ERIE INDEMNITY CO
Form 424B1
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3,000,000 Shares

Erie Indemnity Company

Class A Common Stock

Shares of Erie Indemnity Company Class A common stock, which are non-voting, are being offered by the selling shareholder named in this prospectus. Erie Indemnity Company will not receive any proceeds from the sale of shares.

The Class A common stock is quoted on the NASDAQ Stock Market[SM] under the symbol ERIE . The last reported sale price of the Class A common stock on January 29, 2003 was $35.27 per share.

See Risk Factors beginning on page 8 to read about factors you should consider before buying shares of the Class A common stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial price to public	$ 34.50	$ 103,500,000
Underwriting discount	$ 1.81	$ 5,430,000
Proceeds, before expenses, to selling shareholder	$ 32.69	$ 98,070,000

To the extent the underwriters sell more than 3,000,000 shares of Class A common stock, the underwriters have the option to purchase up to an additional 450,000 shares of Class A common stock from the selling shareholder at the public offering price, less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on or about February 4, 2003.

Goldman, Sachs & Co. **Credit Suisse First Boston**

Advest, Inc.

Cochran, Caronia & Co.

Legg Mason Wood Walker
Incorporated

Prospectus dated January 29, 2003.

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PROSPECTUS SUMMARY

This summary highlights the information contained in this prospectus that we believe is the most important regarding us and this offering. However, you should read the entire prospectus carefully before investing in our Class A common stock. All financial information, operating statistics and ratios in this prospectus are based on generally accepted accounting principles unless otherwise noted. Unless the context indicates otherwise, all references in this prospectus to we , us , our or the Company include Erie Indemnity Company and its wholly owned subsidiaries, Erie Insurance Company, Erie Insurance Company of New York and Erie Insurance Property & Casualty Company. As used in this prospectus, the Exchange refers to Erie Insurance Exchange, and Erie Insurance Group refers to the Company, the Exchange, its subsidiary, Flagship City Insurance Company, and its affiliate, Erie Family Life Insurance Company.

Our Company

We operate predominantly as a provider of management services to Erie Insurance Exchange (the Exchange). We also operate as a property and casualty insurer through our subsidiaries. We have served since 1925 as the attorney-in-fact for the policyholders of the Exchange. The Exchange is a reciprocal insurance exchange, which is an unincorporated association of individuals, partnerships and corporations that agree to insure one another. Each applicant for insurance to a reciprocal insurance exchange signs a subscriber s agreement, which contains an appointment of an attorney-in-fact. As attorney-in-fact, the Company is required to perform certain services relating to the sales, underwriting and issuance of policies on behalf of the Exchange.

The Exchange and its property and casualty subsidiary and our three property and casualty subsidiaries (collectively, the Property and Casualty Group) write personal and commercial lines property and casualty coverages exclusively through approximately 8,000 independent agents and pool their underwriting results. The financial results of the Exchange are not consolidated with ours.

For our services as attorney-in-fact, we charge the Exchange a management fee calculated as a percentage, limited to 25%, of the direct written premiums of the Property and Casualty Group. Management fees accounted for approximately 78% of our revenues for the nine months ended September 30, 2002. For the first nine months of 2002, 70% of the direct premiums written by the Property and Casualty Group were personal lines, while 30% were commercial lines. We also own 21.6% of the common stock of Erie Family Life Insurance Company, an affiliated life insurance company, of which the Exchange owns 53.5% and public shareholders, including certain of our directors, own 24.9%. At September 30, 2002, we had total assets of $2.2 billion, total liabilities of $1.2 billion and shareholders equity of $958 million. Our net income was $138.2 million for the nine months ended September 30, 2002 and $122.3 million for the year ended December 31, 2001.

We believe we are the only publicly-traded attorney-in-fact for a reciprocal insurance exchange in the country. Several other private property and casualty companies, such as USAA and Farmers Insurance Group (owned by Zurich Financial Services Group), are reciprocal insurance exchanges that operate with separate management arrangements**.** Our earnings are largely generated by fees based on premiums written directly by the underwriting pool of the Property and Casualty Group, in which the Exchange has a 94.5% participation. We therefore have a direct incentive to protect the financial condition of the Exchange. As a result of the Exchange s 94.5% participation in the underwriting results of the Property and Casualty Group, the underwriting risk of the Property and Casualty Group s business is largely borne by the Exchange, which had $2.1 billion of statutory surplus at September 30, 2002. The surplus of the Exchange was $4.8 billion at December 31, 1999 and has declined primarily

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from marketable security investment declines and underwriting losses. Through the pool, our property and casualty subsidiaries currently assume 5.5% of the Property and Casualty Group s underwriting results, and therefore we also have a direct incentive to manage the overall underwriting business as effectively as possible.

The Property and Casualty Group seeks to insure standard and preferred risks in primarily private passenger automobile, homeowners and small commercial lines, including workers compensation policies. We believe the Property and Casualty Group has differentiated its products from standard industry products by providing additional coverages, which enhance agents marketing efforts. The Property and Casualty Group s agency force consists of over 1,700 independent agencies comprised of approximately 8,000 agents in 11 Midwestern, Mid-Atlantic and Southeastern states (Illinois, Indiana, Maryland, New York, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and Wisconsin) and the District of Columbia. These independent agents play a significant role as underwriters and are major contributors to the Property and Casualty Group s success.

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The Company has reported increasing net operating income for 14 consecutive years. The increases in net operating income have been driven by the premium growth of the Property and Casualty Group that resulted in a corresponding increase in the amount of the management fee. The premium growth of the Property and Casualty Group has resulted primarily from an expansion of its business into new territories, the appointment of new agencies, high policy and agency retention rates and, recently, increased premium rates.

Since 1997, the Property and Casualty Group has entered Illinois and Wisconsin and expects to begin operating in Minnesota in the third quarter of 2004.

In 2001, we continued the planned expansion of the Property and Casualty Group s independent agency force by appointing 247 agencies. Since 1997, we have increased the overall number of agencies representing the Property and Casualty Group by 60%.

The Property and Casualty Group has a very stable base of policyholders. The Property and Casualty Group s retention rate of 90.9% in 2001 compared favorably to an average of 82.6% for a core benchmark group consisting largely of regional property and casualty insurers, according to a 2001 Ward Group benchmark study.

The Property and Casualty Group is achieving premium rate increases as a result of the current favorable market conditions in both commercial and personal property and casualty lines, which are generally referred to within the industry as hard market conditions . Hard market conditions are characterized by increasing premium rates, more stringent underwriting standards and a need for additional capital. The Property and Casualty Group and the Company have benefited from these hard market conditions and for the twelve months ended September 30, 2002 experienced average premium per policy increases of 7.2% for personal automobile insurance policies, 17.6% for commercial lines policies and 9.5% across all lines. Management believes increases in premium rates are likely to continue in 2002 and 2003. Generally, the Company s profit margins from management operations have increased during periods of premium rate increases.

As a result of these growth initiatives and market conditions, the Property and Casualty Group had over 3.4 million insurance policies in force as of September 30, 2002, an 11.9% increase from September 30, 2001. Personal lines policies in force grew by 11.8% during the twelve months ended September 30, 2002, while commercial lines policies increased 13.0% over the same period.

The Property and Casualty Group has incurred underwriting losses in recent years, primarily as a result of reducing premium rates in 1998 and 1999 in response to competitive conditions, due to increasing loss severity and due to reinsurance losses, including losses from the terrorist attack on the World Trade Center. Because we have a 5.5% participation in the underwriting results of the Property and Casualty Group, 5.5% of its underwriting losses are reflected in our results of operations. Our share of these underwriting losses, which includes the reinsurance losses, were $3.5 million in 1999, $10.4 million in 2000 and $20.5 million in 2001, respectively.

Each member of the Property and Casualty Group is rated A++ (Superior) by A.M. Best Company, Inc. (A.M. Best), its highest financial strength rating, which was held by only 2.8% of the property and casualty insurance groups rated by A.M. Best as of July 11, 2002.

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Strategy

The Erie Insurance Group s overall strategy includes providing attractive property and casualty insurance products at competitive prices, coupled with high-quality service. The Erie Insurance Group distributes these products exclusively through independent insurance agents whose insurance and underwriting expertise, local market knowledge and commitment to service have been key drivers of Erie Insurance Group s growth. The Erie Insurance Group s strategy includes:

- Growth by expansion of existing operations, rather than through acquisition, including by (i) a careful agency selection process in which the Property and Casualty Group seeks to be the primary property and casualty underwriter for each agency, (ii) a thoughtful expansion into favorable states and (iii) increased market penetration in existing operating territories.
- Quality service to policyholders in claims handling, underwriting and other service activities.
- Achieving underwriting profits for the Property and Casualty Group by focusing on standard and preferred risks and by setting and adhering to consistent underwriting standards.
- A business model designed to provide the advantages of localized marketing and claims servicing with the economies of scale derived from centralized management and administration.

Recent Developments

At its meeting on December 10, 2002, our board of directors approved:

- the reduction of the management fee rate for 2003 from its previous rate of 25% to 24%, which would have reduced the Company s net income by $15.4 million and net income per share by $0.22, or 11.2%, had such reduction been effective for the nine months ended September 30, 2002;
- an increase in the regular quarterly dividend from $0.17 to $0.19 on each share of Class A common stock and from $25.50 to $28.50 on each share of Class B common stock; and
- the reduction of the service agreement rate, which relates to the management and administration by us of the Exchange s voluntary assumed reinsurance business from non-affiliated insurers, for 2003 from its previous rate of 7% to 6%, which would have reduced the Company s net income by $891,000 and net income per share by $0.01, or less than 1%, had such reduction been effective for the nine months ended September 30, 2002.

In determining whether to reduce the management fee rate and the service agreement rate, the Company s board of directors considered the relative financial position of the Exchange and the Company, including the surplus levels and underwriting results of the Exchange and the management fee and earnings growth prospects of the Company.

The Company recorded in the fourth quarter of 2002 a one-time charge to net income of $3.9 million, or $.06 per share, to establish an estimated allowance for returned management fees, rather than continuing to make adjustments upon return. This charge recognizes the management fee anticipated to be returned to the Exchange based on historical cancellation rates. The Company did not restate prior period financial statements because the Company believes this adjustment is not material to the trend of earnings for the Company nor any related financial statement amount. Future changes in this allowance will be reflected in the Company s statement of operations and are not expected to be material. Cash flows will not be affected.

