ERIE INDEMNITY CO
Form 10-Q
November 04, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PERSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2010
Commission file number 0-24000
ERIE INDEMNITY COMPANY
(Exact name of registrant as specified in its charter)

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

(814) 870-2000
(Registrant s telephone number, including area code)
Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes þ No o

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer þ	Accelerated Filer o	Non-Accelerated Filer o	Smaller Reporting Company o
		(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ

The number of shares outstanding of the registrant s Class A Common Stock as of the latest practicable date, with no par value and a stated value of $0.0292 per share, was 50,153,649 at October 22, 2010.

The number of shares outstanding of the registrant s Class B Common Stock as of the latest practicable date, with no par value and a stated value of $70 per share, was 2,546 at October 22, 2010.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ERIE INDEMNITY COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(dollars in millions, except per share data)

	Three months ended September 30, 2010	Three months ended September 30, 2009 (As adjusted Note 2)	Nine months ended September 30, 2010	Nine months ended September 30, 2009 (As adjusted Note 2)
Revenues				
Premiums earned	$ 1,005	$ 977	$ 2,972	$ 2,898
Net investment income	110	102	322	324
Net realized investment gains	205	251	117	304
Net impairment losses recognized in earnings	0	(16)	(6)	(99)
Equity in earnings (losses) of limited partnerships	28	(37)	58	(324)
Other income	9	9	26	27
Total revenues	1,357	1,286	3,489	3,130
Benefits and expenses				
Insurance losses and loss expenses	710	631	2,208	2,094
Policy acquisition and underwriting expenses	242	299	699	762
Total benefits and expenses	952	930	2,907	2,856
Income from operations before income taxes and noncontrolling interest	405	356	582	274
Provision for income taxes	130	104	176	2
Net income	**$ 275**	**$ 252**	**$ 406**	**$ 272**
Less: Net income attributable to noncontrolling interest in consolidated entity Exchange	**221**	**212**	**256**	**188**
Net income attributable to Indemnity	**$ 54**	**$ 40**	**$ 150**	**$ 84**
Earnings Per Share				
Net income attributable to Indemnity per share				
Class A common stock basic	$ 1.05	$ 0.77	$ 2.92	$ 1.62
Class A common stock diluted	**$ 0.94**	**$ 0.69**	**$ 2.62**	**$ 1.46**

Class B common stock basic and diluted	$	150.87	$	112.06	$	421.91	$	239.96
Weighted average shares outstanding attributable to Indemnity Basic								
Class A common stock		50,499,551		51,252,693		50,897,035		51,255,234
Class B common stock		2,546		2,546		2,546		2,549
Weighted average shares outstanding attributable to Indemnity Diluted								
Class A common stock		56,624,310		57,383,900		57,021,794		57,393,641
Class B common stock		2,546		2,546		2,546		2,549
Dividends declared per share								
Class A common stock	$	0.48	$	0.45	$	1.44	$	1.35
Class B common stock	$	72.00	$	67.50	$	216.00	$	202.50

See accompanying notes to Consolidated Financial Statements.

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ERIE INDEMNITY COMPANY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(dollars in millions, except per share data)

	September 30, 2010 (Unaudited)	December 31, 2009
Assets		
Investments Indemnity		
Available-for-sale securities, at fair value:		
Fixed maturities (amortized cost of $649 and $642, respectively)	$ 695	$ 664
Equity securities (cost of $40 and $35, respectively)	46	38
Trading securities, at fair value (cost of $22 and $36, respectively)	26	42
Limited partnerships (cost of $263 and $281, respectively)	234	235
Other invested assets	1	1
Investments Exchange		
Available-for-sale securities, at fair value:		
Fixed maturities (amortized cost of $6,453 and $6,277, respectively)	7,019	6,517
Equity securities (cost of $467 and $425, respectively)	538	472
Trading securities, at fair value (cost of $1,689 and $1,556, respectively)	1,985	1,835
Limited partnerships (cost of $1,333 and $1,392, respectively)	1,148	1,116
Other invested assets	19	20
Total investments	**11,711**	**10,940**
Cash and cash equivalents (Exchange portion of $239 and $158, respectively)	312	234
Premiums receivable from policyholders (Exchange portion of $780 and $715, respectively)	993	906
Reinsurance recoverable (Exchange portion of $201 and $212, respectively)	204	215
Deferred income taxes (Exchange portion of $0 and $75, respectively)	11	116
Deferred acquisition costs (Exchange portion of $416 and $416, respectively)	473	467
Other assets (Exchange portion of $337 and $306, respectively)	454	409
Total assets	**$ 14,158**	**$ 13,287**
Liabilities and shareholders equity		
Liabilities		
Indemnity liabilities		
Losses and loss expense reserves	$ 743	$ 752
Unearned premiums	355	325
Other liabilities	370	387
Exchange liabilities		
Losses and loss expense reserves	2,870	2,846
Life policy and deposit contract reserves	1,600	1,540
Unearned premiums	1,803	1,656
Deferred income taxes	103	0
Other liabilities	88	56

Total liabilities	**7,932**	**7,562**
Indemnity s shareholders equity		
Class A common stock, stated value $0.0292 per share; authorized 74,996,930 shares; 68,289,600 issued; 50,252,872 and 51,203,473 shares outstanding, respectively	2	2
Class B common stock, convertible at a rate of 2,400 Class A shares for one Class B share, stated value $70 per share; 2,546 authorized, issued and outstanding, respectively	0	0
Additional paid-in-capital	8	8
Accumulated other comprehensive loss	(17)	(43)
Retained earnings, before cumulative effect adjustment	1,825	1,743
Cumulative effect of accounting changes, net of tax	0	6
Retained earnings, after cumulative effect adjustment	1,825	1,749
Total contributed capital and retained earnings	1,818	1,716
Treasury stock, at cost, 18,036,728 and 17,086,127 shares, respectively	(860)	(814)
Total Indemnity shareholders equity	**958**	**902**
Noncontrolling interest in consolidated entity Exchange	**5,268**	**4,823**
Total equity	**6,226**	**5,725**
Total liabilities, shareholders equity and noncontrolling interest	**$ 14,158**	**$ 13,287**

See accompanying notes to Consolidated Financial Statements. See Note 14 for supplemental consolidating statements of financial position information.

