

Erie Indemnity Company  
Annual Shareholders' Meeting  
April 17, 2007  
Jeff Ludrof's Speech

Good morning. Thank you for joining us today. And thank you for your investment in Erie Indemnity Company. I'd like to take this opportunity to acknowledge the contributions of our board of directors led by Chairman Bill Hirt.

Retiring director John Graham could not be with us today, but I want to publicly thank him for his valuable service and guidance over the past four years. And I welcome Betsy Vorsheck and Tom Hagen to the board. I believe their significant investment and long-time relationship with our company will bring additional perspective to our board that will benefit our company.

To our re-elected directors, I thank you for your past and future service and support. Our work continues.

Last fall, I attended a leadership conference on the battlefields of Gettysburg. You don't have to walk very long on those fields to earn an appreciation for the phrase "hallowed ground." The experience is profound. The strategic decisions made by leaders at Gettysburg were matters of life and death. They forever changed the course of our country.

By contrast, our task at the leadership seminar was a modest one --to draw lessons from those historic leaders to help guide our companies. For ERIE, that means finding new ways to win in an increasingly competitive marketplace.

One of the key takeaways for me was how critical alignment is to the success of any organization. Put simply, people need to be on the same team, striving for the same goal. At ERIE, that means our management team and Employees are fully aligned with our Agents who are working on the front lines. Each day, we do battle for quality business.

The competition is intense, especially during soft pricing cycles like the one we are currently in. We hear from our Agents daily about market conditions and other challenges they face to attract and retain business. They candidly share their concerns with me.

Yet, I'm pleased to report that many of the comments from Agents are shifting from concern to optimism. For instance, Agent Jim Sculley from suburban Philadelphia recently sent me an e-mail about the progress ERIE is making. Here's what he wrote:

"Tommy Lasorda used to say that he'd bleed Dodger Blue. I feel the same way about ERIE. I never tell anyone I'm an insurance agent. I tell them I'm an ERIE Agent."

Testimonials like that are rare in these times. We are gaining ground and building momentum.

My remarks today will focus on how we are building that momentum through our Regional Gem strategy for our Property and Casualty and Life and Annuity operations. After all, the Indemnity Company results are driven by the management fee generated by the premiums collected in our Property Casualty Group.

The success of our three businesses --  
Personal Lines,  
Commercial Lines,  
and Life and Annuity --

directly and indirectly impact the financial results generated by Erie Indemnity Company. When these businesses grow and thrive, Erie Indemnity flourishes. Today, I'll highlight some of our 2006 achievements and results. I'll also offer some perspective on how we've positioned ourselves for growth in our highly competitive industry. And I'll share the many ways our talented Agents and Employees are supporting our top priorities for 2007.

Those include:

- Growing profitably
- Providing superior personalized service
- Delivering effective technology
- And controlling our costs.

As you can see from this graphic, our work in 2007 is part of a multi-year strategic plan. The plan we launched in 2006 has targeted growth goals for:

- Increasing policies in force in our existing territories.
- Expanding our agency force.
- And, over time, growing our geographic footprint to offer ERIE's unique brand of personalized service to new markets.

On this Regional Gem journey, I'm proud to say we made significant progress toward growing profitably in 2006. I want to highlight six key achievements:

- Number one, Positive unit growth. We reversed a negative trend by adding nearly 39,000 new policies to our book, boosting our total policy count to 3.8 million, an all-time high.
- Two, Strong retention. With a retention rate that approaches 90 percent, ERIE is among the top in the industry.

- Three, Improved competitive position. Pricing sophistication and rate actions made ERIE more competitive throughout our territories. And an agent incentive program increased new auto business by nearly 9 percent in the last six months of the year.
- Four, New products. Working with strategic partners -- in which we don't bear the risk -- we offered identity recovery and flood insurance through our ERIE Agents. In Life, we're phasing in a completely new product portfolio beginning later this year.
- Five, Better technology. For example, we introduced Quick Quote for Auto on our Web site, Erieinsurance.com. This convenient online quoting tool delivers new business leads right to our Agents. We're also working to install a new rating and rules engine to support underwriting. And we're building a new data warehouse to enhance our customer research capabilities.
- And finally, New opportunities. Thanks to more sophisticated pricing, we've expanded our market appetite. That provided new opportunities for our Agents and our Property and Casualty Group. And it generated additional management fee for the Indemnity Company.

We are proud of the progress we've made in this soft market. Let me offer some perspective.