Members of the Property and Casualty Group increased their loss and loss adjustment reserves by approximately $184 million in the fourth quarter of 2002. Approximately $3.1 million to $6.2 million of these increases were for our subsidiaries, which will result in after tax charges to us of approximately $.03 to $.06 in the fourth quarter. The increases in reserves were taken in response to adverse loss experience in the group s automobile, homeowners and workers compensation lines, which was primarily attributable to increased loss severity from automobile bodily injury and catastrophic medical claims in the workers compensation lines.

The Company recognized realized capital losses during the fourth quarter of 2002 of approximately $8.4 million. These losses resulted from the sale of certain securities and from charges for impairments based on the Company s regular periodic review of equity, debt and limited partnership investments held by the Company. The losses will reduce fourth quarter net income by approximately $5.5 million or $.08 per share.

The Offering

Class A common stock offered	3,000,000 shares of our Class A common stock, which is non-voting, are being offered by the Selling Shareholder named below.
Class A common stock outstanding after this offering	64,037,106 shares
Class B common stock outstanding after this offering	2,900 shares
Class B common stock conversion ratio	One share of Class B common stock may be converted into 2,400 shares of Class A common stock.
Class A common stock outstanding after this offering assuming conversion	70,997,106 shares
Dividend history	We declared and paid cash dividends of $0.17 per share of Class A common stock for each of the first three quarters of 2002 and $25.50 per share of Class B common stock for each of the first three quarters of 2002. We declared and paid a cash dividend of $0.19 per share of Class A common stock for the fourth quarter of 2002 and $28.50 per share of Class B common stock for the fourth quarter of 2002.

We have paid regular quarterly cash dividends since 1942. Our board of directors considers the declaration of cash dividends on a quarterly basis. The payment of future dividends, if any, will be at the discretion of our board of directors and will depend upon many factors, including:

our earnings;

our financial position;

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our capital requirements and those of our subsidiaries; and

our ability to receive dividends from our subsidiaries, which is subject to regulatory limitations.

There can be no assurance as to the declaration of future dividends.

Use of proceeds	We will not receive any of the proceeds from this offering of our Class A common stock. The Selling Shareholder identified below will receive all the net proceeds from the sale of these shares.
NASDAQ Stock Market[SM] symbol	ERIE

The above information assumes that the option covering an additional 450,000 shares granted by the Selling Shareholder to the underwriters will not be exercised.

The above information is based on the number of shares outstanding as of January 1, 2003.

Selling Shareholder

Black Interests Limited Partnership (the Selling Shareholder) is offering 3.0 million shares of the Company s Class A common stock. The Selling Shareholder has also granted the underwriters a 30-day option to purchase up to an additional 450,000 shares of the Company s Class A common stock. Samuel P. Black, III is the managing general partner of the Selling Shareholder and has the right to vote the shares held by it. Mr. Black has been a director of the Company since 1997 and succeeded his father, who served as a director during various periods from 1930 to 1997. Mr. Black is also an officer and principal shareholder of an insurance agency that receives insurance commissions in the ordinary course of business from the insurance companies we manage, in accordance with the insurance companies standard commission schedules and agents contracts.

A majority of the proceeds of the shares being offered as described in this prospectus will be used by the Selling Shareholder to pay estate taxes and other estate-related expenses arising from the recent death of Mr. Black s mother and to make a charitable bequest.

Corporate Information

We were incorporated in Pennsylvania in 1925. Our principal executive offices are located at 100 Erie Insurance Place, Erie, Pennsylvania 16530, and our telephone number is (814) 870-2000. Our website is located at www.erieinsurance.com. The information on this website is not a part of this prospectus.

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Summary Historical Financial Information

The summary consolidated financial data presented below as of or for the years ended December 31, 1997 through 2001 is derived from our audited financial statements. Our consolidated financial statements as of December 31, 2000 and 2001 and for each of the years in the three-year period ended December 31, 2001, and our independent auditors report thereon, are included elsewhere in this prospectus and incorporated by reference herein. See Where To Find More Information/Incorporation by Reference . The summary consolidated financial data presented below as of or for the nine-month periods ended September 30, 2001 and 2002 is derived from our unaudited consolidated financial statements included elsewhere in this prospectus and incorporated by reference herein. See Where To Find More Information/Incorporation by Reference . Our results of operations for the nine months ended September 30, 2002 are not necessarily indicative of our results of operations that may be expected for the year ended December 31, 2002. In the opinion of our management, all adjustments, consisting only of normal recurring accruals, considered necessary for a fair presentation have been included. The financial data set forth below is only a summary and should be read in conjunction with our consolidated financial statements and related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein.

(amounts in thousands, except per share data)	Nine Months Ended September 30, 2002	2001	Year Ended December 31, 2001	2000	1999	1998	1997
	(unaudited)						
Statements of Operations Data:							
Operating revenue	$ 730,029	$ 602,001	$ 799,861	$ 698,016	$ 646,040	$ 615,965	$ 581,979
Operating expense	556,871	466,566	635,756	549,672	501,061	470,155	450,037
Total other income and expenses	33,187	35,408	17,998	70,102	58,731	45,770	38,747
Equity in earnings of Erie Family Life Insurance Company, net of tax	1,015	2,337	719	5,108	4,692	4,443	3,935
Federal income tax expense	69,171	56,835	60,561	71,161	65,296	61,472	56,043
Net income	$ 138,189	$ 116,345	$ 122,261	$ 152,393	$ 143,106	$ 134,551	$ 118,581
Per Share Data:							
Net income per share	$ 1.94	$ 1.63	$ 1.71	$ 2.12	$ 1.95	$ 1.81	$ 1.59
Book value per share	13.50	12.01	12.15	10.91	9.62	8.81	7.25
Weighted average shares outstanding	71,109	71,380	71,342	71,954	73,487	74,400	74,400
Financial Position:							
Investments(1)	$ 969,898	$ 884,599	$ 885,650	$ 853,146	$ 785,258	$ 709,417	$ 566,118
Receivables from the Exchange and affiliates	761,295	650,091	640,655	532,009	470,969	467,794	469,708
Total assets	2,194,690	1,897,077	1,935,566	1,680,599	1,518,794	1,454,062	1,292,544
Shareholders equity	958,274	855,755	865,255	779,015	697,599	655,223	539,383

(1) Includes investment in Erie Family Life Insurance Company.

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RISK FACTORS

You should consider carefully the risks and uncertainties described below and the other information in this prospectus, including our consolidated financial statements and related notes, before deciding to invest in shares of our Class A common stock. If any of the following risks or uncertainties actually occur, our business, financial condition and operating results would likely suffer. In that event, the market price of our Class A common stock could decline and you could lose all or part of the money you paid to buy our Class A common stock.

Risks Relating to Our Business and Our Relationships with Third Parties

If the management fee rate paid to us by the Exchange is further reduced, if there is a significant decrease in the amount of premiums written by the Exchange or if we do not control the costs of providing services to the Exchange, our revenues and profitability could be materially adversely affected.

We are dependent upon management fees paid to us by the Exchange, which represent our principal source of revenue. Management fees from the Exchange constituted 78% of our revenues for the first nine months of 2002, 78% of our revenues for 2001, and 74% of our revenues during the three years ended December 31, 2001. The management fee rate we receive is determined by our board of directors and may not exceed 25% of the direct written premiums of the Property and Casualty Group. Since 1999, the management fee rate has been 25%. In 1998 and 1997, the management fee rate was 24.25% and 24%, respectively.

Our board of directors generally sets the management fee rate each December for the following year. However, at their discretion, the rate can be changed at any time. The factors our board of directors consider in setting the management fee rate include our financial position in relation to the Exchange and the long-term needs of the Exchange for capital and surplus to support its continued growth and competitiveness. The Exchange s capital and surplus could become impaired due to a number of factors, including those discussed under Risks Relating to the Business of the Property and Casualty Group and Risks Relating to the Property and Casualty Insurance Industry below. In light of factors including the strong growth of the Exchange s premium base and the decline in the policyholders surplus of the Exchange from $4.8 billion at December 31, 1999 to $2.1 billion at September 30, 2002, the management fee rate for 2003 was reduced to 24% at our board s December 2002 meeting.

If our board of directors were to determine that the management fee rate should be further reduced, our revenues and profitability could be materially adversely affected. For example, a 1% reduction in the management fee rate during the nine months ended September 30, 2002 would have resulted in a reduction in our net revenues of $23.8 million, or 12.6%, and a reduction in our net income per share of $0.22, or 11.2%. A similar decrease of 1% during 2001 would have resulted in a reduction in our net revenues of $25.4 million, or 13.8%, and a reduction in our net income per share of $0.23, or 13.5%.

Our management fee revenue from the Exchange is calculated by multiplying the management fee rate by the direct premiums written by the Exchange and the direct premiums written by the other members of the Property and Casualty Group, which are initially assumed by the Exchange. Accordingly, any reduction in direct premiums written by the Property and Casualty Group would have a proportional negative effect on our revenues and net income.

Pursuant to the attorney-in-fact agreements with the policyholders of the Exchange, the Company is appointed to perform certain services, regardless of the cost to the Company of providing those services. These services relate to the sales, underwriting and issuance of policies on behalf of the Exchange. We could lose money or be less profitable if our cost of providing those services increases significantly.

Our board of directors faces certain conflicts of interest because it must balance fiduciary obligations to policyholders of the Exchange and to our shareholders; thus our board of directors must make decisions that are not solely in the interests of our shareholders.

The Exchange has no board of directors or governing body of its own. In our capacity as attorney-in-fact, we have a fiduciary duty to the policyholders of the Exchange to protect their interests. Likewise, we have a fiduciary duty to our shareholders. Certain conflicts of interest arise from these separate fiduciary duties. Among these conflicts of interest are:

Our board of directors sets the management fee rate paid by the Exchange to us and decides the percentage participation rate of our property and casualty subsidiaries in the pool.

We make judgments about the allocation of shared costs between the Exchange and the Company in accordance with intercompany agreements and the attorney-in-fact agreements with the policyholders of the Exchange, including costs relating to the eCommerce program.

The Exchange may enter into other transactions and contractual relationships with the Company and its subsidiaries.

As a consequence, our board of directors must make decisions or take actions that are not solely in the interests of our shareholders. If, for example, there should be a need to strengthen the surplus of the Exchange, our board of directors may decide to reduce the management fee rate and/or that we should make a capital contribution to the Exchange in the form of a surplus note or some other form. Under such circumstances, we may be required to provide such capital to the Exchange at a lower rate of return than would be available with other investments or at no return at all. Payments of interest and repayment of principal on a surplus note are subject to prior approval of the Pennsylvania Department of Insurance, which may not approve such payments. We may also find it necessary to fund additional surplus for the Exchange by issuing additional shares of our capital stock, resulting in dilution of existing shareholders interest. In addition, state regulators could challenge the reasonableness of the transactions between us and the Exchange.