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ERIE INDEMNITY COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(in millions)

	Erie Insurance Group			
	Three months ended September 30,		Nine months ended September 30,	
	2010	2009 (As adjusted Note 2)	2010	2009 (As adjusted Note 2)
Accumulated other comprehensive loss:				
Balance, beginning of period Indemnity	$ (32)	$ (101)	$ (43)	$ (136)
Cumulative effect of accounting changes, net of tax*				(6)
Adjusted balance, beginning of period	(32)	(101)	(43)	(142)
Gross unrealized holding gains on investments arising during period	25	47	44	101
Reclassification adjustment for gross (gains) losses included in net income	(2)	3	(4)	12
Unrealized gains on investments	23	50	40	113
Income tax expense related to unrealized gains	(8)	(18)	(14)	(40)
Change in other comprehensive income, net of tax Indemnity	15	32	26	73
Balance, end of period Indemnity	$ (17)	$ (69)	$ (17)	$ (69)
Change in other comprehensive income, net of tax Indemnity	$ 15	$ 32	$ 26	$ 73
Change in other comprehensive income, net of tax Exchange	$ 118	$ 198	$ 189	$ 491
Change in other comprehensive income, net of tax Erie Insurance Group	$ 133	$ 230	$ 215	$ 564
Comprehensive income:				
Net income Erie Insurance Group	$ 275	$ 252	$ 406	$ 272
Change in other comprehensive income, net of tax Erie Insurance Group	133	230	215	564
Total comprehensive income Erie Insurance Group	408	482	621	836
Less: Noncontrolling interest in consolidated entity Exchange	339	410	445	679

Total comprehensive income	**Indemnity**	$ 69	$ 72	$ 176	$ 157

* Previously recognized non-credit other-than-temporary impairment losses were reclassified from retained earnings to other comprehensive income upon the adoption of Financial Accounting Standards Board Accounting Standards Codification 320, *Investments Debt and Equity Securities*, during the second quarter of 2009.

ERIE INDEMNITY COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in millions)

	Nine months ended September 30, 2010	Nine months ended September 30, 2009 (As adjusted Note 2)
Cash flows from operating activities		
Premiums collected	$ 3,068	$ 3,025
Net investment income received	325	306
Limited partnership distributions	88	57
Service agreement fee received	26	26
Commissions and bonuses paid to agents	(414)	(420)
Losses paid	(1,808)	(1,701)
Loss expenses paid	(321)	(306)
Other underwriting and acquisition costs paid	(394)	(435)
Income taxes (paid) recovered	(105)	161
Net cash provided by operating activities	**465**	**713**
Cash flows from investing activities		
Purchase of investments:		
Fixed maturities	(1,415)	(1,339)
Preferred stock	(146)	(132)
Common stock	(787)	(1,129)
Limited partnerships	(105)	(133)
Sales/maturities of investments:		
Fixed maturity sales	486	386
Fixed maturity calls/maturities	794	531
Preferred stock	117	146
Common stock	740	1,082
Net policy loans	0	1
Sale of and returns on limited partnerships	40	8
Purchase of property and equipment	(27)	(10)
Net collections (distributions) on agent loans	2	(2)
Net cash used in investing activities	**(301)**	**(591)**
Cash flows from financing activities		
Annuity and supplementary contract deposits and interest	87	134
Annuity and supplementary contract surrenders and withdrawals	(59)	(107)
Universal life deposits and interest	30	27
Universal life surrenders	(26)	(27)
Purchase of treasury stock	(44)	(1)
Dividends paid to shareholders	(74)	(70)

Decrease in collateral from securities lending		0		(119)
Redemption of securities lending collateral		0		119
Net cash used in financing activities		**(86)**		**(44)**
Net increase in cash and cash equivalents		78		78
Cash and cash equivalents at beginning of period		234		277
Cash and cash equivalents at end of period	**$**	**312**	**$**	**355**

See accompanying notes to Consolidated Financial Statements. See Note 14 for supplemental cash flow information.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Nature of Operations

Erie Indemnity Company (Indemnity) is a publicly held Pennsylvania business corporation that since 1925 has been the managing Attorney-in-Fact for the subscribers (policyholders) of Erie Insurance Exchange (Exchange). The Exchange is a subscriber (policyholder) owned Pennsylvania-domiciled reciprocal insurer that writes property and casualty insurance.

Indemnity s primary function is to perform certain services for the Exchange relating to sales, underwriting and issuance of policies on behalf of the Exchange. This is done in accordance with a subscriber s agreement (a limited power of attorney) executed by each subscriber (policyholder), appointing Indemnity as their common attorney-in-fact to transact business on their behalf and to manage the affairs of the Exchange. Indemnity earns a management fee from the Exchange for these services, which is paid from the premiums collected from subscribers (policyholders).

Indemnity also operates as a property and casualty insurer through its wholly-owned subsidiaries, Erie Insurance Company (EIC), Erie Insurance Company of New York (ENY) and the Erie Insurance Property and Casualty Company (EPC).

The Property and Casualty Group refers to the Exchange and its wholly-owned subsidiary, Flagship City Insurance Company (Flagship) and Indemnity s wholly-owned subsidiaries. The Property and Casualty Group operates in 11 Midwestern, Mid-Atlantic and Southeastern states and the District of Columbia and primarily writes personal auto insurance, which comprised 48% of its 2009 direct premiums.

Erie Family Life Insurance Company (EFL) is an affiliated life insurance company that underwrites and sells nonparticipating individual and group life insurance policies and fixed annuities. Indemnity and Exchange own 21.6% and 78.4% of EFL, respectively.