For the entire industry, 2006 proved to be a year of great success - and continued challenge. A mild year for catastrophes allowed for some of the best underwriting results in decades.

Yet the continued soft market flattened premium growth across the industry. Our Property & Casualty Group faced the same challenge - growing written premium in a soft market while maintaining underwriting discipline.

At ERIE, we accomplished our underwriting goals. Our strong underwriting results added \$13.4 million to the Indemnity Company's income statement. And since 2002, our focus on underwriting discipline has added nearly \$2 billion in Policyholder surplus to the Erie Insurance Exchange. This strong surplus provides important financial stability that positions us to pursue additional growth.

Premium growth proved more challenging in 2006 for the industry and ERIE. Flat premium affected our bottom line in terms of lower net premium and a slight decrease in net income per share. The Insurance Information Institute is projecting the soft market will continue through this year and likely into 2008.

At ERIE, we are taking a balanced approach to achieve positive unit growth while maintaining our underwriting discipline and controlling costs. This will allow the Exchange and the Indemnity Company to achieve positive gains that will lead to even greater results when the hard market returns.

In 2006, our board of directors took action to enhance your investment and support the long-term financial strength of the Company.

- First, the board increased our management fee rate to 25 percent, the maximum rate allowed.
- Second, due to the strong capitalization of Erie Indemnity, the board in December raised the quarterly dividend paid to Class A shareholders from 36 cents to 40 cents per share.
- Finally, as Phil mentioned, in February 2006 the board approved continuing our share repurchase program by authorizing the repurchase of an additional \$250 million of Class A common stock.

The share price of Erie Indemnity performed well over the past five years when compared to industry and broad stock market indices.

Another key focus of our balanced approach is controlling the growth of our expenses. We take seriously our commitment to providing near perfect protection and service at the lowest possible cost. We were in line with our cost management goals in 2006. And we will continue to manage our expenses to maintain a low-cost competitive advantage.

Throughout the organization, we talk about our approach to controlling costs as part of our responsibility to spend wisely. We fully understand that some areas of our business require continued investment. From a strategic point of view, we know it's important to continue to invest in people, technology and process to advance our performance.

A prime example is delivering effective technology. We are committed to investing in technologies and innovations that will enable our three businesses to grow while making it easier for Agents and customers to do business with us.

And it's already paying off. In addition to Quick Quote for Auto -- which can now be accessed through our Web site and the Web sites of our Agents -- we're delivering steady technology wins like:

- Commercial Quick Quote, an Agent online rating tool that delivers an immediate quote.
- Quarterly updates to DSPro, our Personal Lines agency interface system. The improvements expand functionality and usability.
- Also, an Agency innovation lab that simulates the daily activities of an ERIE agency so we can better develop practical tools to support our Agents' efforts.

Technology gains are but one aspect of our Regional Gem strategy aimed at positioning ERIE for long-term growth. It's safe to say we have analyzed every aspect of our business with an eye toward building a more effective and efficient organization.

That analysis also guides us in determining the most effective ways to invest in our company. In 2007, we're making targeted investments that will increase this year's non-commission costs by 9 percent in Erie Indemnity. Enterprise wide, for all entities, we are limiting our spending to an increase of between 4 and 5 percent.

Here's the bottom line. We are a stronger company than we were a year ago. We're strategic, disciplined, capable and focused.

Of course, we have made this progress through the talents, passion and dedication of ERIE Agents and Employees. I often say it's the ERIE people that make the ERIE difference. And that difference has been strengthened this past year. We had an exceptional year for attracting talent, both within our company and among our agency force.

In our agency ranks, we added 139 new agencies in 2006. And in 2007, we are well on our way to adding 200 more. So far this year 72- agencies have been added to the ERIE team, increasing the reach and visibility of ERIE throughout our territories.

Our senior leadership team consists of an excellent blend of:

- experienced ERIE executives;
- talented managers promoted to top leadership positions;
- and several key new hires.

Our new leaders in Life, Commercial, Claims, Law and IT bring decades of experience working for our competitors, including State Farm, Travelers and Geico to name a few. These talented professionals had choices. And they chose ERIE because of our reputation and potential. 10 of the 23 leaders on this chart are new to their post since January 2006.

Whether they came up through our ranks or brought their talents from elsewhere, they add a wealth of experience, insight and innovative thinking to our company.

Before I leave this topic of leadership, I'd like to take a moment to recognize two of our most valued leaders who recently retired -- former Erie Family Life executive vice president John Brinling and senior executive vice president, secretary and general counsel, Jan Van Gorder.