We are subject to credit risk to the Exchange because our management fees from the Exchange are not paid immediately when earned and our insurance subsidiaries are subject to credit risk to the Exchange because the Exchange assumes a higher insurance risk under an intercompany pooling arrangement than is proportional to its direct business contribution to the pool.

We recognize management fees due from the Exchange as income when the premiums are written because at that time we have performed substantially all of the services we are required to perform, including sales, underwriting and policy issuance activities, but currently such fees are not paid to us by the Exchange until it collects the premiums. As a result, we hold receivables for management fees due us for premiums written but not yet collected by the Exchange. In addition, we hold receivables from the Exchange for costs we pay on its behalf and for reinsurance under the intercompany pooling arrangement. Our total receivables from the Exchange, including the management fee, costs we pay on behalf of the Exchange and reinsurance recoverables, totaled $759.6 million, or 34.6% of our total assets at September 30, 2002, and $638.4 million, or 33.0% of our total assets at December 31, 2001. The receivables represented 12.3% of the Exchange s assets at September 30, 2002 and 9.1% at December 31, 2001.

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The Exchange and two of our wholly owned subsidiaries, Erie Insurance Company and Erie Insurance Company of New York, are parties to an intercompany pooling arrangement. Under this pooling arrangement, our insurance subsidiaries cede 100% of their property and casualty underwriting business to the Exchange, which retrocedes 5% of the pooled business to Erie Insurance Company and 0.5% to Erie Insurance Company of New York. In 2001, only approximately 81.4% of the pooled direct property and casualty business was originally generated by the Exchange and its subsidiary, while 94.5% of the pooled business is retroceded to the Exchange under the intercompany pooling arrangement. Accordingly, the Exchange assumes a higher insurance risk than is proportional to the insurance business it contributes to the pool. In 2001, our subsidiaries wrote 18.6% of the direct premiums, while assuming only 5.5% of the risk. This poses a credit risk to our subsidiaries participating in the pool because they are still responsible ultimately to the policyholders for policies they have written if the Exchange is unable to meet its obligations.

Our financial condition may suffer because of declines in the value of the marketable securities that constitute a significant portion of our assets.

At September 30, 2002, we had investments in marketable securities of approximately $828 million and investments in limited partnerships of approximately $89 million. In addition, we are obligated to invest up to an additional $116 million in limited partnerships, including in partnerships for U.S. and foreign private equity, real estate and fixed income investments. All of our marketable security investments are subject to market volatility. Our fixed income securities investments are exposed to price risk and to risk from changes in interest rates as well as credit risk related to the issuer. Generally, we do not hedge our exposure to interest rate risk as we have the ability to hold fixed income securities to maturity. Our marketable securities have exposure to price risk and the volatility of the equity markets and general economic conditions. The stock market decline in 2002 has reduced the value of our marketable securities by $6.8 million during the first nine months of 2002, compared to $3.4 million during the first nine months of 2001. To the extent that future market volatility negatively impacts our investments, our results of operations will be negatively impacted.

The two individual trustees of our controlling shareholders, the H.O. Hirt Trusts, have significantly differing views on a number of matters relating to the Company; such disagreements may have an adverse effect on our business and on the value of our Class A common stock.

Two trusts established by our founder, H.O. Hirt (the H.O. Hirt Trusts), own 80.7% of our Class B common stock, which is the only class of stock that can vote for the election of directors and has the ability to determine the outcome of all other matters that require shareholder approval, except those matters pertaining only to the rights of the holders of our Class A common stock. The corporate trustee of the H.O. Hirt Trusts is Bankers Trust Company of New York (Bankers Trust) and the two individual trustees of the H.O. Hirt Trusts are F. William Hirt and Susan Hirt Hagen, who are brother and sister and the children of H.O. Hirt. Any determination by the H.O. Hirt Trusts requires a vote of two of the three trustees and, because the H.O. Hirt Trusts control 80.7% of our Class B common stock, any such determination will be controlling in a shareholder vote. Mrs. Hagen and Mr. Hirt disagree on a number of matters relating to corporate governance, the appointment of a successor corporate trustee and the financial condition of the Exchange.

Mrs. Hagen has recently raised concerns regarding a number of such matters, including: the role of the H.O. Hirt Trusts as controlling shareholders in the governance of the Company; the propriety of a corporate trustee of the H.O. Hirt Trusts engaging in insurance brokerage activities; the restructuring of our board of directors so that a majority of the directors are independent of management; the restructuring of the committees of our board of directors to provide a more meaningful role for directors who do not have ongoing business relationships with us; the desirability of more liquidity and increased institutional investor interest in the Company and the allocation of expenses between the Exchange and us.

Mrs. Hagen on one occasion commenced litigation against us in connection with corporate governance matters and has participated in litigation involving the H.O. Hirt Trusts brought by each of the trustees of the H.O. Hirt Trusts and by other beneficiaries of the H.O. Hirt Trusts. On two occasions in the recent past, Mr. Hirt brought a suit, which was subsequently withdrawn without prejudice, seeking the removal of Mrs. Hagen as an individual trustee. The effect of these disagreements and concerns and possible future disagreements between Mrs. Hagen and Mr. Hirt on us and the value of our Class A common stock cannot be predicted.

Mrs. Hagen, who is a member of our board of directors, a trustee and a beneficiary of the H.O. Hirt Trusts and a beneficial owner of approximately 26.2% of our Class A common stock, is opposed to our participation in this offering because she believes there may be a better alternative for us and may take additional actions to oppose this offering.

The concerns that Mrs. Hagen has expressed to our board of directors about this offering include:

- the amount of time and effort required of our officers to prepare a registration statement relating to this offering and to assist in the marketing of the shares offered hereby instead of fully concentrating their efforts on business and financial issues confronting Erie Insurance Group;
- the liability of our directors and the H.O. Hirt Trusts if the registration statement, including this prospectus, were determined to contain a material misstatement or a material omission and the indemnification by us of the underwriters for certain potential liabilities under federal securities laws related to this offering;
- the need for the Company to consider retention of a national auditing firm;
- the impact of the offering on our ability to attract independent director candidates during this offering because of the potential liability associated therewith;
- doubts whether a public offering would unlock any long-term value for our shareholders;
- concerns that increased public holdings of our Class A common stock will attract institutional investors; and
- her opinion that a below-market purchase by us of the shares being offered by the Selling Shareholder would be more advantageous to us.

Our board of directors considered Mrs. Hagen s concerns at meetings held on August 16, 2002 and September 9, 2002. At each meeting, Mrs. Hagen was the only member of our board of directors present to vote against proceeding with this offering. We are unable to predict whether Mrs. Hagen or any other trustee or any other beneficiary of the H.O. Hirt Trusts may take additional actions to oppose this offering.

Mrs. Hagen has also recently proposed five amendments to the Company s Bylaws for consideration by the voting shareholders at the Company s annual meeting of shareholders for 2003. These amendments concern (i) revising the existing advance notice bylaw to provide that direct nomination by voting shareholders of candidates for director are not due until after our nominating committee announces its proposed slate rather than generally not less than 90 calendar days nor more than 120 calendar days before the first anniversary of the date on which the Company first mailed its proxy statement to shareholders for the immediately preceding year s annual meeting of shareholders as currently provided; (ii) revising the advance notice bylaw to provide that other shareholder proposals for annual meetings must be submitted not less than 60 nor more than 120 days prior to the first anniversary of the prior year s annual meeting rather than generally not less than 90 calendar days nor more than 120 calendar days before the first anniversary of the date on which the

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Company first mailed its proxy statement to shareholders for the immediately preceding year s annual meeting of shareholders as currently provided; (iii) fixing the size of our board of directors at 13 members rather than not less than 7 members nor more than 16 members as determined from time to time by our board of directors as currently provided; (iv) providing that vacancies on our board of directors only may be filled by the voting shareholders rather than by a majority vote of remaining members of our board of directors or the voting shareholders as currently provided and (v) providing that the bylaw provisions containing the foregoing may not be amended without a vote of the voting shareholders rather than by a majority vote of our board of directors or the voting shareholders as currently provided.

Mrs. Hagen s proposals to amend the Company s Bylaws were timely submitted in accordance with the Company s Bylaws applicable to shareholder proposals other than the nomination of directors. If these proposals are presented by Mrs. Hagen at the Company s 2003 annual meeting of shareholders, approval of the proposals would require the affirmative vote of a majority of the shares of the Company s Class B common stock voting at the annual meeting. Under the provisions of the H.O. Hirt Trusts, which have the power to vote 80.7% of the outstanding Class B common stock, the shares of Class B common stock held by the H.O. Hirt Trusts are to be voted as directed by a majority of the trustees then in office. The current trustees are Mrs. Hagen, Mr. Hirt and Bankers Trust. The Company has not been advised to date by the trustees of the H.O. Hirt Trusts as to how they intend to vote on Mrs. Hagen s proposals.

In addition, Mrs. Hagen has sent the Company a notice requesting that the Company s nominating committee consider a slate of director nominees proposed by her for election at the 2003 annual meeting of shareholders. Mr. Hirt has sent the Company a notice requesting that the Company s nominating committee consider certain other persons as director nominees. At the Company s 2000 annual meeting of shareholders, five nominees nominated by Mrs. Hagen and who were not nominated by our nominating committee were elected as directors of the Company and seven nominees nominated by our nominating committee were elected as directors of the Company. At the Company s 2001 and 2002 annual meetings of shareholders, all of the nominees nominated by our nominating committee, who were the same as the directors elected in 2000, were elected as directors of the Company and no nominees other than those nominated by our nominating committee were elected as directors. The Company has not been advised to date by the trustees of the H.O. Hirt Trusts as to the director nominees for whom they intend to vote at the 2003 annual meeting of shareholders.

Laurel A. Hirt, a beneficiary of the H.O. Hirt Trusts and the daughter of Mr. Hirt, the chairman of our board of directors, has requested that the trustees of the H.O. Hirt Trusts take appropriate actions to stop this offering and may take additional actions to oppose this offering.

