirit—and the integrity, initiative, commitment and concern that underlie our best efforts.

"You can teach someone about the insurance business, but you can't teach character traits like integrity and dedication."

- - - Mike Zavasky, senior vice president

F.W. Hirt Quality Agency Award

The F.W. Hirt Quality Agency Award is the highest honor bestowed on an ERIE agency. It recognizes long-term profitability and growth, thorough and responsible underwriting practices and continuing commitment to education.

1997-2001

Allentown/Bethlehem Branch
2001 Gilmartin Insurance
2000 Roscoe P. Snyder Agency
1999 Miller's Insurance Agency
1998 Charles G. Leon Insurance Agency
1997 Lacher & Associates Insurance Agency, Inc.

Canton Branch
1999 Insurance One Agency, Inc.

Columbus Branch
1999 Simpkins Insurance Agency, Inc.
1998 Glen Carr Insurance Agency, Inc.

Erie Branch
2001 Hamilton Insurance Agency
2000 John C. Milliren Agency
1999 Dave Calvert and Associates, Inc.
1997 Great Lakes Insurance Associates

Harrisburg Branch
2001 McGowan Insurance
2000 Lawton Insurance Agency
1999 Styer & Evans Agency
1998 Michael A. Starr Insurance, Inc.
1997 Thomas F. Brigandi Insurance Agency

Indianapolis Branch
2001 Davis/Bays & Associates
1997 A.I. King Insurance Agency, Inc.

Knoxville Branch
2000 Bailey Insurance Services

Raleigh Branch
1999 Breeden Insurance Services, Inc.
1998 Professional Insurance Services, Inc.
1997 Corbin Insurance Agency

Richmond Branch
2001 Foundation Insurance Group
2000 G.L. Herndon Insurance Agency, Inc.
1999 Frank D. Spicer Jr., Inc.

Roanoke Branch
2000 Hayden Insurance Agency
1998 Layman, Diener & Borntrager
1997 Showalter Insurance Agency, Inc.

Rochester Branch
2001 Noto Insurance
2000 Albion Agencies

Silver Spring Branch
2001 Donald C. Bowers Insurance Agency
2000 The Clark Agency
1999 E.L. Webster Agency
1998 V.W. Brown Insurance Service, Inc.
1997 Paul J. Sapourn Insurance, Inc.

Warrendale Branch
1997 Ridge Insurance Agency

Selected consolidated financial data

Years ended December 31 (amounts in thousands, except per share data)

	2001	2000	1999	1998	1997
Operating data					
Net revenue from management operations	$ 184,568	$ 158,746	$ 148,518	$ 145,243	$ 134,201
Underwriting (loss) gain	(20,463)	(10,402)	(3,539)	567	(2,259)
Net revenue from investment operations	18,771	75,594	63,776	50,547	42,978
Income before income taxes	$ 182,876	$ 223,938	$ 208,755	$ 196,357	$ 174,920
Provision for income taxes	60,615	71,545	65,649	61,806	56,339
Net income	$ 122,261	$ 152,393	$ 143,106	$ 134,551	$ 118,581
Operating income(1)	$ 142,983	$ 141,364	$ 133,521	$ 129,895	$ 114,801
Per share data					
Net income per share	$ 1.71	$ 2.12	$ 1.95	$ 1.81	$ 1.59
Operating income per share(1)	2.00	1.96	1.82	1.75	1.54
Dividends declared per Class A share	0.6275	0.5575	0.495	0.4425	0.3925
Dividends declared per Class B share	$ 94.125	$ 83.625	$ 74.25	$ 66.375	$ 58.875
Weighted average shares outstanding	71,342	71,954	73,487	74,400	74,400
Financial position					
Investments(2)	$ 885,650	$ 853,146	$ 785,258	$ 709,417	$ 566,118
Receivables from Exchange and affiliates	640,655	532,009	470,969	467,794	469,708
Total assets	1,935,566	1,680,599	1,518,794	1,454,062	1,292,544
Shareholders' equity	865,255	779,015	697,599	655,223	539,383
Book value per share	$ 12.15	$ 10.91	$ 9.62	$ 8.81	$ 7.25
Shares repurchased at December 31	3,196	2,976	1,900	0	0

(1) Operating income excludes net realized gain (loss) on investments and related federal income taxes.
(2) Includes investment in Erie Family Life Insurance Company.

The following discussion and analysis should be read in conjunction with the audited financial statements and related notes found on pages 29 to 47 as they contain important information helpful in evaluating the Company's operating results and financial condition. (Note: A glossary of certain terms used in this discussion can be found on page 27. Defined 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 a 21.63 percent common stock interest in Erie Family Life Insurance Company (EFL), an affiliated life insurance company. Together with the Exchange, the Company and its subsidiaries and affiliates operate collectively under the name Erie Insurance Group.

In its role as attorney-in-fact for the Policyholders of the Exchange, the Company may charge a management fee up to 25 percent of the affiliated *assumed* and *direct premiums written* by the Exchange. The Company's Board of Directors has the authority to change the management fee at its discretion. The Company's Board of Directors also acts in a fiduciary capacity with respect to the operation of 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 not part of the settlement of *losses* or the management of investments. All premiums collected, less the management fee paid to the Company, are retained by the Exchange for the purpose of paying losses, *loss adjustment expenses*, investment expenses and other miscellaneous expenses including insurance-related taxes, licenses and fees, certain information technology costs covered under a technology cost-sharing agreement, and for other purposes that are to the benefit of the Policyholders. The management fee rate charged the Exchange was 25 percent for each year from 1999 to 2001. In December 2001, the Board voted to maintain the 25 percent management fee rate for all of 2002.

Erie Insurance Property & Casualty Company, Flagship, Erie Insurance Company and Erie Insurance Company of New York participate in an intercompany pooling agreement with the Exchange. Under the pooling agreement, all property/casualty insurance business of the Erie Insurance Group is *ceded* to the Exchange. This pooling agreement provides for Erie Insurance Company and Erie Insurance Company of New York to share proportionately through retrocession in the results of all property/casualty insurance operations of the Exchange and the Company's subsidiaries, except for the provisions of the excess of loss reinsurance agreement discussed below. Erie Insurance Company's and Erie Insurance Company of New York's proportionate share of the *reinsurance* pool is 5.0 percent and 0.5 percent, respectively. Erie Insurance Company and Erie Insurance Company of New York also have in effect an all-lines aggregate excess of loss reinsurance agreement with the Exchange. This reinsurance treaty is excluded from the intercompany pooling agreement and limits the amount of sustained ultimate net losses in any applicable accident year for the Erie Insurance Company and Erie Insurance Company of New York.

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, terrorist actions, changes in the regulatory and legislative environments and changes in general economic and investment conditions.

Results of operations

Overview

Consolidated net income in 2001 was $122,261,396, a decrease of 19.8 percent from the 2000 net income of $152,393,015. Gains made in the Company's management operations, including a 15.1 percent increase in management fee revenue, were outpaced by losses experienced in the Company's insurance underwriting operations and reduced levels of income from investment operations. The 2001 underwriting loss resulted from increased losses in the direct business of the Company's property/casualty subsidiaries, primarily in private passenger and commercial automobile and workers' compensation insurance, as well as assumed reinsurance losses, some of which relate to the September 11th terrorist attacks on the World Trade Center. The Company recognized $31,879,174 in net realized losses from investments in 2001 on the sale of securities and related charges for other-than-temporary impairments of equity securities and limited partnerships.

Operating income (net income excluding realized gains/losses and related federal income taxes) increased to $142,982,859 in 2001 from $141,363,933 in 2000. Operating income per share for 2001 was $2.00 per share, an increase of 2.0 percent from $1.96 per share in 2000. Operating income in 2001 reflects a third quarter after-tax charge of $3,795,639, or $.06 per share, from the World Trade Center terrorist attacks and a fourth quarter after-tax charge of $6,933,732, or almost $.10 a share, for severance charges related to the retirement of the Company's chief executive officer. Operating income in 2000 included adverse development on assumed reinsurance losses from the catastrophic storms that devastated Europe in December 1999 contributing $1.4 million, or $.01 per share, after federal income taxes.

Analysis of management operations

Net revenue from management operations rose 16.3 percent to $184,567,670 in 2001 from $158,746,324 in 2000 and 6.9 percent in 2000 from $148,517,964 in 1999. *Gross margins from management operations* were 27.9 percent in 2001 compared to gross margins of 27.6 percent in 2000 and 28.1 percent in 1999.

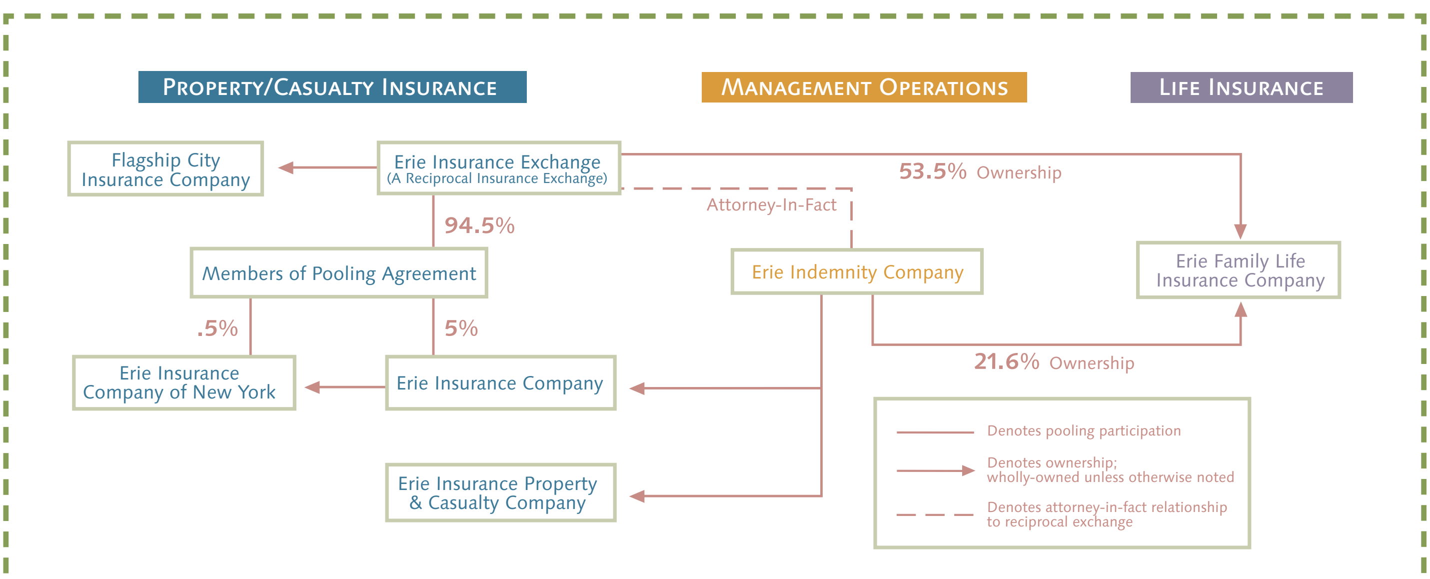
Management fee revenue derived from the direct and affiliated assumed premiums of the Exchange rose $83,319,843, or 15.1 percent, to $634,965,490 in 2001 from $551,645,647 in 2000. (See page 18 "Management Fee Revenue by State and Line of Business.") The direct and affiliated assumed premiums of the Exchange grew 15.1 percent in 2001 to $2,539,861,960 from $2,206,582,573 in 2000. Increases in average premium per policy, improvements in new policy growth and favorable policy retention rates were all contributing factors in the growth. Firming pricing in 2001 for commercial and personal insurance have allowed the Company's property/casualty subsidiaries and affiliates to more adequately price its products while maintaining its competitive advantage in the insurance marketplace. The year-to-year growth rate of direct written premium in the fourth quarter was 18.9 percent, up from 14.8 percent growth in the third quarter, 14.0 percent growth in the second quarter and 12.8 percent growth in the first quarter of 2001.

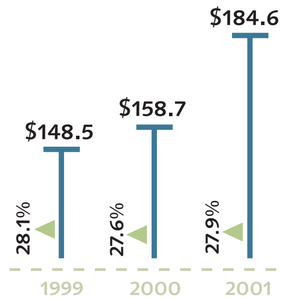
The average premium per policy increased 6.1 percent to $817 in 2001 from $770 in 2000. For personal auto (which accounted for 54.6 percent of the direct written premiums of the Group and over 1.4 million policies in force), the average premium per policy increased 3.1 percent to $967 in 2001 from $938 in 2000.

Continued improvement in new policy growth also drove the gains experienced in the Group's direct written premium. Policies in force increased 8.5 percent to 3,109,583 in 2001 from 2,865,553 in 2000 and 6.5 percent in 2000 from 2,689,849 in 1999. *Policy retention* has remained excellent at 90.9 percent, 91.0 percent and 90.5 percent for the years ended December 31, 2001, 2000 and 1999, respectively, for all lines of business combined.

Service agreement revenue for the Company grew 20.2 percent to $27,247,018 in 2001 from $22,662,133 in 2000 and 46.8 percent from $15,440,862 in 1999. Included in service agreement revenue are service charges the Company collects from Policyholders for providing extended payment terms on policies written by the Group. Such service charges amounted to $15,996,469, $12,512,783 and $7,282,621 in 2001, 2000 and 1999, respectively. The 2001 and 2000 growth was positively impacted by service charge increases from $2 to $3 per installment for policies renewing in most states beginning in the second quarter of 2000. Also included in service agreement revenue is service income received from

Erie Insurance Group organizational structure/major business units





Net revenue from management operations

Gross margin from management operations

(In millions of dollars, except ratios)

the Exchange as compensation for the management and administration of voluntary assumed reinsurance from non-affiliated insurers. The Company receives a service fee of 7.0 percent of non-affiliated assumed reinsurance premiums. These fees totaled $11,250,549, $10,149,350 and $8,158,241 on net voluntary assumed reinsurance premiums of $160,722,122, $144,990,714 and $116,546,295 for 2001, 2000 and 1999, respectively.

The cost of management operations rose 14.9 percent to $477,644,838 in 2001 from $415,561,456 in 2000 and 9.3 percent in 2000 from $380,298,179 in 1999. Commissions to independent Agents, which are the largest component of the cost of management operations, include scheduled commissions earned by independent Agents on premiums written, as well as promotional incentives for Agents and Agent contingency awards. Agent contingency awards are based upon a three-year average of the underwriting profitability of the direct business written and serviced within the Erie Insurance Group by the independent Agent. Commission costs rose 14.3 percent to $323,067,677 in 2001 from $282,746,734 in 2000 and 7.5 percent in 2000 from $263,112,139 in 1999. Commission costs grew at a slower rate relative to the growth in direct premiums written in 2001 as a result of lower accruals for Agent contingency awards compared to 2000. The provision for Agent contingency awards totaled $15,692,870, $18,277,468 and $19,871,036 in 2001, 2000 and 1999, respectively. Commission costs, excluding Agent contingency awards, increased 16.2 percent in 2001, which is in line with the increase in direct written premiums.