Both of these gentlemen have made significant leadership and personal contributions to ERIE's success. John and Jan, thank you for your service and loyalty to ERIE.

I've told you about our impressive agency force. And our strong leadership. Now, I want to turn to our talented team of 4,300 ERIE employees, who are engaged and aligned with our Regional Gem strategy.

Employees at all levels are taking action to find better ways of doing business. For example, in IT our employees streamlined a process from four months down to just four weeks.

Productivity is also on the upswing. In December 2005, ERIE had 841 Property and Casualty policies for every Employee. At the end of 2006, that number approached 900 policies in force for every employee. The bottom line is ERIE employees are embracing change and taking action. And through our new emphasis on performance management, they are being rewarded for hard work and fresh thinking.

At Erie Family Life, for example, employees are helping to transform the Life Company into a top-flight competitor. Through an external partnership, our life company will deliver new products and services in a more cost efficient manner. Our partner will handle policy processing and some customer support functions, while providing us access to new technology.

Once the partnership is fully implemented, Erie Family Life will save nearly \$7 million annually. Additionally, over the next seven years, we intend to double the number of Property and Casualty Policyholders that own at least one of our Life policies or annuities.

We believe serving more of our P & C Policyholders with life and annuity products will strengthen our relationship with them. It will also increase retention in both P & C and Life business. Accomplishing our goals in Erie Family Life has involved a tremendous amount of change. We are proud of the dedicated Employees who have contributed their energies and talents to this transformation.

Amid all the change and challenge we face in this dynamic industry, I often take a moment to read the words of ERIE's co-founder H.O. Hirt. The wisdom contained in this book is truly remarkable. 82 years after starting this great company, his words still ring true.

His thoughts on the The Golden Rule, values and superior service are as relevant today as they were in 1925. He often said: "The insurance industry is nothing if not a service industry."

How true.

That commitment to personalized service so deeply ingrained in our Employees and Agents is the hallmark of Erie Insurance. And our ability to deliver that

personalized service Above All is what differentiates us in the marketplace. Quite simply, it's our competitive edge.

As you know, our service has been consistently recognized by J.D. Power and Associates, and other organizations, as among the top in the industry. Yet while we are delivering on our promise of service, we won't be complacent.

Today's consumer demands a more customized approach to service than ever before -- and that is what we aim to deliver. We are developing the tools and technology to consistently meet and exceed customer expectations. We are looking at specific customer segments to find out how their needs may differ from other customers. And we are working closely with our Agents to meet those customized needs.

To learn more about our customers we recently included a survey in our Policyholder magazine. The response by nearly 20,000 Policyholders has been both insightful and encouraging. We're receiving outstanding marks in Service, Agent knowledge, and Customer satisfaction. More than 95 percent of customers responding said they would recommend ERIE - and their ERIE Agent - to a friend.

This is a testament to our strong reputation. And a tribute to our Agents and Employees. Some of the surveys are coming back with notes of appreciation. Here's one from a woman in Wisconsin. She wrote: "I had insurance with Hartford but they were too expensive. A neighbor told me about ERIE. The price was more than reasonable. The people were friendly. God bless."

Well, when you have a customer motivated to send a smiley face sticker to her insurance company - you know you're doing something right.

Ultimately, that's what rests at the heart of our Regional Gem strategy -- a commitment to people whether it be our Employees, Agents, customers or prospects. Eventually, all companies will have the same tools, technology and products. Yet I contend that no one else will have the unique value proposition that ERIE offers. We have dedicated Agents and Employees working closely with our customers to deliver superior personalized service above all.

Don't just take my word for it. Listen to one of our loyal Agents from Springfield, Illinois. Longtime Independent Agent Jim Ward joined the ERIE in 1999. He thought all insurance companies were alike. That is until a tornado ripped through his hometown in March 2006. Take a look...

Now you know why I often say ERIE people make the ERIE difference. And there are many other Erie Agents and Employees who feel the very same way. That's a pretty unique advantage for a company to have.

I began today by sharing my experience at Gettysburg. In my notes from that leadership conference, I highlighted these words: "Victory requires an entire team effort, everyone aligned with the mission."

Well, I'm here to tell you at ERIE we are fully aligned with our mission.

We have the leadership, vision, dedication, and trust required to achieve victory.

You can count on us to remain aligned and committed to protecting and growing your investment.

We work to earn your confidence every day and appreciate the opportunity you provide us to serve others.

And, on behalf of my 4,300 colleagues, I thank you.