On January 24, 2003, Laurel A. Hirt addressed a letter to the trustees of the H.O. Hirt Trusts, who are Mr. Hirt, Mrs. Hagen and Bankers Trust, and copied our board of directors, requesting that the trustees direct our board of directors to withdraw their support for this offering and direct management of the Company to withdraw this offering. Ms. Hirt expressed the view that permitting the Company to engage in an offering that would expand the base of shareholders to possibly include more investors whose interests may be adverse to the H.O. Hirt Trusts creates an undue and unacceptable risk for the H.O. Hirt Trusts and could make the H.O. Hirt Trusts more vulnerable to lawsuits. Ms. Hirt also cited certain passages of this prospectus that she felt could be considered material and misleading to potential investors and that could create liability to the H.O. Hirt Trusts as a controlling person. Ms. Hirt indicated she would consider initiating legal actions against the trustees of the H.O. Hirt Trusts, our directors and our management if this offering is not stopped and harm comes to the H.O. Hirt Trusts, the Exchange or the Company as a result of this offering.

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We have evaluated Ms. Hirt s concerns regarding disclosure in this prospectus and do not believe that any of her concerns indicates that there is any material misstatement or omission in this prospectus. There can be no assurance that Ms. Hirt will not take additional actions to oppose this offering or initiate litigation as a result of this offering. The effect of any such actions on us and the value of our Class A common stock cannot be predicted.

Decisions by the corporate trustee of the H.O. Hirt Trusts or a successor to either of the individual trustees could materially alter our management, strategic direction, operating philosophy or other matters material to us.

Bankers Trust tendered its resignation as corporate trustee of the H.O. Hirt Trusts on March 3, 1999, 36 days after it had been appointed as a result of conflicts of interest that Bankers Trust believed existed from certain insurance operations of its parent company and affiliates. Also, an affiliate of Bankers Trust, Deutsche Bank, is one of the largest market makers in the Company s stock. The selection of a new corporate trustee of the H.O. Hirt Trusts to replace Bankers Trust is pending before Orphan s Court in Erie County, Pennsylvania. We cannot predict or estimate when a replacement corporate trustee will be chosen to replace Bankers Trust or who it will be. Because any action of the H.O. Hirt Trusts requires a vote of two of the three trustees and because Mrs. Hagen and Mr. Hirt have significantly differing views, the vote of the corporate trustee has been, and will likely continue to be, determinative of the actions of the H.O. Hirt Trusts. There are a number of circumstances in which a successor to one of the individual trustees would be appointed, including the death of an individual trustee. If an individual trustee is to be appointed, under the terms of the H.O. Hirt Trusts, the remaining individual trustee, the corporate trustee and our board of directors may select a replacement individual trustee or, if no successor is selected within 30 days, the remaining trustees and the Company shall petition the Court of Common Pleas of Erie County, Pennsylvania to fill said vacancy under the trust agreement. Mr. Hirt is 77 years old and Mrs. Hagen is 67 years old. Decisions by the existing trustees or successor trustees, including supporting a slate of directors put forth by Mrs. Hagen or another shareholder, could materially alter our management, strategic direction, operating philosophy or other matters material to us. It is impossible to determine how these decisions may affect the value of the Company and therefore our Class A common stock.

Risks Relating to the Business of the Property and Casualty Group

The Property and Casualty Group conducts business in only 11 states and the District of Columbia, with a concentration of business in Ohio, Maryland, Virginia and, particularly, Pennsylvania. Any single catastrophe occurrence or other condition disproportionately affecting losses in these states could adversely affect the results of operations of members of the Property and Casualty Group.

The Property and Casualty Group conducts business in only 11 states and the District of Columbia, primarily in the Mid-Atlantic, Midwestern and Southeastern portions of the United States. A substantial portion of this business is private passenger and commercial automobile, homeowners and workers compensation insurance in Ohio, Maryland, Virginia and, particularly, Pennsylvania. As a result, a single catastrophe occurrence, destructive weather pattern, general economic trend, terrorist attack, regulatory development or other condition disproportionately affecting one or more of the states in which the Property and Casualty Group conducts substantial business could materially adversely affect the results of operations of members of the Property and Casualty Group. Common catastrophe events include hurricanes, earthquakes, tornadoes, wind and hail storms, fires and explosions. Recent ice storms in North Carolina and tornadoes and hail in Ohio and Pennsylvania during November and December 2002 are examples of the type of event that can negatively impact underwriting results. The Property and Casualty Group estimates the combined exposure from the approximately 4,500 damage claims from these storms will result in incurred losses of approximately $21 million to $24 million, our share of which will be approximately $1.3 million or $.01 per share after taxes. Effective January 1, 2003, the Property and Casualty Group entered into a property catastrophe reinsurance treaty that provides coverage of 95% of a loss up to $415 million in excess of the Property and Casualty Group s loss retention of $115 million per occurrence.

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The operating results of the Exchange are subject to greater variability because the Property and Casualty Group generally did not maintain reinsurance coverage after 1993 through 2002.

The Property and Casualty Group did not purchase treaty reinsurance, including catastrophe reinsurance, after 1993 through 2002, because management concluded, during our periodic assessments of the Property and Casualty Group s catastrophe exposure, that the benefits of such coverage were outweighed by the costs of the coverage in light of the Exchange s substantial surplus and its ratio of net premiums written to surplus. The Property and Casualty Group did obtain property catastrophe treaty reinsurance to protect its 2003 accident year underwriting results from catastrophes. The lower surplus levels of the Exchange, along with increasing catastrophe risk exposure as a result of accelerating policy growth, have resulted in management s decision to purchase property catastrophe treaty reinsurance coverage. The Exchange s reported surplus totaled $2.1 billion at September 30, 2002 compared to $4.8 billion at December 31, 1999, a reduction of 56%.

We cannot determine whether the Exchange s profitability could have been improved in years after 1993 through 2002 if the Exchange had purchased treaty reinsurance because it is impossible to establish the terms on which the Exchange might have obtained such reinsurance. If the recently purchased property catastrophe treaty reinsurance had been in effect during 2002, there would have been no recoveries and the profitability of the Exchange would not have been affected except by the cost of such reinsurance. The risk of not maintaining reinsurance coverage in the event of a significant catastrophe or a series of moderate catastrophes in the same year means that surplus levels could be exposed to dramatic decline should such catastrophes occur. Reinsurance for catastrophe exposure protects the balance sheet and income statement against large and infrequent events and reduces the variability of earnings. A dramatic decline in the surplus levels would result in pressure to reduce premium writings, and thereby, curtail growth of our property and casualty subsidiaries. Without the benefit of higher surplus levels, the ability of the Exchange to write additional premium would be reduced and so would be the Company s opportunity to grow.

Variability in the Exchange s financial results can affect our financial results in several ways. The management fee rate charged to the Exchange by us is set based in substantial part on a review of the relative financial condition and operating results of the Exchange and us. Deterioration in the financial condition and operating results of the Exchange could result in a reduction in the management fee rate paid to us or could constrain the capacity of the Exchange to write additional premium, which would reduce management fees paid to us. In addition, if the Exchange s financial condition worsened considerably we could be subject to greater credit risk related to our large accounts receivable balance due from the Exchange.

The business and results of operations of the Property and Casualty Group will be adversely affected if the independent agents that market the Property and Casualty Group s products do not maintain their current levels of premium writing, fail to comply with established underwriting guidelines or otherwise improperly market our products.

The Property and Casualty Group markets its insurance products solely through a network of over 1,700 independent insurance agencies. As a result, the Property and Casualty Group is wholly dependent upon these agencies, each of which has the authority to bind the Property and Casualty Group to insurance contracts. To the extent that these agencies marketing efforts cannot be maintained at their current levels of volume and quality or they bind the Property and Casualty Group to unacceptable insurance risks, fail to comply with established underwriting guidelines or otherwise improperly market our products, the results of operations and business of the Property and Casualty Group will suffer.

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The business of the Property and Casualty Group may not continue to grow and may be materially adversely affected if the Company cannot retain existing, and attract new, independent agencies or if insurance consumers increase use of other insurance delivery systems.

The continued growth of the business of members of the Property and Casualty Group is partially dependent upon the Company s ability to retain existing, and attract new, independent agencies for the Property and Casualty Group. The following factors are among those that may cause the growth and retention in the number of independent agencies of the Property and Casualty Group, and thereby growth in revenue of its members, to be slower than it otherwise would have been:

- There is significant competition to attract independent agencies;
- Our process to select a new independent agency is intensive and typically requires from six to nine months;
- The Company has stringent criteria for new independent agencies and requires adherence by independent agencies to consistent underwriting standards; and
- The Company may be required to reduce agents commissions, bonuses and other incentives, thereby reducing our attractiveness to agencies.

The Property and Casualty Group sells insurance solely through its network of independent agencies. The Property and Casualty Group s competitors sell insurance through a variety of delivery methods, including independent agencies, captive agencies, the Internet and direct sales. To the extent that business migrates to a delivery system other than independent agencies because of changing consumer preferences, the business of the Property and Casualty Group will be adversely affected.

The Property and Casualty Group has incurred underwriting losses in recent years primarily as a result of reducing premium rates in 1998 and 1999 in response to competitive conditions, due to increased loss severity and due to reinsurance losses, including losses from the terrorist attack on the World Trade Center. To the extent underwriting losses continue, the management fee revenues we receive may be reduced, in addition to the continuing adverse effect on our operating results from our subsidiaries 5.5% participation in the underwriting results of the Property and Casualty Group.

In 1997 and 1998, the property and casualty insurance market was marked by soft market conditions, which are characterized by decreased revenues, less stringent underwriting standards and an excess of surplus in the industry. These conditions created severe price competition in commercial and personal lines of insurance, including private passenger automobile, the Property and Casualty Group s largest line of business. These competitive conditions resulted in slower new policy growth and declines in policy retention rates for the Property and Casualty Group. Management viewed these competitive effects as a serious threat to the well-being of the Property and Casualty Group. In 1998, following discussions with our board of directors, management decided to reduce premium rates in 1998 and 1999 in order to retain the Property and Casualty Group s most profitable customers. The 1998 and 1999 premium rate reductions, coupled with a general trend of increasing loss severity, negatively affected the Property and Casualty Group s underwriting results, which increased from underwriting losses of $49.8 million in 1999 to $189.7 million in 2000 and $517.3 million in 2001. In 1999, 2000 and 2001, the Property and Casualty Group also incurred significant underwriting losses from its non-affiliated assumed reinsurance business, including $55 million in losses from wind storms in Western Europe in late December 1999 and $150 million from the World Trade Center terrorist attack in September 2001, assuming that attack is treated as one occurrence.