The cost of management operations, excluding commission costs, increased 16.4 percent in 2001 to $154,577,161 from $132,814,722 in 2000 due primarily to increases in personnel costs. The Company's personnel costs, net of reimbursement from affiliates, totaled $94,361,308, $79,318,446 and $69,484,788 in 2001, 2000 and 1999, respectively. A portion of the increase in personnel costs resulted from recognition of the severance obligation related to the retirement of the Company's president and chief executive officer on January 18, 2002. The Company recorded a severance charge in the fourth quarter 2001 of $10,667,280. Personnel costs, excluding the severance charge, rose 5.5 percent in 2001 due to increases in Employee pay rates and staffing levels.

During 2001, the Company and the property/casualty insurance companies of the Erie Insurance Group entered into a cost-sharing agreement for information technology development. This agreement describes how member companies of the Erie Insurance Group will share the costs to be incurred for the development of new Internet-enabled property/casualty policy administration and customer relationship management systems. This agreement provides that the application development costs and the related enabling technology costs, such as technical infrastructure and architectural tools, will be shared among the property/casualty insurance companies in a manner consistent with the sharing of insurance transactions under the existing intercompany pooling agreement. These technology costs are included in the policy acquisition and other underwriting expenses on the Company's Consolidated Statements of Operations.

Management fee revenue by state and line of business

For the year ended December 31, 2001 (dollars in thousands)

State	Private passenger auto	Commercial auto	Homeowners	Commercial multi peril	Workers' compensation	All other lines of business	Total
District of Columbia	$ 548	$ 108	$ 247	$ 510	$ 595	$ 117	$ 2,125
Illinois	3,075	645	1,048	1,667	1,010	223	7,668
Indiana	13,309	1,721	5,742	2,846	2,041	845	26,504
Maryland	40,521	6,869	12,689	6,383	6,311	2,671	75,444
New York	10,319	1,887	2,654	3,010	1,645	494	20,009
North Carolina	11,948	4,718	6,171	5,255	3,993	1,384	33,469
Ohio	29,094	4,312	9,619	7,123	0	1,697	51,845
Pennsylvania	193,280	23,004	50,042	27,319	26,801	7,806	328,252
Tennessee	3,712	1,378	1,450	1,830	1,278	386	10,034
Virginia	22,413	5,404	7,695	6,254	6,993	1,958	50,717
West Virginia	18,070	2,644	4,115	2,757	0	838	28,424
Wisconsin	191	52	68	63	78	23	475
Total	$ 346,480	$ 52,742	$ 101,540	$ 65,017	$ 50,745	$ 18,442	$ 634,966

Also included as part of this eCommerce program are information technology infrastructure expenditures that are not subject to the cost-sharing agreement for information technology. These eCommerce program costs are included in the cost of management operations in the Company's Consolidated Statements of Operations. These costs totaled $1,588,878 in 2001. (See additional discussion of this program under "Analysis of Insurance Underwriting Operations" and "Factors That May Affect Future Results.")

Analysis of insurance underwriting operations

The Company recorded underwriting losses of $20,462,530, $10,402,120 and $3,538,884 in 2001, 2000 and 1999, respectively. The underwriting results in 2001 reflect higher losses experienced in private passenger auto, and commercial automobile and workers' compensation lines of business, as well as losses from assumed reinsurance.

Premiums earned increased $13,940,059, or 11.3 percent, to $137,648,253 in 2001 while losses and loss adjustment expenses incurred increased $17,636,989, or 17.7 percent, to $117,201,017 in 2001. The average premium per policy of the Erie Insurance Group was $817, $770 and $763 in 2001, 2000 and 1999, respectively.

The Company's property/casualty insurance subsidiaries' share of the Group's direct business generated net underwriting losses of $16,358,294, $6,437,501 and $946,925 in 2001, 2000 and 1999, respectively. In 2001, the Group continued to experience a decrease in loss frequency; however, loss severity continued to rise. The higher loss costs in 2001 also include adverse development of prior accident year losses amounting to $5.9 million, net of reinsurance recoveries. In 1998 and 1999, the Group lowered prices in the private passenger automobile lines of insurance in response to extremely competitive market conditions and improving loss trends in auto insurance. The firming of auto pricing in 2001 by the industry in response to deteriorating loss cost trends have allowed the Group to begin raising auto insurance prices in order to improve underwriting profitability. All policies issued by the Group are for a one-year term. Therefore, the impact of the rate increases will take at least one year before the full impact is recognized in the underwriting results of the Company.

Catastrophes are an inherent risk of the property/casualty insurance business and can have a material impact on the Company's insurance underwriting results. In addressing this risk, the Company employs what it believes are reasonable underwriting standards and monitors its exposure by geographic region. Additionally, the Company's property/casualty insurance subsidiaries' excess of loss reinsurance agreement with the Exchange should substantially mitigate the effect of catastrophe losses on the Company's financial position. During 2001, 2000 and 1999, the Company's share of catastrophe losses from direct business amounted to $1.6 million, $2.1 million and $4.4 million, respectively.

The Company's property/casualty insurance subsidiaries' unaffiliated voluntary assumed reinsurance business generated net underwriting losses of $4,104,236, $3,964,619 and $2,591,959 in 2001, 2000 and 1999, respectively. Contributing to the 2001 increased loss are the Company's 5.5 percent share of the Erie Insurance Group's estimated incurred reinsurance losses of $150 million from the September 11th terrorist attacks on the World Trade Center. The Company's share of these losses, resulting from its property/casualty insurance subsidiaries' participation in the intercompany pooling agreement with the Exchange, totaled $8,250,000 in 2001, before consideration of recoveries under an excess of loss reinsurance agreement with the Exchange. The agreement reduces the net retention on September 11th losses recorded by the Company to $5,839,445.

In late 2001, the Company took measures to improve the underwriting results from its non-affiliated assumed reinsurance book of business. The effects of these measures will be to lower the Company's exposure to loss by excluding terrorism coverage on certain treaties and, at the same time, raising pricing substantially. Pricing in the reinsurance marketplace has firmed considerably since the events of September 11th and the Company is obtaining significant price increases in its 2002 treaty renewals.

During 2001, the Company's property/casualty insurance subsidiaries, Erie Insurance Company and Erie Insurance Company of New York, recorded $7,241,235 in reinsurance recoveries under the excess of loss reinsurance agreement with the Exchange. Of the total recoveries in 2001, $6,505,716 relates to accident year 2001 (including the losses related to the World Trade Center), with the balance pertaining to the 1999 accident year. The total recoverable reduces the analysis of Company's loss and loss adjustment expenses in 2001. No cash payments have been made between the companies in 2001 for these recoveries. There were no such recoveries recognized in calendar years 2000 or 1999.

Included in the Company's policy acquisition and other underwriting expenses is the property/casualty insurance subsidiaries' share of costs related to the eCommerce initiative totaling $1,314,734 for 2001. The costs stem from the technology cost-sharing agreement described in the analysis of management operations section above, and will continue to increase as the program develops through 2002 and 2003. Also included in underwriting expenses in 2001 is a charge of $1,655,926 for state guaranty fund assessments related to the insolvency of the Reliance Insurance Company.

The 2001 combined ratio for the Company's property/casualty insurance operations calculated under Generally Accepted Accounting Principles (GAAP) was 114.9 compared to 108.4 in 2000 and 103.0 in 1999. The *GAAP combined ratio* for 2001, 2000 and 1999, excluding catastrophe losses on direct business, was 113.7, 106.7 and 99.3, respectively.

Analysis of investment operations

Net revenue from investment operations was $18,770,702 in 2001 compared to $75,593,393 in 2000 and $63,775,746 in 1999. In 2001, the equity markets declined and recovery was further slowed by the September 11th terrorist attacks. As a result, the Company experienced valuation declines in its investment portfolios over the past year. Net realized losses totaled $31,879,174 in 2001 compared to realized gains of $16,967,819 in 2000 and $14,745,334 in 1999. The Company recognized realized losses in 2001 as a result of the sale of securities and charges for other-than-temporary impairments of preferred stock and limited partnerships. The 2001 sales of investments in a loss position was part of a proactive year-end tax selling strategy. Net realized losses from sales of securities totaled $27,291,573, of which $9.6 million is expected to be recovered in federal income taxes paid in 1998, 1999 and 2000. Of this total realized loss, $4.5 million relates to sales of securities of Enron Corporation and its related legal entities. Impairment charges of investments with declines in value considered by management to be other-than-temporary totaled $4,587,601 in 2001.

Net investment income rose 3.1 percent to $49,883,896 for the year ended December 31, 2001 and 11.7 percent to $48,400,343 for the year ended December 31, 2000. The growth in investment income for 2001, 2000 and 1999 was affected by cash outflows used by the Company to repurchase its shares which, through December 31, 2001, totaled $93.4 million. Included in net investment income are primarily interest and dividends on the Company's fixed maturity and equity security portfolios.

Equity in losses of limited partnerships were $6,731 for the year ended December 31, 2001, compared to earnings of $4,733,285 and $640,925 in 2000 and 1999, respectively. Private equity and fixed income limited partnerships realized losses of $1,430,816 in 2001 compared to earnings of $2,807,632 in 2000. Real estate limited partnerships reflected earnings of $1,424,085 in 2001 compared to earnings of $1,925,653 in 2000.

The Company's earnings from its 21.6 percent ownership of Erie Family Life Insurance Company (EFL) totaled $772,711 in 2001, down from $5,491,946 in 2000 and $5,045,131 in 1999. The decrease in level of earnings from the Company's investment in Erie Family Life is related to sales of investments in 2001 resulting in net realized losses on EFL's Statement of Operations. This investment is accounted for under the equity method of accounting.

Financial condition

Investments

The Company's investment strategy takes a long-term perspective emphasizing investment quality, diversification and superior investment returns. Investments are managed on a total return approach that focuses on current income and capital appreciation. The Company's investment strategy also provides for liquidity to meet the short- and long-term commitments of the Company. At December 31, 2001 and 2000, the Company's investment portfolio of investment-grade bonds, common stock, preferred stock and cash and cash equivalents represents 42.6 percent and 46.1 percent, respectively, of total assets. These investments provide the liquidity the Company requires to meet the demands on its funds.

Distribution of investments

Carrying value at December 31 (dollars in thousands)

	2001	%	2000	%
Fixed maturities	$ 559,873	67	$ 531,546	66
Equity securities:				
Preferred stock	130,007	15	109,081	13
Common stock	63,791	7	95,365	12
Limited partnerships	81,596	10	68,242	8
Real estate mortgage loans	5,700	1	6,581	1
Total investments	$ 840,967	100%	$ 810,815	100%

The Company reviews the investment portfolio to evaluate positions that might incur other-than-temporary declines in value. For all investment holdings, general economic conditions and/or conditions specifically affecting the underlying issuer or its industry are considered in evaluating impairment in value. In addition to specific factors, the primary factors considered in the Company's review of investment valuation are the length of time the market value is below cost and the amount the market value is below cost.

For common equity securities (including equity limited partnerships) where the decline in market value is more than 20 percent below cost for a period exceeding six months, there is a presumption of impairment. The Company considers market conditions, industry characteristics and the fundamental operating results of the issuer before deciding to sell the investment at a loss or to recognize an impairment charge to operations. For common equity securities that have declined more than 20 percent below cost for a period exceeding twelve months, the position is either sold or recognized as impaired and a charge to operations is recognized as realized losses through the Consolidated Statements of Operations.

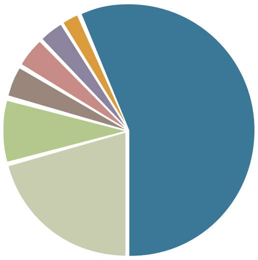
For fixed maturity investments, the Company individually analyzes all positions whose market value have declined more than 20 percent below cost for a period exceeding six months. The Company considers market conditions, industry characteristics and the fundamental operating results of the issuer to determine if the decline is due to changes in interest rates, changes relating to a decline in credit quality, or other issues affecting the investment. Positions that have incurred market price decline of over 20 percent for a period greater than six months where the creditworthiness of the issuer indicates a decline that is other-than-temporary are either sold or recognized as impaired and reflected as a charge to the Company's operations.

If the Company's policy for determining the recognition of impaired positions were different, the Company's Consolidated Statements of Financial Position and results of operations could be significantly impacted. Management believes its investment valuation philosophy and accounting practices result in appropriate and timely measurement of value and recognition of impairment.

Fixed maturities. Under its investment strategy, the Company maintains a fixed maturities portfolio that is of very high quality and well diversified within each market sector. The fixed maturities portfolio is managed with the goal of achieving reasonable returns while limiting exposure to risk. At December 31, 2001, the carrying value of fixed maturity investments represented 66.6 percent of total invested assets.

Diversification of fixed maturities

Carrying value at December 31, 2001

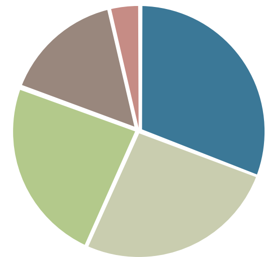


- U.S. industrial & misc.- - - - - - - - **57%**
- Special revenue - - - - - - - - - - - **20%**
- States & political subdivisions- - - - **8%**
- Foreign - - - - - - - - - - - - - - - - - - **5%**
- Public utilities - - - - - - - - - - - - - **5%**
- Redeemable preferred stock - - - - **3%**
- Other- - - - - - - - - - - - - - - - - - - **2%**

The Company's fixed maturity investments consist 96.9 percent of high-quality, marketable bonds and redeemable preferred stock, all of which were rated at investment-grade levels (above Ba/BB) at December 31, 2001. Included in this investment-grade category are $230.2 million, or 41.1 percent, of the highest quality bonds and redeemable preferred stock rated Aaa/AAA or Aa/AA or bonds issued by the United States government. Generally, the fixed maturities in the Company's portfolio are rated by external rating agencies. If not externally rated, they are rated by the Company on a basis consistent with that used by the rating agencies. Management classifies all fixed maturities as available-for-sale securities, allowing the Company to meet its liquidity needs and provide greater flexibility for its investment managers to appropriately respond to changes in market conditions or strategic direction.

Quality* of fixed maturities

Carrying value at December 31, 2001



- Aaa/AAA- - - - - - - - - **27%**
- Aa/AA- - - - - - - - - - - **14%**
- A- - - - - - - - - - - - - - **24%**
- Baa/BBB- - - - - - - - - - **32%**
- Ba/BB or lower - - - - - - **3%**

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

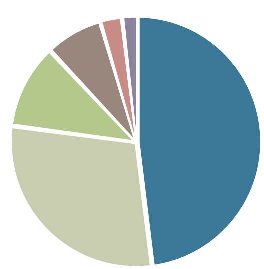
Securities classified as available-for-sale are carried at market value with unrealized gains and losses included in shareholders' equity. At December 31, 2001, the net unrealized gain on fixed maturities, net of deferred taxes, amounted to $10,693,076 compared to $4,793,120 at December 31, 2000.

The Company's investment strategy achieves a balanced maturity schedule in order to moderate investment income in the event of interest rate declines in a year in which a large amount of securities could be redeemed or mature.

Equity securities. Equity securities (common stock and non-redeemable preferred stock) are carried on the Consolidated Statements of Financial Position at market value. At December 31, 2001 and 2000, equity securities held by the Company include net unrealized gains of $22,146,017 and $12,660,439, respectively, net of deferred taxes. Investment characteristics of common and preferred stocks differ substantially from one another. The Company's non-redeemable preferred stock portfolio provides a source of highly predictable current income that is competitive with investment-grade bonds. Non-redeemable preferred stocks generally provide for fixed rates of return that, while not guaranteed, resemble fixed income securities and are paid before common stock dividends. Common stock provides capital appreciation potential within the portfolio. Common stock investments inherently provide no assurance of producing income because dividends are not guaranteed.