Indemnity shareholder interest refers to the interest in Erie Indemnity Company owned by the Class A and Class B shareholders. In addition to referring to Erie Insurance Exchange, the term Exchange sometimes refers to the noncontrolling interest held for the benefit of the subscribers (policyholders) and includes its interests in Flagship and EFL.

The accompanying consolidated financial statements of Erie Indemnity Company reflect the consolidated results of Indemnity and its variable interest entity, the Exchange, which we refer to collectively as Erie Insurance Group .

Note 2. Significant Accounting Policies

<u>Basis of presentation and principles of consolidation</u>

The accompanying consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) and include the accounts of Indemnity together with its affiliate companies in which Indemnity holds a majority voting or economic interest. In addition, we consolidate the Exchange as a variable interest entity for which Indemnity is the primary beneficiary. All intercompany accounts and transactions have been eliminated in consolidation. The required presentation of noncontrolling interests is reflected in the consolidated financial statements. Noncontrolling interests represent the ownership interests of the Exchange, all of which is held by parties other than Indemnity (i.e. the Exchange s subscribers (policyholders)). Noncontrolling interests also include the Exchange subscribers 78.4% ownership interest in EFL. See the discussion Retrospective adoption of new accounting principle that follows for additional consolidation information.

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. For further information, refer to the consolidated financial statements and footnotes for the year ended December 31, 2009 included in our Form 8-K as filed with the Securities and Exchange Commission on May 6, 2010.

Presentation of assets and liabilities While the assets of the Exchange are presented separately in the Consolidated Statements of Financial Position, the Exchange s assets can only be used to satisfy the Exchange s liabilities or for other unrestricted activities. Accounting Standards Codification (ASC) 810, *Consolidation,* does not require separate presentation of the Exchange s assets. However, because the shareholders of Indemnity have no rights to the assets of the Exchange and, conversely, the Exchange has no rights to the assets of Indemnity, we have presented the invested assets of the Exchange separately on the Consolidated Statements of Financial Position along with the remaining consolidated assets reflecting the Exchange s portion parenthetically. Liabilities are required under ASC 810, *Consolidation,* to be presented separately for the Exchange on the Consolidated Statements of Financial Position as the Exchange s creditors do not have recourse to the general credit of Indemnity.

Rights of shareholders of Indemnity and subscribers (policyholders) of the Exchange The shareholders of Indemnity, through the management fee, have a controlling financial interest in the Exchange; however, they have no other rights to or obligations arising from assets and liabilities of the Exchange. The shareholders of Indemnity own its equity but have no rights or interest in the Exchange s (noncontrolling interest) income or equity. The noncontrolling interest equity represents the Exchange s equity held for the benefit of its subscribers (policyholders), who have no rights or interest in the Indemnity shareholder interest income or equity.

All intercompany assets, liabilities, revenues and expenses between Indemnity and the Exchange have been eliminated in the Consolidated Statements of Financial Position.

Retrospective adoption of new accounting principle

On June 12, 2009, the Financial Accounting Standards Board (FASB) updated ASC 810, *Consolidation*, which amended the existing guidance for determining whether an enterprise is the primary beneficiary of a variable interest entity (VIE). As of January 1, 2010, Indemnity adopted the new accounting principle on a retrospective basis since inception.

This guidance changed the methodology for assessing whether an enterprise is the primary beneficiary of a VIE by requiring a qualitative analysis to determine if an enterprise s variable interest gives it a controlling financial interest. The qualitative analysis looks at the power to direct activities of the VIE that most significantly impact economic performance and the right to receive benefits (or obligation to absorb losses) from the VIE that could potentially be significant.

In accordance with the new accounting guidance, Indemnity is deemed to be the primary beneficiary of the Exchange given the significance of the management fee to the Exchange and Indemnity s power to direct the Exchange s significant activities. Under the previously issued accounting guidance, Indemnity was not deemed the primary beneficiary of the Exchange and its financial position and operating results were not consolidated with Indemnity s. Following adoption of the new accounting guidance, as primary beneficiary of the Exchange, Erie Indemnity Company has consolidated Indemnity and the Exchange s financial position and operating results.

Furthermore, upon consolidation of the Exchange, 100% of the ownership of EFL resides within the consolidated entity and consequently EFL s financial results are also consolidated. The financial statements and notes to the financial statements presented herein have all been adjusted to reflect the retrospective adoption of the new accounting principle.

There was no cumulative effect to Indemnity s shareholders equity from consolidation of the Exchange and EFL. The noncontrolling interest in total equity represents the amount of the Exchange s subscribers (policyholders) equity.

Recent Accounting Updates

In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements.* This guidance updated the disclosures for FASB ASC 820, *Fair Value Measurements and Disclosures.* The additional disclosures include the amounts and reasons for significant transfers between the levels in the fair value hierarchy, the expansion of fair market disclosures by each class of assets, disclosure of the policy for recognition of level transfers, and disclosure of the valuation techniques used for all Level 2 and Level 3 assets. These disclosures are effective for periods beginning after December 15, 2009 and have been included in Note 6. An additional disclosure requirement to present purchases, sales, issuances, and settlements of Level 3 activity on a gross basis becomes effective with periods beginning after December 15, 2010.

Note 3. Earnings Per Share

Basic earnings per share is calculated under the two-class method, which allocates earnings to each class of stock based on its dividend rights. Class B shares are convertible into Class A shares at a conversion ratio of 2,400 to 1. Class A diluted earnings per share is calculated under the if-converted method which reflects the conversion of Class B shares and the effect of potentially dilutive outstanding employee stock-based awards and awards not yet vested related to the outside directors stock compensation plan.