The Property and Casualty Group and the Company have responded to underwriting losses in a number of ways, including adopting stricter underwriting requirements; restricting policy coverages; increasing the emphasis on reviewing existing policies and accounts to determine which risks continue

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to meet underwriting guidelines and taking appropriate action regarding those policies and accounts that do not; continuing the focus on claims strategies to reduce claims severity, such as reducing claims fraud; raising premium rates on its direct lines of insurance; reunderwriting all of its assumed reinsurance treaties, resulting in the cancellation of a significant number of treaties and the reduction in total aggregate limits for other treaties; significantly raising reinsurance premium rates; and excluding terrorism coverage from all reinsurance treaties entered into in 2002. However, there can be no assurance that the measures taken or that may be taken by the Property and Casualty Group and the Company will meet or exceed increases in loss costs or restore the Property and Casualty Group s underwriting profitability.

To the extent underwriting losses continue, our operating results will suffer from our subsidiaries 5.5% participation in the pooling arrangement. In addition, the Exchange s policyholders surplus will be further adversely affected. If the surplus of the Exchange were to decline significantly from its current level, the Property and Casualty Group could find it more difficult to retain its existing business and attract new business. A decline in the business of the Property and Casualty Group would have an adverse effect on the amount of the management fees we receive and the underwriting results of the Property and Casualty Group in which we have a 5.5% participation. In addition, a decline in the surplus of the Exchange from its current level would make it more likely that the management fee rate received by us would be further reduced.

The surplus of the Exchange has decreased from $4.8 billion at December 31, 1999 to $2.1 billion at September 30, 2002. Of this decrease, approximately $1.6 billion was because of declines in the market value of marketable securities investments, including the significant portfolio of common equity securities. To the extent these declines in market value continue and the Exchange s surplus continues to decrease, the management fee rate we receive may be further reduced and the underwriting results of our property and casualty subsidiaries may suffer.

In 1985, the Exchange increased its investments in common equity securities as a core element of its investment strategy. At December 31, 1999, when the Exchange s surplus was $4.8 billion, the Exchange s portfolio of marketable securities investments included common equity securities that had appreciated in value by $2.6 billion, to a market value of $3.8 billion. However, as a result of the downturn in common equity markets since 1999, the Exchange s portfolio of common equity securities has experienced a decline in value of $1.8 billion and the value of the portfolio was $2.0 billion at September 30, 2002. The common equity portfolio of the Exchange represents 32.8% of its admitted assets at September 30, 2002 while the entire portfolio of marketable securities investments represents 76.0% of its admitted assets at that date.

All marketable securities held by the Exchange are subject to market volatility. The Exchange s marketable securities have exposure to price risk and the volatility of capital markets. The stock market decline in 2002 has reduced the value of the Exchange s marketable securities by $1.3 billion during the first nine months of 2002 compared to the decrease of $1.0 billion during the first nine months of 2001.

To the extent that the Exchange incurs additional investment losses resulting from declines in the value of its marketable securities, the Exchange s policyholders surplus will be further adversely affected. If the surplus of the Exchange were to decline significantly from its current level, the Property and Casualty Group could find it more difficult to retain its existing business and attract new business. A decline in the business of the Property and Casualty Group would have an adverse effect on the amount of the management fees we receive and the underwriting results of the Property and Casualty Group in which we have a 5.5% participation. In addition, a decline in the surplus of the Exchange from its current level would make it more likely that the management fee rate received by us would be further reduced.

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Erie Insurance Group s recent efforts to develop technology, including Internet capabilities, to enhance policy administration and to improve interaction with agents may be more costly than we anticipate, may not be completed due to cost or technology considerations and may increase our exposure to breaches of privacy or security.

Customers and agents expect rapid turnaround of quotes and endorsements and efficient services. Failure to meet these service expectations could place the Erie Insurance Group at a competitive disadvantage. To remain competitive, the Erie Insurance Group has undertaken an initiative, called ERIEConnection[SM], to utilize technology, including the Internet, to automate certain functions to facilitate quoting, underwriting and the issuing of policies and provide these services directly to its agents via the Internet. Such an upgrading of technology requires a sizable financial investment. Moreover, the effectiveness of certain areas of technology remain unproven. Erie Insurance Group completed the first major component of the program during the second quarter of 2002. Through September 30, 2002, the Erie Insurance Group has spent $87 million on its current technology development efforts. The timing, scope and level of spending for remaining deliverables under the program are uncertain. Actual costs to complete the technology initiatives may exceed anticipated costs and lead to a reduction in profits or the termination of these technology initiatives. In addition, use of Internet technology to connect directly with the Property and Casualty Group s agents increases the risk of security breaches, which may cause short-term or long-term disruptions to the Property and Casualty Group s business operations and could lead to further and currently unanticipated technology costs to prevent and mitigate the effects of such security breaches.

If ratings for financial strength assigned to members of the Property and Casualty Group by industry rating organizations were significantly downgraded, the Property and Casualty Group s competitive position in the insurance industry would be adversely affected.

Ratings are a factor in establishing the competitive position of insurance companies. Members of the Property and Casualty Group receive ratings from A.M. Best and Standard & Poor s, which are industry-accepted measures of an insurance company s financial strength and are specifically designed to provide an independent opinion of an insurance company s financial health and ability to meet ongoing obligations to policyholders. Members of the Property and Casualty Group are also rated by Weiss Ratings, Inc., which is a consumer-oriented rating company that issues ratings designed to provide an independent opinion of an insurance company s financial strength. The ratings by Weiss Ratings, Inc. for the Exchange and Erie Insurance Company were downgraded in July 2002. In addition, in January 2003, the Company was notified by Standard & Poor s that the ratings for members of the Property and Casualty Group were under review and may be downgraded. Ratings are not recommendations to buy, sell or hold our common stock and are subject to change. A description of the Company s recent ratings appears under Business Financial Ratings beginning on page 63.

If the Exchange or any other member of the Property and Casualty Group were to incur underwriting losses or reductions in surplus for an extended period of time, the ratings of such entity may be downgraded. While management of the Company believes that recent downgrades by Weiss Ratings, Inc. have not impacted any member of the Property and Casualty Group, a significant future downgrade in these or other ratings would reduce the competitive position of the affected member by making it more difficult to attract profitable business in the highly competitive property and casualty insurance market.

Risks Relating to the Property and Casualty Insurance Industry

The Property and Casualty Group faces significant exposure to terrorism.

The tragic World Trade Center terrorist attack resulted in staggering losses for the insurance industry and has caused uncertainty in the insurance and reinsurance markets. The Property and Casualty Group incurred a loss of $150 million in this attack assuming it continues to be considered

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one occurrence, and it estimates it would incur an additional loss of $50 to $75 million if the attack is considered two occurrences. The Company s 5.5% share of this incurred loss was $5.8 million. Accordingly, the industry has been compelled to re-examine policy language and to address the potential for future threats of terrorist events and losses. The Property and Casualty Group s personal and commercial property and casualty insurance policies were not priced to cover the risk of terrorist attacks and losses such as those suffered in the World Trade Center terrorist attack. The Property and Casualty Group has withdrawn from some coverages and exposures, including terrorism, where permitted by state regulators. However, even in states where withdrawal has been permitted, the Property and Casualty Group is still exposed to terrorism under several lines, including personal lines and workers compensation, and, in most states, losses caused by an ensuing fire. On November 26, 2002, President Bush signed the Terrorism Risk Insurance Act of 2002, establishing a program for commercial property and casualty losses, including workers compensation, resulting from foreign acts of terrorism. The Terrorism Risk Insurance Act requires commercial insurers to make terrorism coverage available immediately and provides limited federal protection above individual company retention levels, based upon a percentage of direct earned premium, and above aggregate industry retention levels that range from $10 billion in the first year to $15 billion in the third year. The federal government will pay 90% of covered terrorism losses that exceed retention levels. The Terrorism Risk Insurance Act is scheduled to expire on December 31, 2005. Personal lines are not included under the protection of the Terrorism Risk Insurance Act, and state regulators have not approved exclusions for acts of terrorism on personal lines policies. The Property and Casualty Group could incur large unexpected losses if future terrorist attacks occur.

Even excluding terrorism exposure, the Property and Casualty Group faces the threat of substantial catastrophe losses and did not maintain treaty reinsurance coverage for catastrophe losses after 1993 through 2002.

The Property and Casualty Group has experienced, and can be expected in the future to experience, catastrophe losses that may have a material adverse impact on our results of operations and financial condition. The Property and Casualty Group did not maintain treaty reinsurance coverage to mitigate the impact of catastrophe losses after 1993 through 2002; however, effective January 1, 2003, the Property and Casualty Group has obtained property catastrophe reinsurance coverage. Catastrophes can be caused by various events, including hurricanes, earthquakes, tornadoes, wind, hail, fires, explosions and man-made disasters. The incidence and severity of catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of two factors: the total amount of insured exposure in the area affected by the event and the severity of the event. Most catastrophes are localized to small geographic areas; however, events such as hurricanes, hail and ice storms have the potential to produce significant damage in large, heavily populated areas.

For the Property and Casualty Group, areas of major potential hurricane loss include major metropolitan centers in the eastern United States and areas of major potential ice storm or hail loss include major metropolitan centers in the Mid-Atlantic and Midwestern states. Although catastrophes can cause losses in a variety of property and casualty lines, homeowners insurance has in the past generated the vast majority of catastrophe-related claims. At December 31, 2001, 76% of the Property and Casualty Group s total homeowners insurance exposure was comprised of risks in Mid-Atlantic states, which exposes the Property and Casualty Group to significant risk of loss from catastrophes in that region.

Increased litigation against the industry, willingness of courts to expand covered causes of loss, rising jury awards, increasing medical costs and the escalation of loss severity may contribute to increased costs and to the deterioration of reserve positions of the Property and Casualty Group.

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Loss severity for the Property and Casualty Group continues to increase, principally driven by larger court judgments and increasing medical costs in recent years. In addition, many legal actions and proceedings have been brought on behalf of classes of complainants, which can increase the size of judgments. The propensity of policyholders to litigate and the willingness of courts to expand causes of loss and the size of awards may render loss reserves inadequate for current and future losses. Loss reserves are liabilities established by insurers and reinsurers to reflect the estimated cost of loss payments and the related loss adjustment expenses that the insurer or reinsurer will ultimately be required to pay in respect of insurance or reinsurance it has written.

The Property and Casualty Group has exposure to mold claims for which there has recently been a sharp increase in the industry generally. Sometimes referred to as sick building syndrome , tenants claiming to suffer illnesses caused by mold may seek financial compensation from building owners. Businesses also may claim loss-of-use business income interruption losses. Homeowners have also been submitting claims based on mold that has occurred from water damage. The Property and Casualty Group s exposure to date, including known and expected claims, has been insignificant.