Diversification of equity securities

Carrying value at December 31, 2001



- (1) U.S. industrial & misc.- - - - **31%**
- (1) U.S. banks, trusts & insurance companies - - - - **2%**
- (2) U.S. industrial & misc.- - - - **47%**
- (2) Foreign - - - - - - - - - - - - - - **11%**
- (2) U.S. banks, trusts & insurance companies- - - - **8%**
- (2) Public utilities - - - - - - - - - - **1%**

(1) Common stock (2) Nonredeemable preferred stock

Limited partnership investments. The Company's limited partnership investments include U.S. and foreign private equity, real estate and fixed income investments. During 2001, limited partnership investments increased $13,354,660 to $81,596,108. Fixed income and real estate limited partnerships, which comprise 34.5 percent of the total limited partnerships, produce a predictable earnings stream while private equity limited partnerships, which comprise 65.5 percent of the total limited partnerships, tend to provide a less predictable earnings stream but the potential for greater long-term returns.

The Company has outstanding commitments to invest up to $124 million related to these limited partnership investments at December 31, 2001. These commitments will be funded as required through the end of the respective investment periods, which typically span three to five years and principally expire in 2005. At December 31, 2001, the total commitment to fund limited partnerships that invest in private equity securities is $87 million, real estate activities $22 million and fixed income securities $15 million. At December 31, 2001, no one commitment exceeded $7.5 million, or 6 percent, of the outstanding commitment amount. The Company has sufficient cash flows from operations to meet these partnership commitments.

Investment in EFL. EFL markets various life insurance products, principally non-participating individual and group life policies, including universal life and individual and group annuity products, in eleven jurisdictions. The Company's carrying value of $44,683,170 represents 21.63 percent of the shareholders' equity of EFL at December 31, 2001.

Liabilities

Property/casualty loss reserves. *Loss reserves* are established to account for the estimated ultimate costs of loss and loss adjustment expenses for claims that have been reported but not yet settled and claims that have been *incurred but not reported*. The estimated loss reserve for reported claims is based primarily upon a case-by-case evaluation of the type of risk involved and knowledge of the circumstances surrounding each claim and the insurance policy provisions relating to the type of loss. Estimates of reserves for unreported claims and loss settlement expenses are determined on the basis of historical information by line of insurance as adjusted to current conditions. Loss reserves are set at full expected cost, except for loss reserves for workers' compensation which have been discounted at 2.5 percent in 2001 and 2000. Inflation is implicitly provided for in the reserving function through analysis of costs, trends and reviews of historical reserving results.

The process of estimating the liability for unpaid losses and loss expenses is inherently judgmental and can be influenced by factors subject to variation. Possible sources of variation include claim frequency and severity, changing rates of inflation as well as changes in other economic conditions, judicial trends and legislative changes. It is unlikely that future losses and loss adjustment expenses will develop exactly as projected. The Company continually refines reserves as experience develops and new information becomes known. The Company reflects adjustments to reserves in the results of operations in the periods in which the estimates are changed.

At December 31, 2001, the property/casualty insurance companies managed by the Company had estimated total loss exposure related to the events of September 11th of $150 million. Only a nominal amount to date has been paid on losses related to September 11th, which adds greater uncertainty to the loss estimates. Additionally, disputes concerning whether the September 11th attack on the World Trade Center should be considered one or two insurable events are currently being litigated. The Company's $150 million loss estimate anticipates that the events of September 11th is considered one event. If the attack comes to be considered as two events, the total potential exposure for the Erie Insurance Group would increase between $50 million and $75 million. The effect on the Company, as a result, would be additional losses between $2.7 million and $4.1 million. Taking into consideration the excess of loss reinsurance agreement, the net impact of such potential additional losses would be minimal to the Company.

Quantitative and qualitative disclosures about market risk

Interest rate risk

The Company's exposure to market risk for a change in interest rates is concentrated in the investment portfolio. The Company monitors this exposure through periodic reviews of asset and liability positions. Estimates of cash flows and the impact of interest rate fluctuations relating to the investment portfolio are monitored regularly. Generally, the Company does not hedge its exposure to interest rate risk, as it holds fixed maturity investments to maturity.

Principal cash flows and related weighted-average interest rates by expected maturity dates for financial instruments sensitive to interest rates are as follows:

December 31, 2001 (dollars in thousands)	Principal cash flows	Weighted-average interest rate
Fixed maturities:		
2002	$ 37,245	6.5%
2003	35,245	6.5%
2004	37,978	7.0%
2005	49,515	6.3%
2006	55,340	6.5%
Thereafter	330,872	7.5%
Total	$ 546,195	
Market Value	$ 574,874	

December 31, 2000 (dollars in thousands)	Principal cash flows	Weighted-average interest rate
Fixed maturities and short-term bonds:		
2001	$ 54,677	6.5%
2002	55,203	6.6%
2003	49,720	6.7%
2004	47,852	7.0%
2005	59,775	6.5%
Thereafter	289,077	7.2%
Total	$ 556,304	
Market Value	$ 561,502	

Actual cash flows may differ from those stated as a result of calls and prepayments.

Equity price risk

The Company's portfolio of marketable equity securities, which is carried on the Consolidated Statements of Financial Position at estimated fair value, has exposure to price risk, the risk of potential loss in estimated fair value resulting from an adverse change in prices. The Company's objective is to earn competitive relative returns by investing in a diverse portfolio of high-quality, liquid securities. Portfolio characteristics are analyzed regularly and market risk is actively managed through a variety of techniques. Portfolio holdings are diversified across industries; concentrations in any one company or industry are limited by parameters established by management and the Company's Board of Directors.

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, 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. With respect to the management fee, funds are generally received from the Exchange on a premiums collected basis. The other receivable from Erie Insurance Exchange and affiliates represents the management fee receivable from premiums written but not yet collected as well as the management fee receivable on premiums collected in the current month, net of operating expenses paid by the Exchange. The Company pays commissions on premiums collected rather than premiums written. Cash outflows are variable because of the fluctuations in settlement dates for liabilities for unpaid losses and because of the potential for large losses, either individually or in aggregate.

The Company generates sufficient net positive cash flow from its operations to fund its commitments and 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, equity securities and short-term investments. Net cash flows provided by operating activities for the years ended December 31, 2001, 2000 and 1999, were $148,607,987, $130,614,256 and $136,967,568, respectively.

The Company pays nearly all general and administrative expenses on behalf of the Exchange and other affiliated companies. The Exchange generally reimburses the Company for these expenses on a paid basis each month.

Management fee and expense reimbursements due at December 31 from the Exchange were $147,344,684 and $117,961,638 in 2001 and 2000, respectively. A receivable from EFL for expense reimbursements totaled $2,255,597 at December 31, 2001, compared to $1,997,012 at December 31, 2000. The Company also has a receivable due from the Exchange for reinsurance recoverable from losses and unearned premium balances ceded to the intercompany reinsurance pool. Such amounts totaled $491,055,048 and $412,049,637 at December 31, 2001 and 2000, respectively.

Beginning in 1999, the Company established a stock repurchase program. The Company may repurchase as much as $120 million of its outstanding Class A common stock through December 31, 2002. In 2001, there were 220,000 shares repurchased at a total cost of $7,653,916. Since its inception, 3,195,677 shares have been repurchased at a total cost of $93,373,265. The Company may purchase the shares from time to time in the open market or by privately negotiated transactions, depending on prevailing market conditions and alternative uses of the Company's capital.

Dividends declared to shareholders totaled $40,407,734, $36,188,667 and $32,802,428 in 2001, 2000 and 1999, respectively. There are no regulatory restrictions on the payment of dividends to the Company's shareholders, although there are state law restrictions on the payment of dividends from the Company's subsidiaries to the Company. Dividends from subsidiaries are not material to the Company's cash flows.

Temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities that give rise to deferred tax assets and liabilities resulted in net deferred tax liabilities at December 31, 2001 and 2000 of $12,944,678 and $7,161,544, respectively. The primary reason for the increase in the deferred tax liability is an increase in unrealized gains from available-for-sale securities and limited partnerships in 2001 of $18,013,789 resulting in an increase in deferred tax liability of $6,304,826. Management believes it is likely that the Company will have sufficient taxable income in future years to realize the benefits of the gross 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 that, in A.M. Best's opinion, have achieved superior overall performance when compared to the standards established by A.M. Best and have a very strong ability to meet their obligations to policyholders over the long term. Financial strength ratings have become increasingly important to the insurers managed by the Company and to the industry in marketing insurance products.

Regulatory risk-based capital

The *NAIC* standard for measuring the solvency of insurance companies, referred to as Risk-Based Capital (RBC), is a method of measuring the minimum amount of capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The RBC formula is used by state insurance regulators as an early warning tool to identify, for the purpose of initiating regulatory action, insurance companies that potentially are inadequately capitalized. In addition, the formula defines minimum capital standards that will supplement the current system of low fixed minimum capital and surplus requirements on a state-by-state basis. At December 31, 2001, the Company's property/casualty insurance subsidiaries' RBC levels are all substantially in excess of levels that would require regulatory action.

Reinsurance risk

The property/casualty insurers managed by the Company do not maintain any ceded reinsurance treaties with unaffiliated insurers due to their strong surplus position, the cost of reinsurance and low ratio of the premium writings to surplus. The Company does not believe the absence of ceded 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. 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 or series of events. The Company's reinsurance agreement in effect with the Exchange mitigates catastrophe loss exposure risk to the Company's property/casualty insurance subsidiaries, but does not mitigate the exposure of the Exchange.

Factors that may affect future results

Management operations

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

Insurance pricing conditions. Given the direct correlation of direct premium written to the management fee revenue of the Company, the premium growth and financial viability of the property/casualty insurers managed by the Company bear directly on the ongoing profitability of the Company. Competitive conditions have exerted downward pressure on property/casualty insurance pricing and characteristically soft market conditions (favoring buyers of insurance) have prevailed for some time in both commercial and personal lines of insurance. During 2001, prices for commercial insurance have firmed considerably and personal lines prices have stabilized and started to trend higher. These trends accelerated after the events of September 11th. The Company continually evaluates pricing levels balancing competitive conditions and the need to maintain the solid financial condition of the insurers it manages. Pricing actions contemplated or taken by the insurers of the Erie Insurance Group are subject to various regulatory requirements of the states in which these insurers operate. Premium increases anticipated in 2002, due to pricing actions contemplated, filed and awaiting approval, or approved through December 31, 2001, could amount to approximately $107 million in premium for the Erie Insurance Group in 2002. The majority of the anticipated increase stems from the private passenger and commercial auto lines of business as well as the homeowner line of business. Further rate actions will be contemplated during 2002 and future years affecting the overall competitiveness and profitability of the Erie Insurance Group and the management fee levels of the Company.

The Company also receives service agreement revenue from the Exchange as compensation for management of its voluntary assumed non-affiliated reinsurance business. The Company's service fee is 7 percent of the non-affiliated assumed voluntary reinsurance premiums. During the 2002 reinsurance renewal season, the Exchange has been obtaining significant price increases on treaties it is renewing. On average, renewal rates online are 40 to 50 percent above

2001 rates. However, the Exchange is reducing its aggregate exposure in non-affiliated assumed voluntary reinsurance by non-renewing unprofitable business, excluding terrorism coverage, and restricting exposure on certain types of risks. As a result of raising prices and lowering aggregate exposure in non-affiliated assumed voluntary reinsurance, the Company anticipates reinsurance premium volume will be at or slightly below the 2001 premium level.

Insurance operations

Geographic expansion. On December 6, 2001, the Company announced the Erie Insurance Group's intention to expand its operations into Minnesota. Minnesota will be the 12th state served by the Group, in addition to the District of Columbia. Beginning in the third quarter of 2004, the Group intends to write all lines of insurance it currently offers, including auto, home, business, life and annuities in Minnesota.

Incurred But Not Reported (IBNR) losses. The insurance companies owned and managed by the Company are exposed to new claims on previously closed files and to larger than historical settlements on pending and unreported claims. The Company is exposed to increased losses by virtue of its 5.5 percent participation in the intercompany reinsurance pooling agreement with the Exchange.

Insurance premium rate increases. Premium rate filings impact the Company's property/casualty insurance subsidiaries. Rate increases filed in 2001 for the private passenger auto, commercial auto, workers' compensation and homeowners lines of business in various states were sought to offset growing loss costs in these particular lines. See additional discussion of premium levels and pricing in the insurance pricing conditions section above.

Insurance company insolvencies. The insurance companies owned and managed by the Company pay assessments under the solvency or guaranty laws of the various states in which they are licensed. During 2001, the Company received notification of the insolvency of the Reliance Insurance Group. As a result, the Erie Insurance Group property/casualty insurance companies recorded an estimated assessment of $36.8 million, before consideration of potential premium tax recoveries of $5.9 million. The Company's share of this assessment was $1.7 million and was recorded in the policy acquisition and other underwriting expenses during the fourth quarter of 2001. This estimate was based upon preliminary data relating to this insolvency and is subject to change as more information becomes available. There are other insurance company insolvencies that could impact future underwriting results of the Company, one of which is Pennsylvania-based PHICO Insurance Company, which became insolvent in late 2001. The impact of this insolvency on the Company's financial results cannot be reasonably estimated at this time.

Information technology costs. In 2001, the Company began a comprehensive program of eCommerce initiatives in support of the Erie Insurance Group's business model of distributing insurance products exclusively through independent Agents. The eCommerce program includes initiatives to replace property/casualty policy administration systems as well as Agent and customer interaction systems. The program also includes significant information technology infrastructure expenditures. It is intended to improve service and efficiency, as well as result in increased sales. Total three-year expenditures for the program are estimated at $175 million. The cost of these initiatives will be shared among several companies of the Erie Insurance Group, including the Company. The costs of the eCommerce program reduced after-tax net income of the Company by $0.03 per share for 2001. Current cost estimates indicate an additional reduction in the Company's after-tax earnings per share of between $0.15 and $0.17 per share in 2002 and between $0.04 and $0.06 per share in 2003.

Regulatory

Federal chartering. Congress is considering legislation that would create an optional federal charter for insurers. The "Insurance Industry Modernization Act" would establish an Office of National Insurers within the Treasury Department. The office would have the power to charter, license and regulate "national insurers" and its director would be required to establish a Division of Consumer Affairs within the office. The proposed legislation would repeal the McCarran-Ferguson Act, except for the sharing of historical loss data and activities associated with participation in mandatory residual market and workers' compensation mechanisms.

Federal chartering has the potential to create an uneven playing field for insurers. Federally chartered companies could be subject to different regulatory requirements than state chartered insurers in the areas of market conduct oversight, solvency regulation, guaranty fund participation and premium tax burdens. If this occurs, federally chartered insurers may obtain a competitive advantage over state licensed carriers. The federal proposal also raises the specter of a matrix of regulation and costly duplicative, or conflicting, federal and state requirements. Finally, the partial repeal of McCarran-Ferguson poses a threat to industry practices, which are currently exempt from antitrust scrutiny.