A reconciliation of the numerators and denominators used in the basic and diluted per-share computations is presented as follows for each class of Indemnity common stock:

(dollars in millions, except share data)	Indemnity Earnings Per Share Calculation Three months ended September 30, 2010			2009		
	Allocated net income (numerator)	Weighted shares (denominator)	Per-share amount	Allocated net income (numerator)	Weighted shares (denominator)	Per-share amount
Class A Basic EPS:						
Income available to Class A stockholders	$ 54	50,499,551	$ 1.05	$ 40	51,252,693	$ 0.77
Dilutive effect of stock awards	0	14,359		0	20,807	
Assumed conversion of Class B shares	0	6,110,400		0	6,110,400	
Class A Diluted EPS:						
Income available to Class A stockholders on Class A equivalent shares	$ 54	56,624,310	$ 0.94	$ 40	57,383,900	$ 0.69
Class B Basic and diluted EPS:						
Income available to Class B stockholders	$ 0	2,546	$ 150.87	$ 0	2,546	$ 112.06

(dollars in millions, except share data)	Indemnity Earnings Per Share Calculation Nine months ended September 30, 2010			2009		
	Allocated net income (numerator)	Weighted shares (denominator)	Per-share amount	Allocated net income (numerator)	Weighted Shares (denominator)	Per-share amount
Class A Basic EPS:						
Income available to Class A stockholders	$ 149	50,897,035	$ 2.92	$ 83	51,255,234	$ 1.62

Dilutive effect of stock awards	0	14,359		0	20,807	
Assumed conversion of Class B shares	1	6,110,400		1	6,117,600	
Class A Diluted EPS:						
Income available to Class A stockholders on Class A equivalent shares	$ 150	57,021,794	$ 2.62	$ 84	57,393,641	$ 1.46
Class B Basic and diluted EPS:						
Income available to Class B stockholders	$ 1	2,546	$ 421.91	$ 1	2,549	$ 239.96

Included in the diluted earnings per share calculations for the third quarters of 2010 and 2009, respectively, were 7,959 and 9,607 shares of awards not yet vested related to our outside directors stock compensation plan, and 6,400 and 11,200 shares of other stock-based awards not yet vested.

Note 4. Variable Interest Entity

Exchange

The Exchange is a reciprocal insurance exchange domiciled in Pennsylvania, for which Indemnity serves as attorney-in-fact. Indemnity holds a variable interest in the Exchange because of the absence of decision-making capabilities by the equity owners (i.e. subscribers (policyholders)) of the Exchange and because of the significance of the management fees the Exchange pays to Indemnity as the decision maker. The new accounting guidance, which we adopted on January 1, 2010, requires entities to perform a qualitative analysis to determine the primary beneficiary of variable interest entities. As a result of adopting the new guidance, Indemnity is deemed to have a controlling financial interest in the Exchange and is considered the primary beneficiary. The Exchange s results have been consolidated with those of Indemnity. We have retrospectively applied the new accounting guidance and have consolidated the Exchange for all periods presented in this report for comparability purposes. See Note 2.

Consolidation of the Exchange is required given the significance of the management fee to the Exchange and because Indemnity has the power to direct the activities of the Exchange that most significantly impact the Exchange s economic performance. Indemnity earns management fee revenues from the Exchange for services provided as attorney-in-fact for the Exchange. Indemnity s management fee revenues are based on the direct written premiums of the Exchange and the other members of the Property and Casualty Group. Indemnity s Board of Directors determines the management fee rate paid by the Exchange to Indemnity. This rate cannot exceed 25% of the direct and affiliated assumed written premiums of the Exchange, as defined by the subscriber agreement signed by each policyholder. The management fee revenues and management fee expenses are eliminated in consolidation.

Indemnity participates in the underwriting results of the Exchange through the pooling arrangement in which its insurance subsidiaries have a 5.5% participation. If the Exchange were to default, Indemnity s insurance subsidiaries would be liable for the policies that they wrote directly. Indemnity s property and casualty insurance subsidiaries wrote approximately 16% of the 2009 direct written premiums of the Property and Casualty Group. Indemnity s Board of Directors determines the continuation and participation percentage of Indemnity s property and casualty subsidiaries in the reinsurance pooling arrangement.

Indemnity has no obligation related to any underwriting and/or investment losses experienced by the Exchange. Indemnity would however be adversely impacted if the Exchange incurred significant underwriting and/or investment losses. If the surplus of the Exchange were to decline significantly from its current level, its financial strength ratings could be reduced and as a consequence the Exchange could find it more difficult to retain its existing business and attract new business. A decline in the business of the Exchange would have an adverse effect on the amount of the management fees Indemnity receives and the underwriting results of the Property and Casualty Group in which Indemnity has a 5.5% participation. In addition, a decline in the surplus of the Exchange from its current level may impact the management fee rate received by Indemnity. Indemnity also has an exposure to a concentration of credit risk related to the unsecured receivables due from the Exchange for its management fee, reinsurance recoverables from unpaid losses and loss expenses and unearned premium balances ceded under the pooling arrangement and cost reimbursements.

Indemnity has not provided financial or other support to the Exchange for the reporting periods presented. At September 30, 2010, there are no explicit or implicit arrangements that would require Indemnity to provide future financial support to the Exchange. Indemnity is not liable if the Exchange was to be in violation of its debt covenants or was unable to meet its obligation for unfunded commitments to limited partnerships.

Note 5. Segment Information

As a result of the changes in our reporting entity at January 1, 2010 (see Note 2), our reportable segments have increased from three to four. Our reportable segments include management operations, property and casualty insurance operations, life insurance operations and investment operations. The segment information presented below includes reclassification of all comparative prior period segment information. Accounting policies for segments are the same as those described in the summary of significant accounting policies. For further information, refer to the consolidated financial statements and footnotes for the year ended December 31, 2009 included in our Form 8-K as filed with the Securities and Exchange Commission on May 6, 2010. Assets are not allocated to the segments but rather are reviewed in total for purposes of decision-making. No single customer or agent provides 10% or more of revenues.

Our management operations segment reflects the results of serving as attorney-in-fact for the Exchange. Indemnity operates in this capacity solely for the Exchange. We evaluate profitability of our management operations segment principally on the gross margin from management operations.