Members of the Property and Casualty Group increased their loss and loss adjustment reserves by approximately $184 million in the fourth quarter of 2002 in response to adverse loss experience in the group s automobile, homeowners and workers compensation lines. To the extent that adverse trends continue, including expansion by courts of covered causes of loss, rising jury awards, increasing medical costs and the escalation of loss severity, the Property and Casualty Group may need to further increase reserves and its profitability may be adversely affected.

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

Property and casualty insurers are subject to extensive supervision in the states in which they do business. This regulatory oversight includes, by way of example, matters relating to licensing and examination, rate setting, market conduct, policy forms, limitations on the nature and amount of certain investments, claims practices, mandated participation in involuntary markets and guaranty funds, reserve adequacy, insurer solvency, transactions between affiliates, the amount of dividends that may be paid and restrictions on underwriting standards. Such regulation and supervision are primarily for the benefit and protection of policyholders and not for the benefit of shareholders. For instance, members of the Property and Casualty Group are subject to involuntary participation in specified markets in various states in which it operates, and the rate levels the Property and Casualty Group is permitted to charge do not always correspond with the underlying costs associated with the coverage issued.

The National Association of Insurance Commissioners (NAIC) and state insurance regulators are re-examining existing laws and regulations, specifically focusing on insurance company investments, issues relating to the solvency of insurance companies, risk-based capital guidelines, interpretations of existing laws and the development of new laws. Changes in state laws and regulations, as well as changes in the way state regulators view related party transactions in particular, could materially change the operating environment for the Property and Casualty Group and significantly increase the amount of loss to which the Property and Casualty Group is exposed after an insurance policy has been issued.

The state insurance regulatory framework recently has come under increased federal scrutiny. Congress is considering legislation that would create an optional federal charter for insurers. Federal chartering has the potential to create an uneven playing field for insurers. Federally chartered

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companies could be subject to different regulatory requirements than state chartered insurers in areas such as 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. Federal chartering also raises the specter of a matrix of regulation and costly duplicative, or conflicting, federal and state requirements. Specific federal regulatory developments include the potential repeal of the McCarran-Ferguson Act. The repeal of the McCarran-Ferguson Act and its partial exemption for the insurance industry from federal antitrust laws would make it extremely difficult for insurers to compile and share loss data, develop standard policy forms and manuals and predict future loss costs. The ability of the industry, under the exemption permitted in the McCarran-Ferguson Act, to collect loss cost data and build a credible database as a means of predicting future loss costs is an extremely important part of cost-based pricing. If the ability to collect this data were removed, then the predictability of future loss costs, and hence, the reliability of pricing would be greatly undermined.

If certain state regulators, legislators and special interest groups are successful in attempts to reduce, freeze or set rates for insurance policies, especially automobile policies, at levels that do not, in our management s view, correspond with underlying costs, the results of operations of the Property and Casualty Group will be adversely affected.

From time to time, the automobile insurance industry in particular has been under pressure from certain state regulators, legislators and special interest groups to reduce, freeze or set rates at levels that do not, in our management s view, correspond with underlying costs, including initiatives to roll back automobile and other personal lines rates. For example, in recent years, certain rate increase requests by the Property and Casualty Group for automobile coverage that management believed were necessary were rejected in New York and Maryland. This activity has adversely affected, and may in the future adversely affect, the profitability of the Property and Casualty Group s automobile insurance line of business in various states because increasing costs of litigation and medical treatment, combined with rising automobile repair costs, continue to increase the costs of providing automobile insurance coverage. Adverse legislative and regulatory activity constraining the Property and Casualty Group s ability to price automobile insurance coverage adequately may occur in the future. The impact of the automobile insurance regulatory environment on the results of operations of members of the Property and Casualty Group in the future is not predictable.

The Property and Casualty Group is subject to assessment, depending upon its market share of a given line of business, to assist in the payment of unpaid claims and related costs of insolvent insurance companies; such assessments could significantly affect the financial condition of any assessed member.

The Property and Casualty Group is obligated to pay assessments under the guaranty fund laws of the various states in which they are licensed. These assessments were $0.6 million for the year ended December 31, 1999, $0.8 million for the year ended December 31, 2000 and $30.9 million for the year ended December 31, 2001. Generally, under these laws, an insurer is subject to assessment, depending upon its market share of a given line of business, to assist in the payment of unpaid claims and related costs of insolvent insurance companies. The number and magnitude of future insurance company failures in the states in which the Property and Casualty Group does business cannot be predicted, but resulting assessments levied on members of the Property and Casualty Group could significantly affect the financial condition of members of the Property and Casualty Group. The Property and Casualty Group believes that it is likely to receive an assessment in the next year relating to the insolvency of The Pennsylvania Hospital Insurance Company (PHICO), the amount of which we cannot currently estimate.

Premium rates and reserves must be established for members of the Property and Casualty Group from forecasts of the ultimate costs expected to arise from risks underwritten

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during the policy period; a member s profitability could be adversely affected to the extent such premium rates or reserves are too low.

One of the distinguishing features of the property and casualty insurance industry in general is that its products are priced before its costs are known, as premium rates are generally determined before losses are reported. Accordingly, premium rates must be established from forecasts of the ultimate costs expected to arise from risks underwritten during the policy period and may not prove to be adequate. Further, property and casualty insurers establish reserves for losses and loss adjustment expenses based upon estimates, and it is possible that the ultimate liability will exceed these estimates because of the future development of known losses, the existence of losses that have occurred but are currently unreported and larger than historical settlements on pending and unreported claims. The process of estimating reserves is inherently judgmental and can be influenced by factors that are subject to variation. If pricing or reserves established by a member of the Property and Casualty Group are not sufficient, such member s profitability may be adversely impacted.

The Property and Casualty Group experienced adverse loss development relating to losses from prior accident years of $107 million for calendar year 2000, or 5.6% of loss reserves at year-end 2000, and $117 million for calendar year 2001, or 5.0% of loss reserves at year-end 2001. Adverse development of losses from prior accident years results in higher calendar year loss ratios and reduced calendar year underwriting results. To the extent prior year reserve deficiencies are indicative of deteriorating underlying loss trends and are material, the Property and Casualty Group s pricing of affected lines of business would be increased to the extent permitted by state departments of insurance.

Substantial premium rate increases are drawing new entrants and new capital to the reinsurance markets, which may increase competition among property and casualty insurers and may cause a reduction in our revenues.

Property and casualty market conditions in the wake of the World Trade Center terrorist attack have been characterized by closer adherence to underwriting standards, higher deductibles, reduced coverages and limits, more restrictive terms and conditions and higher premium rates. As a result of these changes in the industry, substantial new capital has entered the property and casualty insurance market. A substantial portion of the new capital is dedicated to building the capacity of new offshore reinsurers. This increased capital could result in lower prices for reinsurance, which in turn would allow primary insurers to offer more competitive prices or more favorable insurance terms and conditions or increase capacity. Increased competition among insurers and reinsurers could also allow the Property and Casualty Group s competitors to relax their underwriting standards. If substantial premium rate increases were to continue, additional new capital would likely be attracted, which would further promote the effects of increased competition.

Risks Relating to Our Class A Common Stock

The price of our Class A common stock may be adversely affected by its low trading volume.

The trading market for our Class A common stock is marked by limited liquidity. Reported average daily trading volume in our Class A common stock for the period January 1, 2002 through October 31, 2002 was approximately 32,000 shares. Of our 63.7 million shares of Class A common stock outstanding at September 30, 2002, approximately 23 million shares are available for public sale, with the remainder held by a small number of significant shareholders. Since 1999, we have had a stock repurchase program that authorized us to repurchase up to $120 million of our outstanding Class A common stock through December 31, 2002. Approximately $101.9 million of Class A common stock has been repurchased under the program to date. We believe the repurchase program had the effect of stabilizing the price of our Class A common stock notwithstanding that the variability of the price of our Class A common stock had been declining every year in the three years prior to our stock

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repurchase program. The program, however, has been suspended in connection with this offering of Class A common stock, and as a result, there may be an adverse effect on the market price of our Class A common stock.

The market price of our Class A common stock may be adversely affected by future sales of a substantial number of shares of our Class A common stock by our existing shareholders in the public market, or the availability of such shares for sale.

In connection with this offering, the Company, certain of its directors and officers, the Selling Shareholder and certain other shareholders have indicated that they will enter into lock-up agreements under which they will generally agree not to dispose of or hedge any of their shares or securities convertible into or exchangeable for shares of common stock of the Company during the 90-day period from the date of this prospectus without prior written approval of the underwriters. Certain of our existing shareholders and directors, however, have indicated that they will not agree to enter into lock-up agreements, including Susan Hirt Hagen, who is a member of our board of directors and a trustee and a beneficiary of the H.O. Hirt Trusts, Thomas B. Hagen, who is Mrs. Hagen s husband, and Henry N. Nassau, who is a member of our board of directors. Also, Audrey C. Hirt and Laurel A. Hirt have indicated that they will not agree to enter into lock-up agreements. Audrey Hirt is the wife and Laurel Hirt is a daughter of F. William Hirt, the chairman of our board of directors. Mr. Hirt is also a trustee and a beneficiary of the H.O. Hirt Trusts. Although we have not received any indication that Mr. and Mrs. Hagen, Mr. Nassau, Audrey Hirt or Laurel Hirt are planning to sell shares of Class A common stock during the 90-day period from the date of this prospectus, Mr. and Mrs. Hagen, Mr. Nassau, Audrey Hirt and Laurel Hirt, if they do not execute lock-up agreements, may have available for sale up to 34.74% of the outstanding shares of Class A common stock (based on the number of shares of Class A common stock outstanding as of December 31, 2002), assuming no further conversion of Class B shares into Class A shares. Sales, or the availability for sale, by these shareholders following the consummation of this offering of a substantial number of shares of our Class A common stock that are not subject to lock-up agreements may have an adverse effect on the market price of our Class A common stock.

Holders of Class A common stock have limited voting rights, and two shareholders of our Class B common stock, the H.O. Hirt Trusts, have the ability to determine the outcome of all matters submitted for shareholder approval, except those matters pertaining only to the rights of the holders of Class A common stock.

Our Class A common stock cannot vote for the election of directors and generally can only vote on matters pertaining to the rights of holders of Class A common stock. Generally, voting control of the Company is vested in the 2,900 outstanding shares of Class B common stock. The H.O. Hirt Trusts together own 2,340 shares, or 80.7%, of the outstanding Class B common stock and can therefore together elect the entire board of directors and determine the outcome of all matters submitted for approval of our shareholders, except those matters pertaining only to the rights of the holders of Class A common stock.