Terrorism. The tragic September 11th attacks resulted in staggering losses for the insurance industry and have caused uncertainty in the insurance and reinsurance market. The industry has been compelled to re-examine policy language and to address the potential for future threats of terrorist events and losses. ERIE's personal and commercial property and casualty insurance policies were not intended to cover the risk of terrorist events and losses such as those suffered in the September 11th attacks. It is difficult to predict and measure the risks associated with possible future terrorist attacks.

To address the industry's terrorism exposure, insurers have been working with Congress, the White House and other interested parties to enact legislation that would help spread the risk of future terrorist losses. However, no federal backstop legislation has been passed and future legislation is uncertain.

Regulators in states in which ERIE does business, with the exception of New York, have approved limited optional terrorism exclusion endorsements for use only on commercial property and liability lines within the framework developed by ISO (Insurance Services Office, Inc.). These endorsements exclude claims for terrorist acts involving the release of biological, chemical, nuclear or radioactive materials. In other incidents of terrorism, thresholds must be met before the exclusion will apply. For both property and liability coverage, insured property damage must exceed $25 million. For liability coverage, the exclusion will also apply if more than 50 people sustain serious physical injury. When the threshold is met, there is no coverage. ERIE has made the necessary filings to obtain approval for use of these optional exclusions where deemed necessary.

The National Association of Insurance Commissioners (NAIC) has recently announced a resolution to deny terrorism exclusions on personal lines policies. NAIC action is advisory and states have approval authority; however, it is likely that many states will follow the NAIC resolution. Through its trade organizations and grassroots efforts, ERIE continues to work toward a federal solution.

The Company's substantial portfolio of equity and fixed income investments could also be affected by potential future terrorist actions, which may affect the level of economic activity as well as investor confidence in the U.S. capital markets.

Mold. Over the course of the last several years, the industry has experienced several significant jury verdicts handed down in cases involving property damage and personal injuries, arguably related to mold. Potentially, The ERIE could see an increase in the number of claims from both a first party and a third party coverage context. The Company has created a mold task force committee which is in the process of reviewing all of The ERIE's personal and commercial policies in order to determine the feasibility of limiting claims. Presently, the committee is studying various options ranging from an outright exclusion of mold coverage to an exclusion with a buy-back endorsement for coverage.

Privacy. The insurance industry continues to address compliance issues required by the Gramm Leach Bliley Financial Services Modernization Act (GLBA) and the Health Insurance Portability and Accountability Act (HIPAA).

The GLBA places limits on how insurers may use and disclose consumer information. It also requires all financial institutions to adopt internal policies and procedures to protect the privacy and security of consumer information and to deliver an annual privacy notice to all customers. Following delivery of these notices in July 2001, consumer groups complained that the notices were legalistic, complex and generally not "consumer friendly." In response, the NAIC organized a task force to study the adoption of simplified model language for insurer privacy notices. The NAIC has also proposed model regulations that address the security of consumer information and provide standards for insurance departments to measure compliance with privacy laws.

In February 2001, the Department of Health and Human Services (HHS) issued regulations under HIPAA requiring health plans, health care providers and health care clearinghouses ("covered entities") to adopt privacy policies for the protection of health information. Regulations have also been adopted to set standards for the electronic transfer of health information. Although the Company's insurance operations are not directly subject to the regulations, the Company will be required to comply if it elects to engage in the electronic transfer of information to and from covered entities. The Company's health plan for Employees, which is a covered entity under the regulations, will be required to reach compliance by April 2003.

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: Certain forward-looking statements contained herein involve risks and uncertainties. Many factors could cause future results to differ materially from those discussed. Examples of such factors include variations in catastrophe losses due to changes in weather patterns, other natural causes or terrorist actions; changes in insurance regulations or legislation that disadvantage the members of the Group in the marketplace and recession; economic conditions or stock market changes affecting pricing or demand for insurance products or ability to generate investment income and returns. Growth and profitability have been and will be potentially materially affected by these and other factors.

Glossary of selected insurance terms

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

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

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

Direct premiums written: Premiums on policies written by an insurer with the Policyholder.

GAAP combined ratio: Ratio of acquisition and underwriting expenses, losses and loss adjustment expenses incurred to premiums earned, computed under Generally Accepted Accounting Principles.

Gross margins from management operations: Net revenues from management operations divided by total revenues from management operations.

Incurred but not reported: Estimated liabilities established by an insurer to reflect the losses estimated to have occurred but that are not yet known by the insurer.

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

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

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.

Policy retention: The percentage of existing Policyholders who renew their policies.

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

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

Selected segment information

The direct written premiums of the Erie Insurance Group have a direct impact on the Company's management fee revenue and, consequently, the Company's management operations. The Company's insurance underwriting operations are impacted by the mix of the group's direct written premium. Below is a summary of direct written premiums of the Erie Insurance Group by state and line of business.

	Years ended December 31		
	2001	**2000**	**1999**
Premiums written as a percent of total by state:			
District of Columbia	0.3%	0.3%	0.2%
Illinois	1.2	0.6	0.2
Indiana	4.2	4.0	3.9
Maryland	11.9	11.9	11.9
New York	3.1	2.7	2.2
North Carolina	5.3	4.6	4.1
Ohio	8.2	8.0	7.9
Pennsylvania	51.7	53.9	55.6
Tennessee	1.6	1.4	1.3
Virginia	8.0	8.0	8.1
West Virginia	4.4	4.6	4.6
Wisconsin	0.1	0.0	0.0
Total direct premiums written	100.0%	100.0%	100.0%
Premiums written by line of business:			
Personal			
Automobile	54.6%	56.9%	59.5%
Homeowners	16.0	16.1	15.7
Other	1.2	1.3	0.9
Total personal	71.8%	74.3%	76.1%
Commercial			
Automobile	8.3%	7.8%	7.3%
Workers' compensation	8.0	7.2	6.5
Commercial multi-peril	10.2	9.1	8.3
Other	1.7	1.6	1.8
Total commercial	28.2%	25.7%	23.9%

The growth rate of policies in force and policy retention trends can impact the Company's management and property/casualty operating segments. Below is a summary of each by line of business for the Erie Insurance Group's property/casualty business.

	Years ended December 31 (amounts in thousands)		
	2001	**2000**	**1999**
Policies in force:			
Personal lines	2,724	2,517	2,368
Commercial lines	386	349	322
Total policies in force	3,110	2,866	2,690
Policy retention percentages:			
Personal policy retention percentages	91.3%	91.5%	91.0%
Commercial policy retention percentages	87.7%	85.9%	84.1%
Total policy retention percentages	90.9%	91.0%	90.5%

Report of management

The management of Erie Indemnity Company is responsible for the preparation of information included in the financial statements in this annual report to shareholders. The financial statements have been prepared in conformity with Generally Accepted Accounting Principles. The balances in the financial statements are developed from the financial records of the Company and reflect estimates using judgment where amounts cannot be measured precisely or for transactions not yet complete.

The Company's system of internal control is designed to safeguard Company assets from unauthorized use or disposition and to provide for proper authorization, execution and recording of Company transactions. Company personnel design, maintain and monitor internal control on an ongoing basis. In addition, the Company's internal auditors review and report on the functioning of various aspects of internal control.

The Audit Committee of the Board of Directors, composed of outside directors, meets periodically with the Company's management, internal auditors and independent auditors to review the work of each and to inquire as to their assessment of the performance of Company financial personnel. The independent auditors and internal auditors have full and free access to the Audit Committee, without the presence of management, to discuss results of work performed and communicate other appropriate matters.

Jan R. Van Gorder
Acting President and Chief Executive Officer
February 7, 2002

Philip A. Garcia
Executive Vice President and Chief Financial Officer
February 7, 2002

Timothy G. NeCastro
Senior Vice President and Controller
February 7, 2002

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, 2001 and 2000, and the related Consolidated Statements of Operations, Shareholders' Equity, and Cash Flows for each of the three years in the period ended December 31, 2001. 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 auditing standards generally accepted in the United States of America. 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, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

Malin, Bergquist & Company, LLP

Malin, Bergquist & Company, LLP
Erie, Pennsylvania
February 7, 2002

Consolidated statements of operations

Years ended December 31 (amounts in thousands, except per share data)

	2001	2000	1999
Management operations			
Management fee revenue	$ 634,966	$ 551,646	$ 513,375
Service agreement revenue	27,247	22,662	15,441
Total revenue from management operations	662,213	574,308	528,816
Cost of management operations	477,645	415,562	380,298
Net revenue from management operations	**$ 184,568**	**$ 158,746**	**$ 148,518**
Insurance underwriting operations			
Premiums earned	$ 137,648	$ 123,708	$ 117,224
Losses and loss adjustment expenses incurred	117,201	99,564	87,719
Policy acquisition and other underwriting expenses	40,910	34,546	33,044
Total losses and expenses	$ 158,111	$ 134,110	$ 120,763
Underwriting loss	**$ (20,463)**	**$ (10,402)**	**$ (3,539)**
Investment operations			
Net investment income	$ 49,884	$ 48,401	$ 43,344
Net realized (losses) gains on investments	(31,879)	16,968	14,746
Equity in earnings of Erie Family Life Insurance Company	773	5,492	5,045
Equity in (losses) earnings of limited partnerships	(7)	4,733	641
Net revenue from investment operations	**$ 18,771**	**$ 75,594**	**$ 63,776**
Income before income taxes	$ 182,876	$ 223,938	$ 208,755
Provision for income taxes	60,615	71,545	65,649
Net income	**$ 122,261**	**$ 152,393**	**$ 143,106**
Net income per share	**$ 1.71**	**$ 2.12**	**$ 1.95**
Weighted average shares outstanding	**71,342**	**71,954**	**73,487**

See accompanying notes to consolidated financial statements.

Consolidated statements of financial position

As of December 31 (dollars in thousands)

Assets	2001	2000
Investments		
Fixed maturities at fair value (amortized cost of $543,423 and $524,172, respectively)	$ 559,873	$ 531,546
Equity securities at fair value (cost of $159,727 and $184,968, respectively)	193,798	204,446
Limited partnerships (cost of $79,668 and $60,661, respectively)	81,596	68,242
Real estate mortgage loans	5,700	6,581
Total investments	**$ 840,967**	**$ 810,815**
Cash and cash equivalents	$ 88,213	$ 38,778
Accrued investment income	9,138	9,087
Premiums receivable from Policyholders	186,175	156,269
Prepaid federal income taxes	14,056	3,604
Reinsurance recoverable from Erie Insurance Exchange	491,055	412,050
Note receivable from Erie Family Life Insurance Company	15,000	15,000
Other receivables from Erie Insurance Exchange and affiliates	149,600	119,959
Reinsurance recoverable non-affiliates	372	712
Deferred policy acquisition costs	17,018	13,202
Property and equipment	14,635	13,856
Equity in Erie Family Life Insurance Company	44,683	42,331
Other assets	64,654	44,936
Total assets	**$ 1,935,566**	**$ 1,680,599**

Liabilities and shareholders' equity

Liabilities	2001	2000
Unpaid losses and loss adjustment expenses	$ 557,278	$ 477,879
Unearned premiums	311,969	263,855
Commissions payable and accrued	110,121	96,823
Accounts payable and accrued expenses	46,164	30,476
Deferred income taxes	12,945	7,161
Dividends payable	10,930	9,839
Employee benefit obligations	20,904	15,551
Total liabilities	**$ 1,070,311**	**$ 901,584**
Shareholders' equity		
Capital stock		
Class A common, stated value $.0292 per share; authorized 74,996,930 shares; 67,032,000 shares issued; 63,836,323 and 64,056,323 shares outstanding in 2001 and 2000, respectively	$ 1,955	$ 1,955
Class B common, stated value $70 per share; authorized 3,070 shares; 3,070 shares issued and outstanding	215	215
Additional paid-in capital	7,830	7,830
Accumulated other comprehensive income	35,222	23,182
Retained earnings	913,406	831,552
Total contributed capital and retained earnings	**$ 958,628**	**$ 864,734**
Treasury stock, at cost, 3,195,677 shares in 2001 and 2,975,677 shares in 2000	(93,373)	(85,719)
Total shareholders' equity	**$ 865,255**	**$ 779,015**
Total liabilities and shareholders' equity	**$ 1,935,566**	**$ 1,680,599**

See accompanying notes to consolidated financial statements.

Consolidated statements of cash flows

	Years ended December 31 (dollars in thousands) 2001	2000	1999
Cash flows from operating activities			
Net income	$ 122,261	$ 152,393	$ 143,106
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,350	2,745	1,766
Deferred income tax expense (benefit)	1,013	(2,112)	(1,311)
Amortization of deferred policy acquisition costs	24,276	22,793	22,507
Realized loss (gain) on investments	31,879	(16,968)	(14,746)
Equity in losses (income) from limited partnerships	7	(4,733)	(641)
Net amortization of bond (discount) premium	(199)	(43)	80
Undistributed earnings of Erie Family Life	0	(4,020)	(3,696)
Dividends received in excess of undistributed earnings-Erie Family Life	821	0	0
Deferred compensation	294	642	1,212
Increase in accrued investment income	(51)	(1,089)	(745)
Increase in receivables	(138,213)	(76,240)	(6,274)
Policy acquisition costs deferred	(28,092)	(24,591)	(23,049)
Increase in prepaid expenses and other assets	(14,460)	(939)	(6,185)
Increase in accounts payable and accrued expenses	16,362	8,068	3,343
Increase in commissions payable and accrued	13,298	3,950	7,868
Increase in income taxes recoverable	(10,452)	(629)	(466)
Increase in loss reserves	79,398	44,984	6,730
Increase in unearned premiums	48,115	26,403	7,469
Net cash provided by operating activities	**$ 148,607**	**$ 130,614**	**$ 136,968**
Cash flows from investing activities			
Purchase of investments:			
Fixed maturities	$ (235,854)	$ (153,029)	$ (162,769)
Equity securities	(67,549)	(54,649)	(71,637)
Mortgage loans	0	0	(66)
Limited partnership investments	(28,380)	(24,753)	(20,667)
Sales/maturities of investments:			
Fixed maturity sales	109,634	61,333	30,927
Fixed maturity calls/maturities	80,223	59,570	64,094
Equity securities	90,589	55,596	84,187
Mortgage loans	882	1,649	123
Limited partnership sales or distributions	6,634	6,227	1,368
Purchase of property and equipment	(2,014)	(308)	(444)
Purchase of computer software	(1,113)	(1,032)	(4,194)
Loans to Agents	(7,612)	(1,781)	(3,459)
Collections on Agent loans	2,358	1,719	2,582
Net cash used in investing activities	**$ (52,202)**	**$ (49,458)**	**$ (79,955)**
Cash flows from financing activities			
Dividends paid to shareholders	$ (39,316)	$ (35,203)	$ (32,049)
Purchase of treasury stock	(7,654)	(31,389)	(54,330)
Net cash used in financing activities	**$ (46,970)**	**$ (66,592)**	**$ (86,379)**
Net increase (decrease) in cash and cash equivalents	49,435	14,564	(29,366)
Cash and cash equivalents at beginning of year	38,778	24,214	53,580
Cash and cash equivalents at end of year	**$ 88,213**	**$ 38,778**	**$ 24,214**

Supplemental disclosures of cash flow information: Cash paid during the years ended December 31, 2001, 2000 and 1999, for income taxes was $70,751, $74,286 and $67,495, respectively.