Indemnity earns management fees from the Exchange for providing sales, underwriting and policy issuance services. The management fee revenue, which is eliminated in consolidation, is calculated as a percentage of the direct written premium of the Property and Casualty Group. The Exchange issues policies with annual terms only. Management fees are recorded upon policy issuance or renewal, as substantially all of the services required to be performed by Indemnity have been satisfied at that time. Certain activities are performed and related costs are incurred by Indemnity subsequent to policy issuance in connection with the services provided to the Exchange; however, these activities are inconsequential and perfunctory. Although these management fee revenues and expenses are eliminated in consolidation, the amount of the fee directly impacts allocations of our consolidated net income between noncontrolling interest, which bears the management fee expense and represents the interests of the Exchange subscribers, and Indemnity s interests, which earns the management fee revenue and represents Indemnity shareholder interest in net income.

Our property and casualty insurance operations segment includes personal and commercial lines of business. Personal lines consist primarily of personal auto and homeowners and are marketed to individuals. Commercial lines consist primarily of commercial multi-peril, commercial auto and workers compensation and are marketed to small and medium-sized businesses. Our property and casualty policies are sold by independent agents. Our property and casualty insurance underwriting operations are conducted through Indemnity subsidiaries and the Exchange and its subsidiaries, and include assumed voluntary reinsurance from nonaffiliated domestic and foreign sources, assumed involuntary and ceded reinsurance business. The Exchange exited the assumed voluntary reinsurance business effective December 31, 2003, and therefore unaffiliated reinsurance includes only run-off activity of the previously assumed voluntary reinsurance business. We evaluate profitability of the property and casualty operations principally based on net underwriting results represented by the combined ratio.

Our life insurance operations segment includes traditional and universal life insurance products and fixed annuities marketed to individuals using the same independent agency force utilized by our property and casualty operations. We evaluate profitability of the life insurance operations segment principally based on segment net income, including investments, which for segment purposes are reflected in the investment operations segment. At the same time, we recognize that investment-related income is integral to the evaluation of the life insurance segment because of the long duration of life products. For the third quarter 2010 and 2009, investment activities on life insurance-related assets generated revenues of $27 million and $19 million, respectively, resulting in EFL reporting income before income taxes of $16 million and $8 million, respectively, before intercompany eliminations. For the nine months ended September 30, 2010 and 2009, investment activities on life insurance and related assets generated revenues of $79 million and $45 million, respectively, resulting in EFL reporting income before taxes of $37 million and $8 million, respectively, before intercompany eliminations. See Note 15 for EFL supplemental information.

The investment operations segment performance is evaluated based on appreciation of assets, rate of return and overall return. Investment-related income for the life operations is included in the investment segment results.

The following tables summarize the components of the Consolidated Statements of Operations by reportable business segments:

	Erie Insurance Group For the three months ended September 30, 2010					
(in millions)	Management operations	Property and casualty insurance operations	Life insurance operations	Investment operations	Eliminations	Consolidated
Premiums earned/life policy revenue		$ 990	$ 16		$ (1)	$ 1,005
Net investment income				$ 113	(3)	110
Net realized investment gains				205		205
Net impairment losses recognized in earnings				0		0
Equity in earnings of limited partnerships				28		28

Management fee revenue	$ 266				(266)	
Service agreement and other revenue	9		0			9
Total revenues	275	990	16	346	(270)	1,357
Cost of management operations	217				(217)	
Insurance losses and loss expenses		690			(1)	689
Benefits and other changes in policy reserves			21			21
Policy acquisition and underwriting expense		288	6		(52)	242
Total benefits and expenses	217	978	27		(270)	952
Income (loss) before income taxes	58	12	(11)	346		405
Provision (benefit) for income taxes	22	4	(4)	108		130
Net income (loss)	$ 36	$ 8	$ (7)	$ 238	$	$ 275

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Erie Insurance Group
For the three months ended September 30, 2009

(in millions)	Management operations	Property and casualty insurance operations	Life insurance operations	Investment operations[1]	Eliminations	Consolidated
Premiums earned/life policy revenue		$ 964	$ 14		$ (1)	$ 977
Net investment income				$ 105	(3)	102
Net realized investment gains				251		251
Net impairment losses recognized in earnings				(16)		(16)
Equity in losses of limited partnerships				(37)		(37)
Management fee revenue	$ 253				(253)	
Service agreement and other revenue	9		0			9
Total revenues	262	964	14	303	(257)	1,286
Cost of management operations	214				(214)	
Insurance losses and loss expenses		613			(1)	612
Benefits and other changes in policy reserves			19			19
Policy acquisition and underwriting expense		335	6		(42)	299
Total benefits and expenses	214	948	25		(257)	930
Income (loss) before income taxes	48	16	(11)	303		356
Provision (benefit) for income taxes	24	6	(4)	78		104
Net income (loss)	$ 24	$ 10	$ (7)	$ 225	$	$ 252

Erie Insurance Group
For the nine months ended September 30, 2010

		Property and casualty	Life

(in millions)	Management operations	insurance operations	insurance operations	Investment operations	Eliminations	Consolidated
Premiums earned/life policy revenue		$ 2,926	$ 48		$ (2)	$ 2,972
Net investment income				$ 330	(8)	322
Net realized investment gains				117		117
Net impairment losses recognized in earnings				(6)		(6)
Equity in earnings of limited partnerships				58		58
Management fee revenue	$ 773				(773)	
Service agreement and other revenue	26		0			26
Total revenues	799	2,926	48	499	(783)	3,489
Cost of management operations	626				(626)	
Insurance losses and loss expenses		2,145			(4)	2,141
Benefits and other changes in policy reserves			67			67
Policy acquisition and underwriting expense		829	23		(153)	699
Total benefits and expenses	626	2,974	90		(783)	2,907
Income (loss) before income taxes	173	(48)	(42)	499		582
Provision (benefit) for income taxes	61	(17)	(15)	147		176
Net income (loss)	$ 112	$ (31)	$ (27)	$ 352	$	$ 406

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Erie Insurance Group
For the nine months ended September 30, 2009