The value of our Class A common stock may be adversely affected because the ability of our principal shareholders to vote in favor of a transaction that would result in a change of control is limited.

The vote of the H.O. Hirt Trusts will determine the outcome of any matter submitted for shareholder approval, except those matters pertaining only to the rights of the holders of Class A common stock. The trust agreement governing the H.O. Hirt Trusts provide that at least two of the three trustees, including the corporate trustee, would be required to vote in favor of a transaction under which we would be acquired and such action, by the terms of the trust agreements, would be permitted only if required to maintain the health of the Exchange. This may prevent anyone from acquiring us in a transaction that shareholders, other than the H.O. Hirt Trusts, may consider to be in their best interests and may consequently have a negative effect on the price of our Class A common stock.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated by reference into this prospectus contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements include certain discussions relating to underwriting, premium and investment income volume, business strategies, profitability and business relationships and our other business activities during 2002 and beyond. In some cases, you can identify forward-looking statements by terms such as may , will , should , could , would , expect , plan , intend , anticipate , believe , estimate , potential and similar expressions. These forward-looking statements reflect our current views about future events, are based on assumptions and are subject to known and unknown risks and uncertainties that may cause results to differ materially from those anticipated in those statements. Many of the factors that will determine future events or achievements are beyond our ability to control or predict. Such factors may include those described under Risk Factors beginning on page 8.

The forward-looking statements contained in this prospectus reflect our views and assumptions only as of the date of this prospectus. Except as required by law, we assume no responsibility for updating any forward-looking statements. You should read this prospectus and the documents that we reference in this prospectus and have filed as exhibits to the registration statement of which this prospectus is a part, completely and with the understanding that our actual future results may be materially different from what we expect.

We qualify all of our forward-looking statements by these cautionary statements.

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PRICE RANGE OF OUR CLASS A COMMON STOCK AND DIVIDEND HISTORY

Prices for our Class A common stock are quoted on the NASDAQ Stock Market[SM] under the symbol ERIE . The following table presents for the periods indicated the high and low closing prices for our Class A common stock as reported by the NASDAQ Stock Market[SM] and the cash dividends declared.

	Price Range		Cash Dividends Declared
	High	Low	
2000:			
First Quarter	$ 32.44	$ 26.50	$ 0.1350
Second Quarter	32.50	27.50	0.1350
Third Quarter	32.00	29.19	0.1350
Fourth Quarter	30.00	24.00	0.1525

	Price Range		Cash Dividends Declared
	High	Low	
2001:			
First Quarter	$ 30.00	$ 26.50	$ 0.1525
Second Quarter	36.12	27.54	0.1525
Third Quarter	39.55	32.70	0.1525
Fourth Quarter	40.63	36.91	0.1700

	Price Range		Cash Dividends Declared
	High	Low	
2002:			
First Quarter	$ 40.82	$ 37.65	$ 0.1700
Second Quarter	45.49	40.44	0.1700
Third Quarter	44.50	37.45	0.1700
Fourth Quarter	42.39	35.90	0.1900

	Price Range		Cash Dividends Declared
	High	Low	
2003:			
First Quarter (through January 29)	$ 36.58	$ 35.27	

The last reported sale price of our Class A common stock on January 29, 2003 was $35.27. As of September 30, 2002, there were 1,061 holders of record of our Class A common stock.

We have paid regular quarterly cash dividends since 1942. Our board of directors considers the declaration of cash dividends on a quarterly basis. The payment of future dividends, if any, will be at the discretion of our board of directors and will depend upon many factors, including:

- our earnings;
- our financial position;
- our capital requirements and those of our subsidiaries; and
- our ability to receive dividends from our subsidiaries, which is subject to regulatory limitations.

Therefore, there can be no assurance as to the declaration of future dividends.

Although a potential source of cash for the payment of dividends to our shareholders is dividends from our insurance subsidiaries, our insurance subsidiaries have never paid us a dividend. Our insurance subsidiaries are subject to state laws that restrict their ability to pay dividends.

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CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2002. We will not receive any proceeds from the sale of the shares of Class A common stock being offered hereby.

(amounts in thousands)		September 30, 2002
Long-term debt		
Shareholders equity:		
Class A common stock, stated value	$	1,957
$0.0292 per share; authorized 74,996,930 shares;		
issued 67,080,000 shares and outstanding 63,677,106 shares		
Class B common stock, stated value		213
$70 per share; authorized 3,070 shares;		
issued and outstanding 3,050 shares		
Additional paid-in capital		7,830
Accumulated other comprehensive income		31,266
Retained earnings		1,018,868
Contributed capital and retained earnings	$	1,060,134
Treasury stock, at cost (3,402,894 shares)		(101,860)
Total capitalization	$	958,274

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SELECTED HISTORICAL FINANCIAL INFORMATION OF THE COMPANY

The selected consolidated financial data presented below as of or for the years ended December 31, 1997 through 2001 is derived from our audited financial statements. Our consolidated financial statements as of December 31, 2000 and 2001 and for each of the years in the three-year period ended December 31, 2001, and our independent auditors report thereon, are included elsewhere in this prospectus and incorporated by reference herein. See Where To Find More Information/Incorporation by Reference . The selected consolidated financial data presented below as of or for the nine-month periods ended September 30, 2001 and 2002 are derived from our unaudited consolidated financial statements included elsewhere in this prospectus and incorporated by reference herein. See Where To Find More Information/Incorporation by Reference . Our results of operations for the nine months ended September 30, 2002 are not necessarily indicative of our results of operations that may be expected for the year ended December 31, 2002. In the opinion of our management, all adjustments, consisting only of normal recurring accruals, considered necessary for a fair presentation have been included. The financial data set forth below is only a summary and should be read in conjunction with our consolidated financial statements and related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein.

(amounts in thousands, except per share data)	Nine Months Ended September 30,		Year Ended December 31,				
	2002	2001	2001	2000	1999	1998	1997
	(unaudited)						
Statements of Operations Data:							
Operating revenue	$ 730,029	$ 602,001	$ 799,861	$ 698,016	$ 646,040	$ 615,965	$ 581,979
Operating expense	556,871	466,566	635,756	549,672	501,061	470,155	450,037
Total other income and expenses	33,187	35,408	17,998	70,102	58,731	45,770	38,747
Equity in earnings of Erie Family Life Insurance Company, net of tax	1,015	2,337	719	5,108	4,692	4,443	3,935
Federal income tax expense	69,171	56,835	60,561	71,161	65,296	61,472	56,043
Net income	$ 138,189	$ 116,345	$ 122,261	$ 152,393	$ 143,106	$ 134,551	$ 118,581
Per Share Data:							
Net income per share	$ 1.94	$ 1.63	$ 1.71	$ 2.12	$ 1.95	$ 1.81	$ 1.59
Dividends declared per Class A share	0.51	0.4575	0.6275	0.5575	0.4950	0.4425	0.3925
Dividends declared per Class B share	76.50	68.625	94.125	83.625	74.250	66.375	58.875
Book value per share	13.50	12.01	12.15	10.91	9.62	8.81	7.25
Weighted average shares outstanding	71,109	71,380	71,342	71,954	73,487	74,400	74,400
Financial Position:							
Investments(1)	$ 969,898	$ 884,599	$ 885,650	$ 853,146	$ 785,258	$ 709,417	$ 566,118
Receivables from the Exchange and affiliates	761,295	650,091	640,655	532,009	470,969	467,794	469,708
Total assets	2,194,690	1,897,077	1,935,566	1,680,599	1,518,794	1,454,062	1,292,544
Shareholders equity	958,274	855,755	865,255	779,015	697,599	655,223	539,383
Cumulative shares repurchased at December 31/September 30	3,403	3,170	3,196	2,976	1,900	0	0

(1) Includes investment in Erie Family Life Insurance Company.

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SELECTED HISTORICAL FINANCIAL INFORMATION OF THE EXCHANGE
(Statutory Accounting Principles)

The selected financial data of the Exchange presented below as of and for the years ended December 31, 1997 through 2001 is derived from financial statements prepared in accordance with statutory accounting principles (SAP) that were audited by our independent auditors. The selected financial data below as of and for the nine months ended September 30, 2001 and 2002 are derived from the Exchange s unaudited financial statements prepared in accordance with SAP. In the opinion of management, all adjustments consisting only of normal recurring accruals, considered necessary for a fair presentation have been included. The financial data set forth below is only a summary. More information about the Exchange, including the reasons why the Company believes the financial data set forth below is meaningful to a reader of this prospectus, can be found in Erie Insurance Exchange . The Annual Statements filed by the Exchange with the Insurance Department of the Commonwealth of Pennsylvania are available for inspection without charge at the Department s offices at Strawberry Square, Harrisburg, Pennsylvania. The financial statements of the Exchange included in these annual statements are prepared in accordance with SAP required by the NAIC Accounting Practices and Procedures Manual, as modified to include prescribed or permitted practices of the Commonwealth of Pennsylvania. See Erie Insurance Exchange General on page 78 for a discussion of significant differences between SAP and generally accepted accounting principles (GAAP). The Exchange does not, nor is it required to, prepare financial statements in accordance with GAAP.

	Nine Months Ended September 30,		Year Ended December 31,				
	2002	2001	2001	2000	1999	1998	1997
(amounts in thousands)	(unaudited)						
Operating Data:							
Premiums earned	$ 2,140,526	$ 1,792,450	$ 2,422,600	$ 2,161,034	$ 2,039,791	$ 1,971,525	$ 1,877,270
Loss and loss adjustment expenses	1,727,052	1,568,896	2,150,749	1,714,487	1,509,895	1,372,705	1,375,643
Insurance underwriting and other expenses	718,881	551,623	766,304	624,622	576,031	568,149	520,648
Net underwriting (loss) income	$ (305,407)	$ (328,069)	$ (494,453)	$ (178,075)	$ (46,135)	$ 30,671	$ (19,021)
Investment income (loss), net	48,237	(32,489)	(421,754)	347,582	428,874	378,845	365,393
Federal income tax expense (benefit)	(68,925)	(43,230)	(300,257)	42,433	102,339	102,917	86,627
Net income (loss)	$ (188,245)	$ (317,328)	$ (615,950)	$ 127,074	$ 280,400	$ 306,599	$ 259,745
Financial Position:							
Cash and invested assets	$ 5,238,660	$ 5,563,420	$ 5,990,511	$ 6,357,658	$ 6,860,008	$ 5,604,496	$ 4,670,320
Total assets	6,190,240	6,317,728	6,998,794	6,969,746	7,415,176	6,174,590	5,204,856
Claims and unearned premium reserves	3,663,000	3,084,067	3,200,836	2,654,300	2,463,806	2,388,958	2,328,230
Total liabilities	4,042,623	3,418,368	3,953,243	2,847,861	2,660,713	2,582,998	2,490,465
Policyholders surplus(1)(2)	2,147,617	2,899,360	3,045,551	4,121,885	4,754,462	3,591,592	2,714,391

(1) Periods beginning after January 1, 2001 are computed taking into consideration changes in SAP required by the NAIC Accounting Practices and Procedures Manual. An adjustment made on January 1, 2001 as a result of such changes decreased policyholders surplus by $523.8 million.