See accompanying notes to consolidated financial statements.

Consolidated statements of shareholders' equity

Years ended December 31, 2001, 2000 and 1999 (dollars in thousands, except per share data)

	Total shareholders' equity	Comprehensive income	Retained earnings	Accumulated other comprehensive income	Class A common	Class B common	Additional paid-in capital	Treasury stock
Balance, January 1, 1999	**$ 655,223**		**$ 605,045**	**$ 40,178**	**$ 1,955**	**$ 215**	**$ 7,830**	**$ 0**
Comprehensive income								
Net income	143,106	143,106	143,106					
Unrealized depreciation of investments, net of tax	(13,597)	(13,597)		(13,597)				
Comprehensive income		$ 129,509						
Purchase of treasury stock	(54,330)							(54,330)
Dividends declared:								
Class A $.495 per share	(32,575)		(32,575)					
Class B $74.25 per share	(228)		(228)					
Balance, December 31, 1999	**$ 697,599**		**$ 715,348**	**$ 26,581**	**$ 1,955**	**$ 215**	**$ 7,830**	**$(54,330)**
Comprehensive income								
Net income	152,393	152,393	152,393					
Unrealized depreciation of investments, net of tax	(3,399)	(3,399)		(3,399)				
Comprehensive income		$ 148,994						
Purchase of treasury stock	(31,389)							(31,389)
Dividends declared:								
Class A $.5575 per share	(35,932)		(35,932)					
Class B $83.625 per share	(257)		(257)					
Balance, December 31, 2000	**$ 779,015**		**$ 831,552**	**$ 23,182**	**$ 1,955**	**$ 215**	**$ 7,830**	**$(85,719)**
Comprehensive income								
Net income	122,261	122,261	122,261					
Unrealized appreciation of investments, net of tax	14,890	14,890		14,890				
Minimum pension liability adjustment, net of tax	(2,850)	(2,850)		(2,850)				
Comprehensive income		$ 134,301						
Purchase of treasury stock	(7,654)							(7,654)
Dividends declared:								
Class A $.6275 per share	(40,119)		(40,119)					
Class B $94.125 per share	(288)		(288)					
Balance, December 31, 2001	**$ 865,255**		**$ 913,406**	**$ 35,222**	**$ 1,955**	**$ 215**	**$ 7,830**	**$(93,373)**

See accompanying notes to consolidated financial statements.

Note 1.
Nature of business

Erie Indemnity Company (Company), formed in 1925, is the attorney-in-fact for the Erie Insurance Exchange (Exchange), a reciprocal insurance exchange. The Company earns a management fee for management services provided to the Exchange and its affiliates. The Exchange is a Pennsylvania-domiciled property/casualty insurer rated A++ Superior by A.M. Best. The Exchange is the 23rd largest insurer in the United States based on net premiums written for all lines of business. See also Note 10.

The Company's property/casualty insurance subsidiaries also share proportionately in the results of all property/casualty insurance underwriting operations of the Exchange. The Exchange, Erie Insurance Company (EIC), a wholly-owned subsidiary of the Company and the Erie Insurance Company of New York (EINY), a wholly-owned subsidiary of the EIC, are part of an intercompany pooling agreement. Under this agreement, EIC and EINY cede 100% of their property/casualty insurance business, including property/casualty insurance operations assets and liabilities, to the Exchange. Erie Insurance Property & Casualty Company, a wholly-owned subsidiary of the Company, and Flagship City Insurance Company, owned by the Exchange, participate in a quota share agreement where all insurance business is ceded to the Exchange. The Exchange retrocedes to EIC and EINY a specified percentage (5% for EIC and .5% for EINY during 2001, 2000 and 1999) of all pooled property/casualty insurance business, including insurance operations assets and liabilities. Insurance ceded by EIC, EINY, Erie Insurance Property & Casualty Company and Flagship City Insurance Company to the Exchange does not relieve EIC and EINY from their primary liability as the original insurers. See also Note 12.

The Exchange, EIC and EINY, together with the Erie Insurance Property & Casualty Company and the Flagship City Insurance Company, as well as the Erie Family Life Insurance Company (EFL), operate collectively as the "Erie Insurance Group (EIG)."

The property/casualty insurers of the Erie Insurance Group operate in 11 states and the District of Columbia. Business consists, to a large extent, of private passenger and commercial automobile, homeowners and workers' compensation insurance in Pennsylvania, Ohio, West Virginia, Maryland and Virginia.

Note 2.
Significant accounting policies

Basis of presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America that differ from statutory accounting practices prescribed or permitted for insurance companies by regulatory authorities. See also Note 13.

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. The 21.6% equity ownership of EFL is not consolidated, but accounted for under the equity method of accounting.

Reclassifications

Certain amounts reported in prior years have been reclassified to conform to the current year's financial statement presentation.

Use of estimates

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

Investments and cash equivalents

Fixed maturities 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, notes and redeemable preferred stock. Available-for-sale securities are stated at fair value, with the unrealized gains and losses, net of deferred tax, reflected in shareholders' equity in accumulated other comprehensive income. There are no securities classified as "trading" or "held-to-maturity." Realized gains and losses on sales of investments are recognized in income on the specific identification method. Interest and dividend income is recorded as earned.

Limited partnerships include U.S. and foreign private equity, real estate and fixed income investments. The private equity limited partnerships invest primarily in small- to medium-sized companies. Limited partnerships are recorded using the equity method, which approximates the Company's share of the carrying value of the partnership. Unrealized gains and losses on private equity limited partnerships are reflected in shareholders' equity in accumulated other comprehensive income, net of deferred taxes. The Company has not guaranteed any of the partnership liabilities.

When a decline in value of investments is considered to be other-than-temporary by Company management, the investments are written down to realizable value. The write-down is made on an individual security or limited partnership basis and is considered a realized loss in the Consolidated Statements of Operations.

Mortgage loans on commercial real estate are recorded at unpaid balances, adjusted for amortization of premium or discount. A valuation allowance would be provided for impairment in net realizable value based on periodic valuations as needed.

Cash equivalents are principally comprised of investments in bank money market funds and approximate fair value.

Derivatives

Financial Accounting Standards Board Statement of Financial Accounting Standards (FAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS 133) became effective for fiscal years beginning after June 15, 1999. Sections of FAS 133 were subsequently amended by FAS 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities" (an amendment of FAS 133, which became effective for all fiscal quarters of all fiscal years beginning after June 15, 2000). FAS 133 and FAS 138 establish accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The accounting for changes in the fair value of a derivative, i.e., gains and losses, depends on the intended use of the derivative and the resulting designation. For derivatives not designated as a hedging instrument, the gain or loss is recognized in earnings in the period of change. Credit risk is managed by entering into transactions using a bank counterparty with a high credit rating. See also Note 3.

Fair value of financial instruments

Fair values of available-for-sale securities are based on quoted market prices, where available, or dealer quotations. The carrying amounts reported in the Consolidated Statements of Financial Position approximate fair value. The carrying value of receivables and liabilities arising in the ordinary course of business approximates fair value.

Deferred policy acquisition costs

Commissions and other costs of acquiring insurance that vary with, and are primarily related to, the production of new and renewal business are deferred and amortized over the terms of the policies or reinsurance treaties to which they relate. The amount of costs to be deferred would be reduced to the extent future policy premiums and anticipated investment income would not exceed related losses, expenses and Policyholder dividends. There have been no reduction in costs deferred in any of the years presented. Amortization expense, which is included in policy acquisition and other underwriting expenses of the insurance underwriting operations, equaled $24,276, $22,793 and $22,507 in 2001, 2000 and 1999, respectively.

Insurance liabilities

Losses incurred refer to amounts paid or expected to be paid for loss events which have occurred through the balance sheet date. The cost of investigating, resolving and processing claims are referred to as "loss adjustment expenses." A liability is established for the total unpaid cost of losses and loss adjustment expenses, including events occurring in current and prior years. Losses are reported on the Consolidated Statements of Operations in insurance underwriting operations.

The liability for losses and loss adjustment expenses includes an amount determined from loss reports and individual cases and an amount, based on past experience, for losses incurred but not reported. Inflation is provided for in the reserving function through analysis of costs, trends and reviews of historical reserving results. Such liabilities are necessarily based on estimates and, while management believes the amount is appropriate, the ultimate liability may differ from the amounts provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments considered necessary are reflected in current earnings. Loss reserves, as permitted by insurance department statute, are set at full expected cost except for loss reserves for workers' compensation, which have been discounted at 2.5% in 2001 and 2000. Unpaid losses and loss adjustment expenses in the Consolidated Statements of Financial Position were reduced by $2,390 and $1,509 at December 31, 2001 and 2000, respectively, due to discounting. The reserves for losses and loss adjustment expenses are reported net of receivables for salvage and subrogation of $3,661 and $3,349 at December 31, 2001 and 2000, respectively.

Environment-related claims

In establishing the liability for unpaid losses and loss adjustment expenses related to environmental claims, management considers facts currently known and the current state of the law and coverage litigation. Liabilities are recognized for known claims (including the cost of related litigation) when sufficient information has been developed to indicate the involvement of a specific insurance policy, and management can reasonably estimate its liability. In addition, liabilities have been established to cover additional exposures on both known and unasserted claims. Estimates of the liabilities are reviewed and updated continually. The total amount of the Company's property/casualty subsidiaries' share of paid losses and loss reserves pertaining to environment-related claims is immaterial.

Liability for guaranty fund and other assessments

The Company's property/casualty insurance subsidiaries may be required, under the solvency or guaranty laws of the various states in which they are licensed, to pay assessments up to prescribed limits to fund Policyholder losses or liabilities of insolvent insurance companies. The liability for guaranty fund or other assessments is recorded when the event obligating the Company has occurred and the amount can be reasonably estimated. The estimated liability for guaranty fund and other assessments at December 31, 2001 and 2000, totaled $2,383 and $592, respectively. During 2001, the Company received notification of the insolvency of Reliance Insurance Company. It is expected this insolvency will result in guaranty fund liabilities to be assessed the Company's property/casualty insurance subsidiaries. The Company has recorded an estimated liability that has been charged to operations in the current period based on preliminary data relating to this insolvency. The estimated liability for the Reliance insolvency is $2,024 at December 31, 2001.

Certain states permit these assessments, or a portion thereof, to be recovered as an offset to future premium taxes. When an assessment can be recovered, an asset is established on a basis consistent with the credits to be realized under applicable state law. During 2001, the Company's property/casualty insurance subsidiaries recorded an asset of $559 related to these recoverable credits which will be recovered in accordance with state law which ranges between a 5- and 10-year period. These liabilities and corresponding recoverable assets are presented gross on the Consolidated Statements of Financial Position.

Reinsurance

The insurance underwriting operations segment in the Consolidated Statements of Operations is presented 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 Consolidated Statements 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. Reinsurance premiums are recognized as revenue on a pro rata basis over the policy term.

Income taxes

Provisions for income taxes include deferred taxes resulting from changes in cumulative temporary differences between the tax bases and financial statement bases of assets and liabilities. Deferred taxes are provided on the 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.

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

	2001	2000
Land	$ 737	$ 737
Buildings	5,879	5,863
Leasehold improvements	518	322
Computer software	18,836	17,723
Computer equipment	5,416	3,706
Transportation equipment	544	450
	$ 31,930	$ 28,801
Less accumulated depreciation	17,295	14,945
	$ 14,635	$ 13,856

Software development costs, primarily salaries and benefits, totaling $7,842 and $7,797 are included in property and equipment at December 31, 2001 and 2000, respectively. Software development costs capitalized during 2001 and 2000 amounted to $45 and $499, respectively. These costs are amortized on a straight-line basis over the expected life of the applications once the software is ready for intended use. Software amortization related to these costs totaled $2,007, $1,697 and $199 in 2001, 2000 and 1999, respectively.

During 2001, the Company entered into various operating lease agreements for computer equipment. 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 total projected commitment for these leases at December 31, 2001, approximates $10,051 through the year 2004. Of this total, approximately $5,075 will be reimbursed to the Company from its affiliates. The total rental expense for 2001 was $165.

Revenue recognition

In 2000, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements." SAB 101 states revenue should not be recognized until it is realized or realizable and earned. Cited in SAB 101 are certain criteria that generally should be met to determine when revenue is realized or realizable and earned. The Company periodically evaluates its revenue recognition practices in relation to the requirements of SAB 101. Management believes the revenue recognition practices are in compliance with the provisions of SAB 101.

Recognition of management fee revenue

A management fee is charged the Exchange by the Company for management of the affairs of the Exchange. The fee is recorded as revenue, calculated as a percentage of Exchange direct and affiliated assumed premiums written. The management fees are recognized upon policy issuance or renewal. The Exchange issues policies with annual terms only.

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 represent the unexpired portion of premiums written.

Losses and loss adjustment expenses are recorded as incurred. Premiums earned and losses and loss adjustment expenses incurred are reflected in the Consolidated Statements of Operations net of amounts ceded to the Exchange. See also Note 12.

Earnings per share

Earnings per share is based on the weighted average number of Class A shares outstanding, giving effect to the conversion of the weighted average number of Class B shares outstanding at a rate of 2,400 Class A shares for one Class B share. The total weighted average number of Class A equivalent shares outstanding (including conversion of Class B shares) was 71,342,329, 71,954,402 and 73,486,572 during 2001, 2000 and 1999, respectively.

All dollar amounts are in thousands except per share data.

Note 3.
Investments

The following tables summarize the cost and market value of available-for-sale securities at December 31, 2001 and 2000:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
December 31, 2001				
Fixed maturities:				
U.S. treasuries & government agencies	$ 11,211	$ 502	$ 0	$ 11,713
States & political subdivisions	42,392	1,817	88	44,121
Special revenue	110,267	3,496	345	113,418
Public utilities	25,150	1,156	36	26,270
U.S. industrial & miscellaneous	311,757	8,989	1,438	319,308
Foreign	26,634	859	17	27,476
Total bonds	$ 527,411	$ 16,819	$ 1,924	$ 542,306
Redeemable preferred stock	16,012	1,555	0	17,567
Total fixed maturities	$ 543,423	$ 18,374	$ 1,924	$ 559,873
Equity securities:				
Common stock:				
U.S. banks, trusts & insurance companies	$ 3,284	$ 814	$ 16	$ 4,082
U.S. industrial & miscellaneous	28,718	31,570	579	59,709
Nonredeemable preferred stock:				
Public utilities	2,370	12	3	2,379
U.S. banks, trusts & insurance companies	14,685	938	58	15,565
U.S. industrial & miscellaneous	91,185	2,573	2,111	91,647
Foreign	19,485	1,039	108	20,416
Total equity securities	$ 159,727	$ 36,946	$ 2,875	$ 193,798
Total available-for-sale securities	$ 703,150	$ 55,320	$ 4,799	$ 753,671
December 31, 2000				
Fixed maturities:				
U.S. treasuries & government agencies	$ 11,216	$ 420	$ 24	$ 11,612
States & political subdivisions	50,337	1,656	34	51,959
Special revenue	110,855	3,779	68	114,566
Public utilities	23,221	550	207	23,564
U.S. industrial & miscellaneous	267,231	4,770	5,940	266,061
Foreign	30,082	238	406	29,914
Total bonds	$ 492,942	$ 11,413	$ 6,679	$ 497,676
Redeemable preferred stock	31,230	3,341	701	33,870
Total fixed maturities	$ 524,172	$ 14,754	$ 7,380	$ 531,546
Equity securities:				
Common stock:				
U.S. banks, trusts & insurance companies	$ 3,651	$ 422	$ 275	$ 3,798
U.S. industrial & miscellaneous	63,662	38,286	15,343	86,605
Foreign	7,100	581	2,719	4,962
Nonredeemable preferred stock:				
U.S. banks, trusts & insurance companies	22,094	97	66	22,125
U.S. industrial & miscellaneous	62,266	1,987	3,119	61,134
Foreign	26,195	217	590	25,822
Total equity securities	$ 184,968	$ 41,590	$ 22,112	$ 204,446
Total available-for-sale securities	$ 709,140	$ 56,344	$ 29,492	$ 735,992

All dollar amounts are in thousands except per share data.