(in millions)	Management operations	Property and casualty insurance operations	Life insurance operations	Investment operations(1)	Eliminations	Consolidated
Premiums earned/life policy revenue		$ 2,852	$ 48		$ (2)	$ 2,898
Net investment income				$ 332	(8)	324
Net realized investment gains				304		304
Net impairment losses recognized in earnings				(99)		(99)
Equity in losses of limited partnerships				(324)		(324)
Management fee revenue	$ 742				(742)	
Service agreement and other revenue	26		1			27
Total revenues	768	2,852	49	213	(752)	3,130
Cost of management operations	615				(615)	
Insurance losses and loss expenses		2,033			(4)	2,029
Benefits and other changes in policy reserves			65			65
Policy acquisition and underwriting expense		874	21		(133)	762
Total benefits and expenses	615	2,907	86		(752)	2,856
Income (loss) before income taxes	153	(55)	(37)	213		274
Provision (benefit) for income taxes	54	(19)	(13)	(20)		2
Net income (loss)	$ 99	$ (36)	$ (24)	$ 233	$	$ 272

(1) The significant realized losses, impairment charges and market value

adjustments on limited partnership investments were impacted by the significant disruption in the financial markets.

See the Results of the Erie Insurance Group s operations by interest table in the Management s Discussion and Analysis for the composition of income attributable to Indemnity and income attributable to the noncontrolling interest (Exchange).

Note 6. Fair Value

Our available-for-sale and trading securities are recorded at fair value, which is the price that would be received to sell the asset in an orderly transaction between willing market participants as of the measurement date.

Valuation techniques used to derive the fair value of our available-for-sale and trading securities are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources. Unobservable inputs reflect our own assumptions regarding fair market value for these securities. Although the majority of our prices are obtained from third party sources, we also perform an internal pricing review for securities with low trading volumes in the current market conditions. Financial instruments are categorized based upon the following characteristics or inputs to the valuation techniques:

Level 1	Quoted prices for identical instruments in active markets not subject to adjustments or discounts.
Level 2	Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
Level 3	Instruments whose significant value drivers are unobservable and reflect management s estimate of fair value based on assumptions used by market participants in an orderly transaction as of the valuation date.

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The following table represents the fair value measurements on a recurring basis for our consolidated available-for-sale and trading securities by asset class and level of input at September 30, 2010:

		Erie Insurance Group September 30, 2010 Fair value measurements using:		
(in millions)	Total	Quoted prices in active markets for identical assets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
Indemnity				
Available for sale securities:				
Fixed maturities				
U.S. treasuries and government agencies	$ 6	$ 4	$ 2	$ 0
U.S. government sponsored enterprises	13	0	13	0
Municipal securities	263	0	263	0
U.S. corporate debt non-financial	180	0	180	0
U.S. corporate debt financial	149	0	147	2
Foreign corporate debt non-financial	29	0	29	0
Foreign corporate debt financial	25	0	25	0
Structured securities:				
Asset-backed securities auto loans	2	0	2	0
Collateralized debt obligations	10	0	3	7
Commercial mortgage-backed	4	0	4	0
Residential mortgage-backed:				
Government sponsored enterprises	11	0	11	0
Non-government sponsored enterprises	3	0	3	0
Total fixed maturities Indemnity	$ 695	$ 4	$ 682	$ 9
Equity securities				
U.S. nonredeemable preferred securities:				
Financial	$ 27	$ 7	$ 18	$ 2
Non-financial	14	6	8	0
Foreign nonredeemable preferred securities:				
Financial	4	0	4	0
Non-financial	1	0	1	0
Total equity securities Indemnity	$ 46	$ 13	$ 31	$ 2
Total available-for-sale securities Indemnity	$ 741	$ 17	$ 713	$ 11
Trading securities:				
Common stock	$ 26	$ 26	$ 0	$ 0

Total trading securities	$ 26	$ 26	$ 0	$ 0
Total Indemnity	$ 767	$ 43	$ 713	$ 11

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	Erie Insurance Group September 30, 2010 Fair value measurements using:			
(in millions)	Total	Quoted prices in active markets for identical assets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
Exchange				
Available for sale securities:				
Fixed maturities				
U.S. treasuries and government agencies	$ 6	$ 5	$ 1	$ 0
U.S. government sponsored enterprises	62	0	62	0
Foreign government	21	0	21	0
Municipal securities	1,445	0	1,445	0
U.S. corporate debt non-financial	2,347	6	2,332	9
U.S. corporate debt financial	1,828	6	1,822	0
Foreign corporate debt non-financial	449	0	449	0
Foreign corporate debt financial	390	0	390	0
Structured securities:				
Asset-backed securities auto loans	39	0	39	0
Asset-backed securities other	29	0	24	5
Collateralized debt obligations	79	0	37	42
Commercial mortgage-backed	95	0	95	0
Residential mortgage-backed:				
Government sponsored enterprises	201	0	201	0
Non-government sponsored enterprises	28	0	28	0
Total fixed maturities Exchange	$ 7,019	$ 17	$ 6,946	$ 56
Equity securities				
U.S. nonredeemable preferred securities:				
Financial	$ 349	$ 97	$ 247	$ 5
Non-financial	132	47	85	0
Government sponsored enterprises	0	0	0	0
Foreign nonredeemable preferred securities:				
Financial	48	16	32	0
Non-financial	9	0	9	0
Total equity securities Exchange	$ 538	$ 160	$ 373	$ 5
Total available for sale securities Exchange	$ 7,557	$ 177	$ 7,319	$ 61
Trading securities:				
Common stock	$ 1,985	$ 1,974	$ 0	$ 11

Total trading securities	$ 1,985	$ 1,974	$ 0	$ 11
Total Exchange	$ 9,542	$ 2,151	$ 7,319	$ 72
Total Erie Insurance Group	$ 10,309	$ 2,194	$ 8,032	$ 83

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Level 3 Assets Quarterly Change:

	Erie Insurance Group					
(in millions)	Beginning balance at June 30, 2010	Included in earnings[(1)]	Included in other comprehensive income	Purchases, sales and adjustments	Transfers in and (out) of Level 3 [(2)]	Ending balance at September 30, 2010
Indemnity						
Available-for-sale securities:						
Fixed maturities:						
U.S. corporate debt financial	$ 2	$ 0	$ 0	$ 0	$ 0	$ 2
Collateralized debt obligations	8	0	0	0	(1)	7
Total fixed maturities	10	0	0	0	(1)	9
Preferred stock:						
U.S. nonredeemable financial	1	0	0	1	0	2
Total preferred stock	1	0	0	1	0	2
Total Level 3 assets Indemnity	$ 11	$ 0	$ 0	$ 1	$ (1)	$ 11
Exchange						
Available-for-sale securities:						
Fixed maturities:						
U.S. corporate debt non-financial	$ 9	$ 0	$ 0	$ 0	$ 0	$ 9
Asset backed securities other	5	0	0	0	0	5
Collateralized debt obligations	53	0	0	(1)	(10)	42
Total fixed maturities	67	0	0	(1)	(10)	56
Preferred stock:						
U.S. nonredeemable financial	4	0	0	1	0	5
Total preferred stock	4	0	0	1	0	5
Trading securities:						

Common stock	10	1	0	0	0	11
Total Level 3 assets Exchange	$ 81	$ 1	$ 0	$ 0	$ (10)	$ 72
Total Level 3 assets Erie Insurance Group	$ 92	$ 1	$ 0	$ 1	$ (11)	$ 83

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Level 3 Assets Year-to-Date Change:

	Erie Insurance Group					
(in millions)	Beginning balance at December 31, 2009	Included in earnings[1]	Included in other comprehensive income	Purchases, sales and adjustments	Transfers in and (out) of Level 3 [2]	Ending balance at September 30, 2010
Indemnity						
Available-for-sale securities:						
Fixed maturities:						
U.S. corporate debt financial	$ 2	$ 0	$ 0	$ 0	$ 0	$ 2
Collateralized debt obligations	8	0	0	0	(1)	7
Total fixed maturities	10	0	0	0	(1)	9
Preferred stock:						
U.S. nonredeemable financial	1	0	0	1	0	2
Total preferred stock	1	0	0	1	0	2
Total Level 3 assets Indemnity	$ 11	$ 0	$ 0	$ 1	$ (1)	$ 11
Exchange						
Available-for-sale securities:						
Fixed maturities:						
U.S. corporate debt non-financial	$ 17	$ 0	$ 0	$ 0	$ (8)	$ 9
Asset backed securities other	5	0	0	0	0	5
Collateralized debt obligations	49	2	4	0	(13)	42
Total fixed maturities	71	2	4	0	(21)	56
Preferred stock:						
U.S. nonredeemable financial	4	0	1	0	0	5
Total preferred stock	4	0	1	0	0	5
Trading securities:						
Common stock	9	2	0	0	0	11

Total Level 3 assets Exchange	$	84	$	4	$	5	$	0	$	(21)	$	72
Total Level 3 assets Erie Insurance Group	$	95	$	4	$	5	$	1	$	(22)	$	83

(1) *Includes losses as a result of other-than-temporary impairments and accrual of discount and amortization of premium. These amounts are reported in the Consolidated Statement of Operations. There were no unrealized gains or losses included in earnings for the three or nine months ended September 30, 2010 on Level 3 securities.*

(2) *Transfers in and out of Level 3 are attributable to changes in the availability of market observable information for individual securities within the respective categories. There were no significant transfers in and out of Level 3. Transfers in and out of levels are recognized at the end of the period.*

There were no significant transfers between Levels 1 and 2 during the nine months ended September 30, 2010.

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The following table represents the fair value measurements on a recurring basis for our consolidated available-for-sale and trading securities by asset class and level of input at December 31, 2009:

		Erie Insurance Group At December 31, 2009 Fair value measurements using:		
(in millions)	Total	Quoted prices in active markets for identical assets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
Indemnity				
Available-for-sale securities:				
Fixed maturities	$ 664	$ 6	$ 648	$ 10
Preferred stock	38	9	28	1
Trading securities common stock	42	42	0	0
Total Indemnity	$ 744	$ 57	$ 676	$ 11
Exchange				
Available-for-sale securities:				
Fixed maturities	$ 6,517	$ 31	$ 6,415	$ 71
Preferred stock	472	157	311	4
Trading securities common stock	1,835	1,826	0	9
Total Exchange	$ 8,824	$ 2,014	$ 6,726	$ 84
Total Erie Insurance Group	$ 9,568	$ 2,071	$ 7,402	$ 95

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Level 3 Assets Quarterly Change:

	Erie Insurance Group					
(in millions)	Beginning balance at June 30,2009	Included in earnings[1]	Included in other comprehensive income	Purchases, sales and adjustments	Transfers in and (out) of Level 3 [2]	Ending balance at September 30, 2009
Indemnity						
Available-for-sale securities:						
Fixed maturities:						
U.S. corporate debt financial	$ 5	$ 0	$ 0	$ 0	$ (5)	$ 0
Collateralized debt obligations	9	(2)	2	0	0	9
Total fixed maturities	14	(2)	2	0	(5)	9
Preferred stock:						
U.S. nonredeemable financial	7	0	0	0	(3)	4
U.S. nonredeemable non-financial	4	0	0	0	(4)	0
Total preferred stock	11	0	0	0	(7)	4
Total Level 3 assets Indemnity	$ 25	$ (2)	$ 2	$ 0	$ (12)	$ 13
Exchange						
Available-for-sale securities:						
Fixed maturities:						
U.S. corporate debt financial	$ 17	$ 0	$ 0	$ 0	$ (17)	$ 0
U.S. corporate debt non-financial	19	0	0	0	(2)	17
Foreign corporate debt financial	0	0	0	0	0	0
Foreign corporate debt non-financial	1	0	0	0	0	1
Asset backed securities other	5	0	0	0	0	5
Collateralized debt obligations	76	(5)	5	1	0	77
Total fixed maturities	118	(5)	5	1	(19)	100