(2) Under a practice prescribed by the Commonwealth of Pennsylvania, unearned premium reserves are reduced (and policyholders surplus increased) by the amount of the management fee ultimately payable by the Exchange to us correlating to premiums not yet earned at the respective financial statement date. At December 31, 2001, this amount was $240.9 million.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the Selected Historical Financial Information of the Company and the consolidated financial statements, and the related notes, included elsewhere in this prospectus and incorporated by reference herein. In addition to this information, the table entitled Management Evaluation of Operating Results on the next page directly reflects measurements used by management in evaluating operating results. This table, which management uses internally to monitor and evaluate results, is an alternative presentation of the Company s Consolidated Statements of Operations. You should refer to this table in conjunction with reading those portions of the following discussions relating to operating results and measurements.

General

We operate predominantly as a provider of management services to Erie Insurance Exchange (the Exchange) and also as an underwriter of insurance through our subsidiaries. We have served since 1925 as the attorney-in-fact, or management company, for the policyholders of the Exchange. The Exchange and its property and casualty subsidiary and our three property and casualty subsidiaries (collectively, the Property and Casualty Group) write personal and commercial lines property and casualty coverages exclusively through approximately 8,000 independent agents and pool their underwriting results. The financial results of the Exchange are not consolidated with ours. For our services as attorney-in-fact in providing sales, underwriting and policy issuance services to the Exchange, we charge the Exchange a management fee calculated as a percentage, limited to 25%, of the direct written premiums of the Property and Casualty Group.

Under the pooling arrangement, all property and casualty insurance business of the five property and casualty insurance companies that comprise the Property and Casualty Group is pooled within the Exchange as the pooling entity. Our insurance subsidiaries, Erie Insurance Company and Erie Insurance Company of New York, share in the underwriting results of the pool through retrocession. Erie Insurance Company has a 5.0% participation, Erie Insurance Company of New York has a 0.5% participation and the Exchange has a 94.5% participation in the pooled underwriting results. These participation percentages are determined by our board of directors. We also own 21.6% of the common stock of Erie Family Life Insurance Company, an affiliated life insurance company, of which the Exchange owns 53.5% and public shareholders, including its officers and directors, own 24.9%.

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Erie Indemnity Company
Management Evaluation of Operating Results

(amounts in thousands)	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001	Year Ended December 31, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999
	(unaudited)				
Management Operations:					
Management fee revenue	$ 593,895	$ 480,805	$ 634,966	$ 551,646	$ 513,375
Service agreement revenue	16,310	20,339	27,247	22,662	15,441
Cost of management operations	(421,097)	(349,796)	(477,645)	(415,562)	(380,298)
Income from management operations	$ 189,108	$ 151,348	$ 184,568	$ 158,746	$ 148,518
Insurance Underwriting Operations:					
Premiums earned	$ 119,824	$ 100,857	$ 137,648	$ 123,708	$ 117,224
Losses and loss adjustment expenses incurred	(98,431)	(88,074)	(117,201)	(99,564)	(87,719)
Policy acquisition and other underwriting expenses	(37,343)	(28,696)	(40,910)	(34,546)	(33,044)
Underwriting loss	$ (15,950)	$ (15,913)	$ (20,463)	$ (10,402)	$ (3,539)
Investment Operations:					
Net investment income	$ 40,705	$ 36,855	$ 49,884	$ 48,401	$ 43,344
Net realized (losses) gains on investments	(8,628)	(2,726)	(31,879)	16,968	14,746
Equity in earnings of EFL	1,091	2,513	773	5,492	5,045
Equity in earnings (losses) of limited partnerships	1,110	1,279	(7)	4,733	641
Net revenue from investment operations	$ 34,278	$ 37,921	$ 18,771	$ 75,594	$ 63,776
Income before income taxes	207,436	173,356	182,876	223,938	208,755
Provision for income taxes	(69,247)	(57,011)	(60,615)	(71,545)	(65,649)
Net income	$ 138,189	$ 116,345	$ 122,261	$ 152,393	$ 143,106
Operating income(1)	$ 143,797	$ 118,117	$ 142,983	$ 141,364	$ 133,521
Per Share Data:					
Net income	$ 1.94	$ 1.63	$ 1.71	$ 2.12	$ 1.95

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

Critical Accounting Estimates

We make estimates and assumptions that can have a significant effect on amounts and disclosures we report in our financial statements. The most significant estimates relate to our reserves for property and casualty insurance unpaid losses and loss adjustment expenses, valuation of investments and guaranty fund liability accruals. While management believes its estimates are appropriate, the ultimate amounts may differ from the estimates provided. The methods for making these estimates are continually reviewed, and any adjustments considered necessary are reflected in current earnings.

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With respect to reserves for property and casualty unpaid losses and loss adjustment expenses, significant components of estimates include a variety of factors such as medical inflation trends, regulatory and judicial rulings, legal settlements, property replacements and repair cost trends, and losses for assumed reinsurance activities. In recent years, certain of these component costs such as medical inflation trends and legal settlements have experienced significant volatility and resulted in incurred amounts higher than our original estimates. We have factored these changes in trends into our loss estimates. However, due to the nature of these liabilities, actual results could ultimately vary significantly from the amounts recorded. If the ultimate liability for unpaid losses and loss adjustment expenses were 10% more than the recorded amount at December 31, 2001, the effect would be a reduction in the Company s pre-tax income of approximately $12 million or $0.17 per share.

We make estimates concerning the valuation of our investments and the recognition of other than temporary declines in value of these investments. When the decline in value of an individual investment is considered by management to be other than temporary, the investment is written down to its estimated net realizable value and reflected as a realized loss in the statement of operations. All investments are individually monitored for other than temporary declines in value. Management makes judgments about when there are other than temporary declines in its investments. Generally, if an individual security has depreciated in value by more than 20% of original cost, and has been in such unrealized loss position for more than six months, we assume there has been an other than temporary decline in value. In addition, the Company may write-down other securities in an unrealized loss position depending on the existence of certain other factors. These other factors we consider include: the significance of the fair value below cost, whether there has been a deterioration in financial condition of the issuer, whether there have been specific events adversely affecting an investment, debt security downgrades and specific industry or geographic events. If we had determined there was an other than temporary decline in value in 2001 for 10% of our investments with unrealized losses, then the Company would have recorded an additional realized loss of $480,000 in our 2001 statement of operations. Our evaluation of the need for write-downs due to other than temporary declines in value is also applied to our investment in limited partnerships and mortgage loans.

Our investments in fixed maturity and marketable equity securities are presented at estimated fair value, which generally represents quoted market prices. Our investments in limited partnerships are recorded using the equity method, which approximates the Company s proportionate share of the partnership s reported net equity. Because of their illiquidity relative to our other investments, there is increased risk in valuation of limited partnerships. The recorded value of limited partnerships includes the valuation of investments held by these partnerships, which include U.S. and foreign private equity, real estate and fixed income investments. These valuations are determined by the general partner. We consider the reasonableness of these valuations based on various information, including: audited and unaudited financial statements from these partnerships, and other information provided by the general partner. The carrying value of limited partnership investments totaled $81.6 million at December 31, 2001.

Estimates are also made by the Company s insurance subsidiaries of liabilities for guaranty fund and other assessments. Our insurance subsidiaries are sometimes required to pay assessments to states in which the subsidiaries are licensed because of insurance company insolvencies. The liability for the assessments is recorded when the insolvency event has occurred and can be reasonably estimated. We commonly become aware of insolvencies that will affect us prior to obtaining specific assessment amounts from state guaranty associations to estimate our share of the liability. It is often a long process before state guaranty associations know of the ultimate amount of assessment needed to cover the insolvency. We initiate communication with the state insurance departments and guaranty associations when we learn of an insolvency. Although the insurance departments and guaranty associations may not be able to provide specifics on the ultimate assessment amounts, they will sometimes provide us with information from which we develop an estimated range of the future

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assessment. We generally record a liability at the mid-point of the range. In these cases, the mid-point of the range we develop represents our best estimate of the ultimate loss to be incurred due to the assessment. We adjust our estimated liability as the guaranty association provides us with more up to date assessment amounts. For example in 2001, the insolvency of Reliance Insurance Company was significant. Although we had not received definitive notices of assessment amounts as of December 31, 2001 from the guaranty funds, we recorded an estimated liability of $2.0 million at December 31, 2001. This liability was recorded based on the mid-point of the range of estimated assessment amounts. Additional future information may result in adjustments to our estimated liability.

Results of Operations

Nine Months Ended September 30, 2002 and September 30, 2001

Financial Overview

Our consolidated net income for the nine months ended September 30, 2002 increased 18.8% to $138.2 million, from $116.3 million during the same period in 2001. Income from management operations grew as a result of a 23.5% increase in direct written premiums of the Property and Casualty Group. Results of our insurance underwriting operations were about the same in the first nine months of 2002 compared to the same period in 2001 as a result of wind storm-related catastrophe losses and increased technology spending related to the eCommerce initiative in 2002 and World Trade Center losses in 2001. In addition, charges of $17.7 million and $5.7 million were taken for impaired investments contributing to net realized losses on investments in the first nine months of 2002 and 2001, respectively. The board of directors voted to reduce the management fee rate from 25% to 24% for 2003 at its December 10, 2002 meeting.

For the nine months ended September 30, 2002, operating income (net income excluding net realized (losses) gains and related federal income taxes) increased 21.7% to $143.8 million, from $118.1 million reported for the same period in 2001.

We have benefited during this period, and expect to continue to benefit, from premium increases by the Property and Casualty Group that have resulted from pricing actions approved by regulators through September 30, 2002. These premiums accounted for $48.4 million in increased premiums from the Property and Casualty Group for the nine months ende