The amortized cost and estimated fair value of fixed maturities at December 31, 2001, by remaining contractual term to maturity are shown below.

	Amortized cost	Estimated fair value
Due in one year or less	$ 37,241	$ 37,787
Due after one year through five years	162,766	167,265
Due after five years through 10 years	160,105	165,194
Due after 10 years	183,311	189,627
	$ 543,423	$ 559,873

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

	2001	2000	1999
Equity securities	$ 14,593	$ (24,410)	$ 11,061
Fixed maturities	9,076	11,246	(24,123)
Limited partnerships	(5,651)	5,930	1,616
Equity in unrealized gains (losses) of Erie Family Life Insurance Company	4,890	2,005	(9,473)
Deferred federal income tax (liability) benefit	(8,018)	1,830	7,322
Increase (decrease) in unrealized gains	$ 14,890	$ (3,399)	$ (13,597)

Sources of net investment income for the years ended December 31 are as follows:

	2001	2000	1999
Fixed maturities	$ 36,569	$ 34,445	$ 30,547
Equity securities	11,022	11,034	10,104
Cash equivalents and other	3,034	3,416	3,222
Total investment income	$ 50,625	$ 48,895	$ 43,873
Investment expense	741	494	529
Net investment income	$ 49,884	$ 48,401	$ 43,344

Following are the components of net realized (loss) gain on investments as reported on the Consolidated Statements of Operations. The securities impairment charge in 2001 related primarily to preferred stocks in the equipment leasing and agricultural industry segments. The limited partnership impairment charge resulted from one private equity partnership that had investments of preferred stock in the eCommerce industry and common stock in the customer relationship software industry. The securities impairment charge in 2000 resulted from preferred stocks in the financial services industry.

	2001	2000	1999
Fixed maturities:			
Gross realized gains	$ 4,216	$ 2,921	$ 712
Gross realized losses	(7,941)	(311)	(87)
Net realized (losses) gains	$ (3,725)	$ 2,610	$ 625
Equity securities:			
Gross realized gains	$ 4,997	$ 18,070	$ 18,437
Gross realized losses	(28,563)	(2,445)	(4,316)
Impairment charge	(1,855)	(1,267)	0
Net realized (losses) gains	$ (25,421)	$ 14,358	$ 14,121
Limited partnership impairment charge	$ (2,733)	$ 0	$ 0
Net realized (losses) gains on investments	$ (31,879)	$ 16,968	$ 14,746

The components of equity in (losses) earnings of limited partnerships as reported on the Consolidated Statements of Operations for the years ended December 31 are as follows:

	2001	2000	1999
Private equity	$ (2,013)	$ 1,464	$ (354)
Real estate	1,424	1,926	905
Fixed income	582	1,343	90
Total equity in (losses) earnings of limited partnerships	$ (7)	$ 4,733	$ 641

See also Note 14 for investment commitments related to partnerships.

The Company participates in a securities lending program whereby certain securities from its portfolio are loaned to other institutions for short periods of time through a lending agent. The Company maintains control over the securities. A fee is paid to the Company by the borrower. Collateral, comprised of cash and government securities, that exceeds the market value of the loaned securities is maintained by the lending agent. The Company has an indemnification agreement with the lending agent in the event a borrower becomes insolvent or fails to return securities. The Company had loaned securities with a market value of $46,771 and $31,776 and secured collateral of $48,804 and $33,468 at December 31, 2001 and 2000, respectively. The borrower of the securities is not permitted to sell or replace the security on loan. The Company maintains the loaned securities on its Consolidated Statements of Financial Position as part of its invested assets. The Company has incurred no losses on the loan program since the program's inception.

All dollar amounts are in thousands except per share data.

During 2001, the Company entered into several foreign currency forward contracts related to its limited partnership investments, which are by definition derivatives. These contracts were not designated as hedges, as the primary purpose is to generate profits from short-term market movements. The forward contracts have no cash requirements at the inception of the arrangement. At December 31, 2001, the notional amount of the contracts outstanding totaled $1,869. Changes in value totaling $8 in 2001 have been recognized currently in earnings as realized gains in the Consolidated Statements of Operations.

Note 4.
Comprehensive income

Comprehensive income is defined as any change in equity from transactions and other events originating from nonowner sources. The components of other comprehensive income follow for the years ended December 31:

	2001	2000	1999
Unrealized holding (losses) gains on securities arising during period	$ (8,971)	$ 11,739	$ (6,173)
Less: losses (gains) included in net income	31,879	(16,968)	(14,746)
Net unrealized holding gains (losses) arising during period	22,908	(5,229)	(20,919)
Income tax (liability) benefit related to unrealized gains or losses	(8,018)	1,830	7,322
Net appreciation (depreciation) of investments	14,890	(3,399)	(13,597)
Minimum pension liability adjustment (See also Note 6.)	(4,384)	0	0
Tax asset related to pension liability adjustment	1,534	0	0
Net pension liability adjustment	(2,850)	0	0
Other comprehensive income (loss), net of tax	$ 12,040	$ (3,399)	$ (13,597)

Note 5.
Equity in Erie Family Life Insurance Company

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 10 states and the District of Columbia.

The following represents condensed financial information for EFL on a Generally Accepted Accounting Principles (GAAP) basis:

	2001	2000	1999
Investments	$ 869,723	$ 881,069	$ 817,460
Total assets	1,120,483	1,020,343	954,532
Liabilities	914,724	824,623	783,429
Shareholders' equity	205,759	195,720	171,103
Revenues	89,514	115,373	102,924
Net income	2,738	25,390	23,325
Comprehensive income (loss)	17,410	31,421	(5,191)
Dividends paid to shareholders	7,229	6,662	6,096

The Company's share of EFL's net unrealized gains or (losses) on securities, as reflected in shareholders' equity, is $3,983, $801 and ($502) at December 31, 2001, 2000 and 1999, respectively.

All dollar amounts are in thousands except per share data.

Note 6.
Benefit plans
Pension plans

The Company's pension plans consist of: (1) a noncontributory-defined benefit pension plan covering substantially all Employees of the Company, (2) an unfunded supplemental employee retirement plan (SERP) for its senior and executive officers and (3) an unfunded pension plan for its outside directors. Information about the plans follows for the years ended December 31:

	2001	2000
Net periodic benefit cost:		
Service cost	$ 6,837	$ 6,329
Interest cost	8,325	7,705
Expected return on plan assets	(13,709)	(12,322)
Amortization of prior service cost	844	989
Recognized net actuarial gain	(2,583)	(2,303)
Amortization of unrecognized initial net asset	(234)	(234)
Net periodic benefit cost	$ 520	$ 164

Change in benefit obligation:

	2001	2000
Benefit obligation at January 1	$ 116,693	$ 104,588
Service cost	6,837	6,329
Interest cost	8,325	7,705
Amendments	55	611
Actuarial loss (gain)	14,523	(2,114)
Benefits paid	(1,729)	(426)
Benefit obligation at December 31	$ 144,704	$ 116,693

Change in plan assets:

	2001	2000
Fair value of plan assets at January 1	$ 171,636	$ 160,385
Actual return on plan assets	(31,413)	11,688
Employer contributions (refunds)	9,271	(12)
Benefits paid	(1,729)	(425)
Fair value of plan assets at December 31	$ 147,765	$ 171,636

Reconciliation of funded status:

	2001	2000
Funded status at December 31	$ 3,061	$ 54,943
Unrecognized net actuarial loss (gain)	10,986	(51,342)
Unrecognized prior service cost	5,236	6,025
Unrecognized initial net asset	(469)	(701)
Net amount recognized on Consolidated Statements of Financial Position	$ 18,814	$ 8,925

	2001	2000
Amounts recognized in the consolidated statements of financial position consist of:		
Prepaid benefit cost	$ 25,451	$ 15,096
Accrued benefit liability	(13,686)	(8,656)
Intangible asset	2,665	2,485
Accumulated other comprehensive income	4,384	0
Net amount recognized at year end	$ 18,814	$ 8,925

Weighted-average assumptions as of December 31:

	2001	2000
Employee pension plan:		
Discount rate	7.00%	7.50%
Expected return on plan assets	8.25	8.25
Rate of compensation increase	5.00	5.00
SERP:		
Discount rate	7.00%	7.50%
Rate of compensation increase	6.00-7.25	5.00

The amendment amounts relate primarily to two additional participants being added to the SERP for each of the years 2001 and 2000.

The Employee pension plan has assets that include cash, treasury bonds, corporate bonds, common and preferred stocks and mortgages.

An additional minimum pension liability of $4,384 resulted in 2001 due to changes in discount rates, the rate of compensation increase and certain other assumptions of SERP. The additional pension liability was recorded as a reduction to shareholders' equity as accumulated other comprehensive income, net of deferred income taxes.

The Company's funding policy regarding the Employee pension plan is to contribute amounts sufficient to meet ERISA funding requirements plus such additional amounts as may be determined to be appropriate.

The Employee pension plan purchases individual annuities periodically from EFL to settle retiree benefit payments. Such purchases equaled $4,513, $5,627 and $5,322 in 2001, 2000 and 1999, respectively. These are non-participating annuity contracts under which EFL has unconditionally contracted to provide specified benefits to beneficiaries in return for a fixed premium from the plan. However, the plan remains the primary obligor to the beneficiaries and a contingent liability exists in the event EFL could not honor the annuity contracts. The benefit obligation has been reduced for these annuities purchased for retirees.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets

All dollar amounts are in thousands except per share data.

(SERP and the pension plan for outside directors) were $20,348, $13,686 and $0, respectively, as of December 31, 2001, and $12,696, $8,656 and $0, respectively, as of December 31, 2000.

Post-retirement benefits other than pensions

The Company provides post-retirement medical coverage for eligible retired Employees and eligible dependents. To be eligible for benefits, an Employee must be 60 years old and have 15 years of continuous full-time service. The benefits are provided from retirement to age 65. The benefits are unfunded as the Company pays the obligations when due. The cash payments for such benefits were $379, $161 and $121 in 2001, 2000 and 1999, respectively. Actuarially determined costs are recognized over the period the Employee provides service to the Company. Information about this plan follows for the years ended December 31:

	2001	2000
Net periodic benefit cost:		
Service cost	$ 400	$ 400
Interest cost	389	385
Amortization of prior service cost	(36)	(37)
Recognized net actuarial gain	(50)	(27)
Net periodic benefit cost	$ 703	$ 721
Change in benefit obligation:		
Benefit obligation at January 1	$ 5,803	$ 4,745
Service cost	400	400
Interest cost	389	385
Actuarial loss	919	434
Benefits paid	(379)	(161)
Benefit obligation at December 31	$ 7,132	$ 5,803
Reconciliation of funded status:		
Funded status at December 31	$ (7,132)	$ (5,803)
Unrecognized net actuarial loss (gain)	244	(726)
Unrecognized prior service costs	(330)	(366)
Net liability recognized on Consolidated Statements of Financial Position	$ (7,218)	$ (6,895)

The weighted average discount rate used to measure the accumulated post-retirement benefit obligation was 7.0% and 7.50% in 2001 and 2000, respectively. The December 31, 2001, accumulated benefit obligation was based on a 10.0% increase in the cost of covered health care benefits during 2001. The expected health care cost trend rate assumption for 2002 is 10.00%. This rate is assumed to decrease gradually to 5.5% per year in 2006 and to remain at that level thereafter.

	2001	2000
Effect on total of service and interest cost components:		
1% increase	$ 126	$ 126
1% decrease	(106)	(106)
Effect on post-retirement benefit obligation:		
1% increase	$ 1,023	$ 814
1% decrease	(871)	(695)

Employee savings plan

The Company has an Employee Savings Plan for its Employees. Beginning January 2001, the maximum percentage that eligible participants were permitted to contribute to the plan was increased to 15%. The Company match was also changed to 100% of the participant contributions up to 3% of compensation and 50% of participant contributions over 3% and up to 5% of compensation. Additionally, regular part-time Employees are eligible to participate in the plan. Prior to 2001, eligible participants were permitted to make contributions of 1% to 8% of compensation to the plan on a pre-tax salary reduction basis. The Company matched one-half of the participant contributions up to 6% of compensation. All full-time Employees were eligible to participate in the plan. The Company's matching contributions to the plan in 2001, 2000 and 1999 were $5,329, $3,499 and $3,245, respectively. Employees are permitted to invest a portion of employer contributions in the Class A common stock of the Company. The plan acquires shares in the open market necessary to meet the obligations of the plan.

Management incentive plans and deferred compensation

The Company has separate annual and long-term incentive plans and a deferred compensation plan which are available for key management Employees. The deferred compensation plan is an unfunded arrangement for a select group of management and highly compensated Employees of the Company. Those participating in this plan can select hypothetical investment funds for their deferrals and are credited with interest based on the investment results. The incentive plans are available to key management Employees and link awards to current year and three-year performance period targets. The awards are settled with cash and Company stock. The Company purchases its stock in the open market when awards are settled in stock. The Company accrues estimated compensation expense in the applicable performance period based on its best estimate of the achievement of the performance targets. Expense recorded in 2001, 2000 and 1999 relating to these incentive and deferred compensation plans equaled $3,424, $3,445 and $3,352. Actual payments totaled $2,441 and $1,590 in 2001 and 2000, respectively. There were no payments in 1999. The Company also has a deferred compensation plan for certain of its outside directors. Expenses recorded in 2001, 2000 and 1999 with related (losses) earnings amounted to ($70), $78 and $241, respectively. The losses in the current year were a result of the performance of the investments that comprise the plan assets.

All dollar amounts are in thousands except per share data.

Health and dental benefits

The Company has self-funded health and dental care plans for all of its Employees and eligible dependents. Estimated unpaid claims incurred are accrued as a liability at December 31, 2001 and 2000. Operations were charged $19,826, $17,456 and $14,756 in 2001, 2000 and 1999, respectively, for the cost of health and dental care provided under these plans.

All liabilities for the above mentioned plans are presented in this note in total for all Employees of the Erie Insurance Group. The gross liability is presented in the Consolidated Statements of Financial Position as Employee benefit obligations with amounts expected to be recovered from the Company's affiliates included in other assets.

Note 7.
Income taxes

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

	2001	2000	1999
Federal income taxes:			
Currently due	$ 59,602	$ 73,657	$ 66,960
Deferred	1,013	(2,112)	(1,311)
Total	$ 60,615	$ 71,545	$ 65,649

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:

	2001	2000	1999
Income tax at statutory rates	$ 64,007	$ 78,378	$ 73,051
Tax-exempt interest	(2,729)	(3,046)	(3,229)
Dividends received deduction	(2,398)	(2,160)	(2,064)
Other	1,735	(1,627)	(2,109)
Provision for income taxes	$ 60,615	$ 71,545	$ 65,649

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

	2001	2000
Deferred tax assets:		
Loss reserve discount	$ 4,580	$ 3,965
Unearned premiums	4,960	4,286
Employee benefit plan obligations	4,800	4,111
Severance benefits	3,801	0
Write-downs of securities	1,606	443
Other	1,525	1,212
Total deferred tax assets	$ 21,272	$ 14,017

	2001	2000
Deferred tax liabilities:		
Deferred policy acquisition costs	$ 5,956	$ 4,621
Unrealized gains	16,822	12,051
Pension and other benefits	7,021	2,438
Other	4,418	2,068
Total deferred tax liabilities	$ 34,217	$ 21,178
Net deferred income tax liability	$ 12,945	$ 7,161

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

Note 8.
Capital stock

Class A and B shares

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

Stock repurchase plan

Beginning in 1999, the Company established a stock repurchase program. The Company may repurchase as much as $120 million of its outstanding Class A common stock through December 31, 2002. Treasury shares are recorded on the Consolidated Statements of Financial Position at cost. In 2001, there were 220,000 shares repurchased at a total cost of $7,654, or an average price per share of $34.79. Since its inception, 3,195,677 shares have been repurchased at a total cost of $93,373, or an average price per share of $29.22. The Company may purchase the shares from time to time in the open market or through privately negotiated transactions, depending on prevailing market conditions and alternative uses of the Company's capital.

All dollar amounts are in thousands except per share data.

Note 9.
Unpaid losses and loss adjustment expenses

The following table provides a reconciliation of beginning and ending loss and loss adjustment expense liability balances for the Company's wholly-owned property/casualty insurance subsidiaries:

	2001	2000	1999
Total unpaid losses and loss adjustment expenses at January 1, gross	$ 477,879	$ 432,895	$ 426,165
Less reinsurance recoverables	375,567	337,911	334,708
Net balance at January 1	102,312	94,984	91,457
Incurred related to:			
Current accident year	111,258	93,416	88,422
Prior accident years	5,943	6,148	(703)
Total incurred	117,201	99,564	87,719
Paid related to:			
Current accident year	59,637	53,251	50,560
Prior accident years	41,203	38,985	33,632
Total paid	100,840	92,236	84,192
Net balance at December 31	118,673	102,312	94,984
Plus reinsurance recoverables	438,605	375,567	337,911
Total unpaid losses and loss adjustment expenses at December 31, gross	$ 557,278	$ 477,879	$ 432,895

Included in the 2001 losses and loss adjustment expenses incurred related to current accident year of $111,258 are the Company's share of estimated incurred losses of the Erie Insurance Group's reinsurance business stemming from the September 11th attack on the World Trade Center of $8,250. Partially offsetting these losses is an aggregate excess of loss reinsurance agreement between the Exchange and the Company's property/casualty insurance subsidiaries. See also Note 12. This agreement reduces the net retention of these losses recorded by the Company to $5,839. Current loss estimates are based on the assumption that the attack will be considered one event. If the attack comes to be considered two events, the total potential exposure for the EIG would increase between $50,000 and $75,000. The effect on the Company would be additional losses between $2,750 and $4,125. Taking into consideration the excess of loss reinsurance agreement, the net impact of such potential additional losses would be minimal to the Company. The property/casualty insurers are exposed to both direct and reinsurance losses arising from possible future terrorist actions and other catastrophic events.

The 2001 incurred losses related to prior accident years of $5,943 are due primarily to adverse development of losses in the private passenger auto liability and workers' compensation lines of business and are generally the result of ongoing analysis of recent loss development trends. These losses are reflected in the insurance underwriting operations segment of the Consolidated Statements of Operations.

The 2000 incurred losses related to prior accident years of $6,148 are due to adverse development of reinsurance losses from the catastrophic storms in Europe in December, 1999, combined with increased loss severity in private passenger automobile and in commercial lines of business.

Note 10.
Related party transactions

Management fee

A management fee is charged to the Exchange for management services provided by the Company. The fee is 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 charged the Exchange was 25% for each year from 1999 to 2001.

In December, 2001, the Board of Directors elected to maintain the 25% management fee rate for all of 2002. The Company's Board of Directors may change the management fee rate at its discretion, but it may not exceed 25%.

eCommerce program and related information technology infrastructure

During 2001, the Erie Insurance Group undertook a series of initiatives to develop its eCommerce capabilities. In connection with this program, the Company and the property/casualty insurance companies of the Erie Insurance Group entered into a Cost-Sharing Agreement for Information Technology Development (Agreement). The Agreement describes how member companies of the Erie Insurance Group will share the costs to be incurred for the development of new Internet-enabled property/casualty policy administration and customer relationship management systems. The Agreement provides that the cost of the systems and the related enabling technology costs, such as required infrastructure and architectural tools, will be shared among the property/casualty insurance companies in a manner consistent with the sharing of insurance transactions under the existing intercompany pooling agreement. See also Note 12. These costs are included in the policy acquisition and other underwriting expenses in the Consolidated Statements of Operations. The Company's share of these costs, incurred by the Company's property/casualty subsidiaries, totaled $1,315 for the year ended December 31, 2001.

Certain other costs of the eCommerce program are related to information technology hardware and are not included under the Agreement. These costs are included in the cost of management operations in the Consolidated Statements of Operations. The Company's share of these infrastructure costs amounted to $1,589 for the year ended December 31, 2001.

All dollar amounts are in thousands except per share data.

Service agreement revenue

A service agreement fee is charged to the Exchange to compensate the Company for its management of non-affiliated assumed reinsurance business on behalf of the Exchange. The Company receives a fee of 7% of voluntary reinsurance premiums assumed from non-affiliated insurers and is responsible for accounting, underwriting and operating expenses in connection with the administration of this business. Service agreement fee revenue amounted to $11,251, $10,149 and $8,158 in 2001, 2000 and 1999, respectively.

Also included in service agreement revenue are service charges collected from Policyholders for providing extended payment terms on policies written by the insurers managed by the Company. In June, 2000, this administrative fee collected from Policyholders increased from $2 to $3 per installment for policies renewing in most states. Service charge revenue amounted to $15,996, $12,513 and $7,283 in 2001, 2000 and 1999, respectively.

Expense reimbursements

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

	2001	2000	1999
Erie Insurance Exchange	$ 162,549	$ 142,519	$ 136,045
Erie Family Life	18,545	18,631	14,740
Total reimbursements	$ 181,094	$ 161,150	$ 150,785

Office leases

The Company occupies certain office facilities owned by the Exchange and EFL. The Company leases office space on a year-to-year basis from the Exchange. Rent expenses under these leases totaled $10,842, $10,703 and $10,320 in 2001, 2000 and 1999, respectively. The Company has a lease commitment until 2008 with EFL for a branch office. Rentals paid to EFL under this lease totaled $311 in 2001, $309 in 2000 and $303 in 1999.

Note receivable from EFL

The Company is due $15 million from EFL in the form of a surplus note. The note bears an annual interest rate of 6.45% and all payments of interest and principal of the note may be repaid only out of unassigned surplus of EFL and are subject to prior approval of the Pennsylvania Insurance Commissioner. Interest on the surplus note is scheduled to be paid semi-annually. The note will be payable on demand on or after December 31, 2005. During 2001, 2000 and 1999, EFL paid interest to the Company totaling $968 each year.

Structured settlements with EFL

The Erie Insurance Group affiliated property/casualty insurance companies periodically purchase annuities from EFL in connection with the structured settlement of claims. The Company's pro-rata share (5.5%) of such annuities purchased equaled $708, $889 and $1,282 in 2001, 2000 and 1999, respectively.

Note 11.
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. Most all of the Company's revenue and receivables are from the Exchange and affiliates.

Management fee and expense reimbursements due from the Exchange were $147,344 and $117,962 in 2001 and 2000, respectively. A receivable from EFL for expense reimbursements totaled $2,256 at December 31, 2001 compared to $1,997 at December 31, 2000. The Company also has a receivable due from the Exchange for reinsurance recoverable from losses and unearned premium balances ceded to the pool totaling $491,055 and $412,050 in 2001 and 2000, respectively.

Premiums receivable from Policyholders at December 31, 2001 and 2000, equaled $186,175 and $156,269, respectively. A significant amount of these receivables are ceded to the Exchange as part of the intercompany pooling agreement. At December 31, 2001, the Exchange's statutory total assets totaled almost $7 billion and Policyholders' surplus totaled $3 billion.

Note 12.
Reinsurance

EIC and EINY have an intercompany reinsurance pooling agreement with the Exchange, whereby EIC and EINY cede all of their direct property/casualty insurance to the Exchange, except for the annual premium under the all-lines aggregate excess of loss reinsurance agreement discussed below. EIC and EINY then assume 5% and 0.5%, respectively, of the total of the Exchange's insurance business (including the business assumed from EIC and EINY). The companies settle accounts between them by payment of amounts due within 30 days after the end of each quarterly accounting period.

EIC and EINY have in effect an all-lines aggregate excess of loss reinsurance agreement with the Exchange. Under this 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 in any applicable accident year that exceed an amount equal to 72.5% of EIC and EINY's net premiums earned in that period, the Exchange will be liable for 95% of the amount of such excess, up to but not exceeding, an amount equal to 95% of 15% of EIC and EINY's net premium earned. Losses equal to 5% of the net ultimate net loss in excess of the retention under the contract are retained net by EIC and EINY. The annual premium is subject to a minimum premium of $950. This reinsurance treaty is excluded from the intercompany pooling agreement.

All dollar amounts are in thousands except per share data.

The annual premium paid to the Exchange for the agreement totaled $1,423, $1,268 and $1,199 in 2001, 2000 and 1999, respectively. Recoveries during 2001 amounted to $7,241, of which $6,506 relates to the 2001 accident year. The balance of the recoveries under this agreement recorded in 2001 related to the 1999 accident year. There were no loss recoveries by EIC or EINY under the agreement for 2000 or 1999.

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

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

The following summarizes insurance and reinsurance activities for the Company:

	2001	2000	1999
Premiums earned:			
Direct	$ 432,307	$ 377,570	$ 351,228
Assumed nonaffiliates	7,391	4,824	5,380
Ceded to Erie Insurance Exchange	(439,698)	(382,394)	(356,608)
Assumed from Erie Insurance Exchange	137,648	123,708	117,224
Net	$ 137,648	$ 123,708	$ 117,224

	2001	2000	1999
Losses and loss adjustment expenses incurred:			
Direct	$ 374,440	$ 325,644	$ 264,177
Assumed nonaffiliates	14,262	3,956	6,512
Ceded to Erie Insurance Exchange	(388,702)	(329,600)	(270,689)
Assumed from Erie Insurance Exchange	117,201	99,564	87,719
Net	$ 117,201	$ 99,564	$ 87,719

Note 13.
Statutory information

The statutory financial statements of Erie Insurance Property & Casualty Company and EIC are prepared in accordance with accounting practices prescribed by the Pennsylvania Insurance Department. EINY prepares its statutory financial statements in accordance with accounting practices prescribed by the New York Insurance Department. Prescribed Statutory Accounting Practices (SAP) include state laws, regulations and general administration rules, as well as a variety of publications from the National Association of Insurance Commissioners (NAIC). The NAIC adopted the Codification of Statutory Accounting Practices (Codification), effective January 1, 2001, as the NAIC-supported basis of accounting. The Codification was approved with a provision allowing for prescribed or permitted accounting practices to be determined by each states' insurance commissioner. Accordingly, such discretion will continue to allow prescribed or permitted accounting practices that may differ from state to state. The New York State Insurance Department did not adopt the deferred tax provisions of Codification, thus no deferred taxes are recorded on the EINY statutory financial statements.

Codification resulted in changes to the Company's statutory-basis financial statements, the most significant of which was the recording of statutory deferred taxes for EIC and Erie Insurance Property & Casualty Company. The total cumulative adjustment increased the surplus of the Company's property/casualty insurance subsidiaries by $4,446 as of January 1, 2001.

Accounting principles used to prepare statutory financial statements differ from those used to prepare financial statements on the basis of generally accepted accounting principles. Consolidated balances including amounts reported by the property/casualty insurance subsidiaries on the statutory basis would be as follows:

	2001	2000	1999
Shareholders' equity at December 31	$ 854,003	$ 767,894	$ 688,802
Net income for the year ended December 31	118,475	150,942	142,615

All dollar amounts are in thousands except per share data.

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) 10% of its statutory surplus as reported on its last annual statement, or (b) the net income as reported on its last annual statement. The amount of dividends that the Erie Insurance Company's New York-domiciled property/casualty subsidiary, EINY, can pay without the prior approval of the New York Superintendent of Insurance is limited to the lesser of: (a) 10% of its statutory surplus as reported on its last annual statement, or (b) 100% of its adjusted net investment income during such period. At December 31, 2001, the maximum dividend the Company could receive from its property/casualty insurance subsidiaries was $5,491. No dividends were paid to the Company from its property/casualty insurance subsidiaries in 2001 or 2000.

The amount of dividends EFL, a Pennsylvania-domiciled life insurer, can pay to its shareholders without the prior approval of the Pennsylvania Insurance Commissioner is limited by statute to the greater of: (a) 10% of its statutory surplus as regards Policyholders as shown on its last annual statement on file with the commissioner, or (b) the net income as reported for the period covered by such annual statement, but shall not include pro rata distribution of any class of the insurer's own securities. Accordingly, the Company's share of the maximum dividend payout which may be made in 2002 without prior Pennsylvania Insurance Commissioner approval is $2,295. Dividends to the Company totaled $1,594 in 2001 and $1,472 in 2000.

Note 14.
Commitments

The Company has outstanding commitments to invest up to $124,000 in limited partnerships at December 31, 2001. These commitments will be funded as required through the end of the respective investment periods, which typically span 3 to 5 years expiring in 2005. At December 31, 2001, the total commitment to fund limited partnerships that invest in private equity securities is $87,000, real estate activities $22,000 and fixed income securities $15,000. At December 31, 2001, no one partnership commitment exceeded $7.5 million, or 6%, of the outstanding commitment amount.

During 2001, the Company entered into contracts to provide services related to the eCommerce program with various external vendors. The total outstanding commitment for these contracts at December 31, 2001, was $16,146, of which approximately $12,943 will be reimbursed to the Company by the Exchange. The majority of these committed services at December 31, 2001, are expected to be performed in 2002.

Note 15.
Segment information

The Company operates its business as two reportable segments—management operations and property/casualty insurance operations. Accounting policies for segments are the same as those described in the summary of significant accounting policies. See also Note 2. Assets are not allocated to the segments and are reviewed in total by management for purposes of decision-making. No single customer or agent provides 10% or more of revenues for the Exchange.

The Company's principal operations consist of serving as attorney-in-fact for the Exchange, which constitute its management operations. The Company's property/casualty insurance operations arise through direct business of its subsidiaries and by virtue of the pooling agreement between its subsidiaries and the Exchange, which includes assumed reinsurance from nonaffiliated domestic and foreign sources. Insurance provided in the property/casualty operations consists of personal and commercial lines and is sold by independent Agents. Personal lines are marketed to individuals and commercial lines are marketed to small- and medium-sized businesses. The performance of the personal lines and commercial lines is evaluated based upon the underwriting results as determined under SAP for the total pooled business of the Group.

Summarized financial information for these operations is presented below.

	2001	2000	1999
Management operations:			
Revenue:			
Management fee revenue	$ 634,966	$ 551,646	$ 513,375
Service agreement revenue	27,247	22,662	15,441
Total revenue from management operations	662,213	574,308	528,816
Net revenue from investment operations	1,700	57,213	47,011
Total revenue	$ 663,913	$ 631,521	$ 575,827
Income before taxes	$ 186,267	$ 215,959	$ 195,529
Net income	$ 123,403	$ 145,851	$ 133,235
Property/casualty operations:			
Revenue:			
Premiums earned:			
Commercial lines	$ 34,970	$ 28,456	$ 25,147
Personal lines	97,078	89,369	87,334
Reinsurance	8,866	7,880	6,185
Total premiums earned (SAP)	140,914	125,705	118,666
GAAP adjustments	(3,266)	(1,997)	(1,442)
Total premiums earned (GAAP)	137,648	123,708	117,224
Net revenue from investment operations	17,071	18,381	16,765
Total revenue	$ 154,719	$ 142,089	$ 133,989
Expense:			
Losses and expenses:			
Commercial lines	$ 41,417	$ 31,914	$ 26,726
Personal lines	107,851	92,012	85,512
Reinsurance	12,970	12,203	9,225
Total losses and expenses (SAP)	162,238	136,129	121,463
GAAP adjustments	(4,127)	(2,019)	(700)
Total losses and expenses (GAAP)	$ 158,111	$ 134,110	$ 120,763
(Loss) income before taxes	$ (3,391)	$ 7,979	$ 13,226
Net (loss) income	$ (1,142)	$ 6,542	$ 9,871

All dollar amounts are in thousands except per share data.

Note 16.
Quarterly results of operations (unaudited)

	First quarter	Second quarter	Third quarter	Fourth quarter
2001				
Net revenue from management operations	$ 43,200	$ 53,104	$ 55,044	$ 33,220
Underwriting loss	(3,538)	(1,786)	(10,589)	(4,550)
Net revenue from investment operations	12,196	18,731	6,994	(19,150)
Income before income taxes	51,858	70,049	51,449	9,520
Net income	$ 34,785	$ 47,129	$ 34,430	$ 5,917
Net income per share	$ 0.49	$ 0.66	$ 0.48	$ 0.08
Comprehensive income	$ 36,407	$ 45,414	$ 31,081	$ 21,399
2000				
Net revenue from management operations	$ 36,618	$ 43,310	$ 44,417	$ 34,401
Underwriting loss	(3,203)	(1,590)	(2,742)	(2,867)
Net revenue from investment operations	19,515	20,658	18,986	16,435
Income before income taxes	52,930	62,378	60,661	47,969
Net income	$ 36,185	$ 42,518	$ 41,192	$ 32,498
Net income per share	$ 0.50	$ 0.59	$ 0.58	$ 0.45
Comprehensive income	$ 50,036	$ 35,093	$ 41,565	$ 22,300
1999				
Net revenue from management operations	$ 34,367	$ 40,587	$ 41,945	$ 31,619
Underwriting (loss) gain	(607)	1,113	(1,580)	(2,465)
Net revenue from investment operations	14,770	16,177	16,450	16,379
Income before income taxes	48,530	57,877	56,815	45,533
Net income	$ 33,407	$ 39,225	$ 38,425	$ 32,049
Net income per share	$ 0.45	$ 0.53	$ 0.53	$ 0.44
Comprehensive income	$ 31,897	$ 32,180	$ 26,295	$ 39,137

During the fourth quarter of 2001, the Company realized net losses on the sale of impaired securities and realized charges for other-than-temporary impairments of equity securities and limited partnerships totaling $29,153. Realized losses resulted in an after-tax earnings per share reduction of $0.27. The investment sales were part of a proactive year-end tax planning strategy and will produce the recovery of approximately $9.6 million of federal income taxes paid in 1998, 1999 and 2000. Also contributing to the fourth quarter 2001 decline in net income per share were charges for a severance benefit stemming from the retirement of the president and CEO of the Erie Insurance Group. The Company's share of charges related to this severance was approximately $0.10 per share, after taxes.

All dollar amounts are in thousands except per share data.

Market price of and dividends on the common stock and related shareholder matters

Common stock prices

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

Class A trading price

	2001		2000	
	Low	High	Low	High
First Quarter	25.63	30.13	26.25	32.63
Second Quarter	27.54	36.12	27.50	32.88
Third Quarter	30.83	39.70	28.25	32.13
Fourth Quarter	36.65	41.27	23.88	30.00

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

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

In 1998, the Board of Directors of the Company approved a stock repurchase plan beginning January 1, 1999, under which the Company may repurchase as much as $120 million of its outstanding Class A common stock through December 31, 2002. Treasury shares are recorded on the Consolidated Statements of Financial Position at cost. In 2001, there were 220,000 shares repurchased at a total cost of $7,653,916, or an average price per share of $34.79. Since its inception, 3,195,677 shares have been repurchased at a total cost of $93,373,265, or an average price per share of $29.22. The Company may purchase the shares from time to time in the open market or through privately negotiated transactions, depending on prevailing market conditions and alternative uses of the Company's capital.

Common stock dividends

The Company historically has declared and paid cash dividends on a quarterly basis at the discretion of the Board of Directors. The payment and amount of future dividends on the common stock will be determined by the Board of Directors and will depend on, among other things, earnings, financial condition and cash requirements of the Company at the time such payment is considered, and on the ability of the Company to receive dividends from its subsidiaries, the amount of which is subject to regulatory limitations. Dividends declared for each class of stock during 2001 and 2000 are as follows:

Dividends declared

2001:	Class A share	Class B share
First Quarter	$ .1525	$ 22.875
Second Quarter	.1525	22.875
Third Quarter	.1525	22.875
Fourth Quarter	.1700	25.500
	$ .6275	$ 94.125

2000:	Class A share	Class B share
First Quarter	$ .1350	$ 20.250
Second Quarter	.1350	20.250
Third Quarter	.1350	20.250
Fourth Quarter	.1525	22.875
	$ .5575	$ 83.625

American Stock Transfer & Trust Company serves as the Company's transfer agent and registrar.

Corporate directory

Executive & Senior Officers

Stephen A. Milne, CIC
Retired President and Chief Executive Officer

Jan R. Van Gorder, Esq.
Acting President and Chief Executive Officer,
Senior Executive Vice President, Secretary and General Counsel

John J. Brinling Jr., CPCU
Executive Vice President, Erie Family Life Insurance Company

Philip A. Garcia, CPA, FLMI, ACS
Executive Vice President and Chief Financial Officer

Jeffrey A. Ludrof, CPCU, AIC, CIC, LUTCF
Executive Vice President, Insurance Operations

Eugene C. Connell, CPCU, FCAS, FCIA, MAAA, AIM
Senior Vice President, Actuarial

Michael J. Krahe, Ph.D.
Senior Vice President, Human Resources

George R. Lucore, CPCU, AIC, AIM, AAM, CIC, LUTCF
Senior Vice President, Agency

Thomas B. Morgan, CIC, AIS
Senior Vice President, Personal Lines

Timothy G. NeCastro, CPA
Senior Vice President and Controller

James R. Roehm
Senior Vice President, Corporate Services

John P. Sommerwerck
Senior Vice President and Chief Information Officer,
Information Technology

Barry P. Stiles, AIC, CIC, CPIA
Senior Vice President, Claims

Michael S. Zavasky, CPCU, CIC, ARe
Senior Vice President, Commercial Lines and Reinsurance

Douglas F. Ziegler
Senior Vice President, Treasurer and Chief Investment Officer

Board of Directors

Samuel P. Black III[1,3,4,6]
President, Treasurer and Secretary, Samuel P. Black &
Associates, Inc., Insurance Agency, Erie, Pa.
First elected 1997

J. Ralph Borneman Jr., CIC, CPIA[3,4]
President and Chief Executive Officer, Body–Borneman
Associates, Inc., Insurance Agency, Boyertown, Pa.
First elected 1992

Patricia A. Garrison-Corbin[2,4,5C]
President, P.G. Corbin & Company, Investment
Management Services, Philadelphia, Pa.
First elected 2000

Susan Hirt Hagen[1,6C]
Managing Partner, Hagen Herr & Peppin,
Consultants in Group Relations, Erie, Pa.
First elected 1980

F. William Hirt, CPCU[1C,6]
Chairman of the Executive Committee, Chairman of the Company,
Erie Family Life Insurance Company and Erie Insurance Company.
Retired President and Chief Executive Officer of the Company
First elected 1965

Samuel P. Katz[2,3]
Chief Executive Officer, Greater Philadelphia First, Philadelphia, Pa.;
Managing Partner, Wynnefield Capital Advisors, Inc.;
President, Entersport Capital Advisors, Inc., Bala Cynwyd, Pa.
First elected 2000

Claude C. Lilly, III[2]
Dean, Belk College of Business Administration,
University of North Carolina, Charlotte, N.C.
First elected 2000

Stephen A. Milne, CIC[1,5]
Retired President and Chief Executive Officer of the Company,
Erie Family Life Insurance Company and Erie Insurance Co.
First elected 1996

Henry N. Nassau[1,5]
General Counsel, Internet Capital Group, Inc., Wayne, Pa.
First elected 2000

John M. Petersen[1,4C]
Retired President and Chief Executive Officer of the Company,
Erie Family Life Insurance Company and Erie Insurance Co.
First elected 1979

Jan R. Van Gorder, Esq.[1]
Acting President and Chief Executive Officer of the Company,
Erie Family Life Insurance Company and Erie Insurance Co.,
Senior Executive Vice President, Secretary and General Counsel
of the Company, Erie Family Life Insurance Company and
Erie Insurance Co.
First elected 1990

Robert C. Wilburn[2C,3C,4,5]
President and Chief Executive Officer, The Gettysburg National
Battlefield Museum Foundation, Gettysburg, Pa.; Distinguished
Service Professor, Carnegie Mellon University, Pittsburgh, Pa.
and Retired President and Chief Executive Officer of Colonial
Williamsburg Foundation, Williamsburg, Va.
First elected 1999

[1]Member of Executive Committee
[2]Member of Audit Committee
[3]Member of Executive Compensation Committee
[4]Member of Nominating Committee
[5]Member of Investment Committee
[6]Member of Charitable Giving Committee
[C]Committee Chairperson

Corporate information

Corporate headquarters/home office

100 Erie Insurance Place
Erie, PA 16530
(814) 870-2000

Field offices

Southeastern region

Charlotte, N.C.
Hagerstown, Md.
Knoxville, Tenn.
Raleigh, N.C.
Richmond, Va.*
Roanoke, Va.
Silver Spring, Md.
Waynesboro, Va.

Mid-States region

Canton, Ohio
Columbus, Ohio*
Fort Wayne, Ind.
Indianapolis, Ind.
Parkersburg, W. Va.

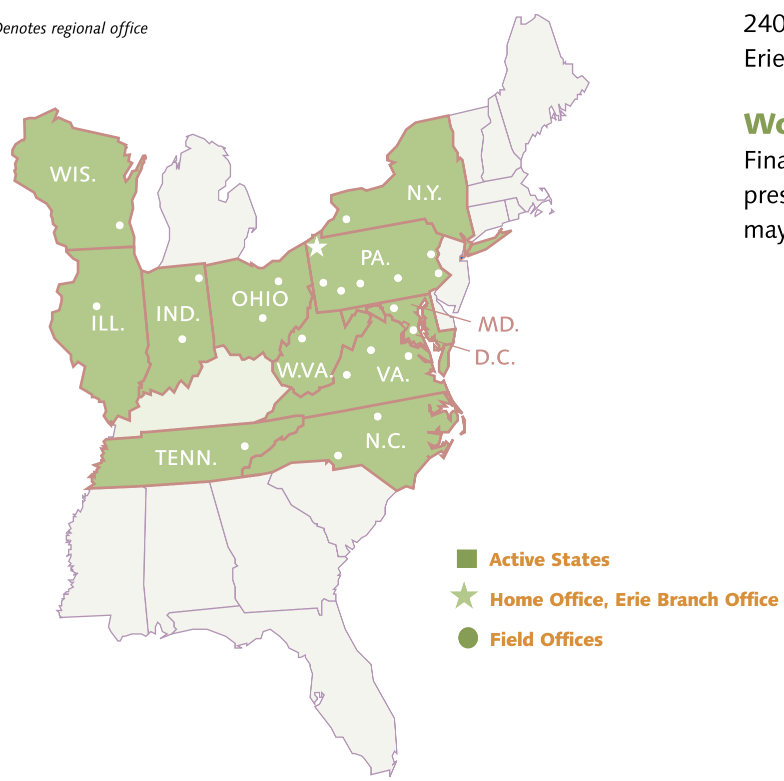
Atlantic region

Allentown/Bethlehem, Pa.
Erie, Pa.
Harrisburg, Pa.*
Johnstown, Pa.
Murrysville, Pa.
Philadelphia, Pa.
Rochester, N.Y.
Warrendale, Pa.

Heartland region

Peoria, Ill.*
Waukesha, Wis.

**Denotes regional office*



Form 10-K requests

The Erie Indemnity Company Annual Report on Form 10-K is filed with the Securities and Exchange Commission. Shareholders may obtain a copy of the Form 10-K report without charge by writing to: Chief Financial Officer, Erie Indemnity Company, 100 Erie Insurance Place, Erie, Pa. 16530 or by visiting the Company's Web site at *www.erieinsurance.com.*

Stock listing

The Erie Indemnity Company's Class A common stock is traded on The NASDAQ Stock Market$_{SM}$ under the symbol "ERIE."

Stock transfer information

American Stock Transfer & Trust Company
59 Maiden Lane
Plaza Level
New York, NY 10038
(800) 937-5449

Annual meeting of shareholders

The Annual Meeting of Shareholders will be held on April 30, 2002, at 3:00 p.m., local time, at our Home Office in Erie, Pa.

Independent auditors

Malin, Bergquist & Company, LLP
2402 West 8th Street
Erie, PA 16505

Worldwide Web address

Financial statement filings, shareholder information, press releases and general news about the Company also may be accessed at *www.erieinsurance.com.*

On January 18, 2002, Steve Milne retired as president and CEO of Erie Insurance. The announcement came nearly six years into leading the group of companies, and was prompted by Steve's escalating battle with amyotrophic lateral sclerosis (ALS), a neuromuscular disease commonly known as Lou Gehrig's disease.

In 29 years of association with The ERIE, Steve mastered the fundamentals and the nuances of the insurance business. Steve's breadth of experience includes claims, branch management, marketing and insurance operations. He even ran his own successful agency, selling the products and service in which he so fervently believed.

Through it all, Steve maintained a work ethic of integrity, excellence, initiative and optimism. In both the company and the industry, Steve Milne is regarded as a respected leader and a fine man.

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