Preferred stock:						
U.S. nonredeemable financial	20	0	1	0	(12)	9
U.S. nonredeemable non-financial	24	0	0	0	(19)	5
Total preferred stock	44	0	1	0	(31)	14
Total Level 3 assets Exchange	$ 162	$ (5)	$ 6	$ 1	$ (50)	$ 114
Total Level 3 assets Erie Insurance Group	$ 187	$ (7)	$ 8	$ 1	$ (62)	$ 127

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Level 3 Assets Year-to-Date Change:

	Erie Insurance Group					
(in millions)	Beginning balance at December 31, 2008	Included in earnings[1]	Included in other comprehensive income	Purchases, sales and adjustments	Transfers in and (out) of Level 3 [2]	Ending balance at September 30, 2009
Indemnity						
Available-for-sale securities:						
Fixed maturities:						
U.S. corporate debt financial	$ 5	$ 0	$ 0	$ 0	$ (5)	$ 0
Collateralized debt obligations	7	(1)	3	0	0	9
Commercial mortgage-backed securities	2	0	0	0	(2)	0
Total fixed maturities	14	(1)	3	0	(7)	9
Preferred stock:						
U.S. nonredeemable financial	7	0	0	0	(3)	4
U.S. nonredeemable non-financial	4	0	0	0	(4)	0
Total preferred stock	11	0	0	0	(7)	4
Total Level 3 assets Indemnity	$ 25	$ (1)	$ 3	$ 0	$ (14)	$ 13
Exchange						
Available-for-sale securities:						
Fixed maturities:						
U.S. corporate debt financial	$ 36	$ 0	$ 0	$ (16)	$ (20)	$ 0
U.S. corporate debt non-financial	21	0	0	(1)	(3)	17
Foreign corporate debt financial	1	0	0	0	(1)	0
Foreign corporate debt non-financial	2	0	0	(1)	0	1
Asset backed securities other	5	0	0	0	0	5
	36	(8)	23	10	16	77

Collateralized debt obligations						
Commercial mortgage-backed securities	7	0	0	0	(7)	0
Total fixed maturities	108	(8)	23	(8)	(15)	100
Preferred stock:						
U.S. nonredeemable financial	24	0	0	0	(15)	9
U.S. nonredeemable non-financial	22	0	0	0	(17)	5
Total preferred stock	46	0	0	0	(32)	14
Total Level 3 assets Exchange	$ 154	$ (8)	$ 23	$ (8)	$ (47)	$ 114
Total Level 3 assets Erie Insurance Group	$ 179	$ (9)	$ 26	$ (8)	$ (61)	$ 127

(1) Includes losses as a result of other-than-temporary impairments and accrual of discount and amortization of premium. These amounts are reported in the Consolidated Statement of Operations. There were no unrealized gains or losses included in earnings for the three or nine months ended September 30, 2009 on Level 3 securities.

(2) Transfers in and out of Level 3 are attributable to changes in the availability of market observable information for individual securities within the respective categories. Transfers in and out of levels

are recognized at the end of the period.

Estimates of fair values for our investment portfolio are obtained primarily from a nationally recognized pricing service. Our Level 1 category includes those securities valued using an exchange traded price provided by the pricing service. The methodologies used by the pricing service that support a Level 2 classification of a financial instrument include multiple verifiable, observable inputs including benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. Pricing service valuations for Level 3 securities are based on proprietary models and are used when observable inputs are not available in illiquid markets. In limited circumstances we adjust the price received from the pricing service when in our judgment a better reflection of fair value is available based on corroborating information and our knowledge and monitoring of market conditions. At September 30, 2010, we adjusted some prices received by the pricing service to reflect an alternate fair market value based on observable market data such as a disparity in price of comparable securities and/or non-binding broker quotes.

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The following table displays the number and values of these adjustments at September 30, 2010:

(dollars in millions)	Number of holdings	Value of securities using pricing service	Value of securities used in the financial statements
Indemnity	1	$ 0	$ 0
Exchange	2	4	5
Total Erie Insurance Group		$ 4	$ 5

We perform continuous reviews of the prices obtained from the pricing service. This includes evaluating the methodology and inputs used by the pricing service to ensure we determine the proper level classification of the financial instrument. Price variances, including large periodic changes, are investigated and corroborated by market data. We have reviewed the pricing methodologies of our pricing service and believe that their prices adequately consider market activity in determining fair value.

In cases in which a price from the pricing service is not available, values are determined by obtaining non-binding broker quotes and/or market comparables. When available, we obtain multiple quotes for the same security. The ultimate value for these securities is determined based on our best estimate of fair value using corroborating market information. Our evaluation includes the consideration of benchmark yields, reported trades, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. For certain structured securities in an illiquid market, there may be no prices available from a pricing service and no comparable market quotes available. In these situations, we value the security using an internally-developed risk-adjusted discounted cash flow model.

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The following table sets forth the fair value of the consolidated fixed maturity and preferred stock securities by pricing source:

	Erie Insurance Group			
	September 30, 2010			
(in millions)	Total	Level 1	Level 2	Level 3
Indemnity				
Fixed maturity securities:				
Priced via pricing services	$ 684	$ 4	$ 680	$ 0
Priced via market comparables/non-binding broker quote(1)	2	0	2	0
Priced via internal modeling (2)	9	0	0	9
Total fixed maturity securities	695	4	682	9
Preferred stock securities:				
Priced via pricing services	44	13	29	2
Priced via market comparables/non-binding broker quote (1)	2	0	2	0
Priced via internal modeling (2)	0	0	0	0
Total preferred stock securities	46	13	31	2
Common stock securities:				
Priced via pricing services	26	26	0	0
Priced via market comparables/non-binding broker quote (1)	0	0	0	0
Priced via internal modeling (2)	0	0	0	0
Total common stock securities	26	26	0	0
Total available-for-sale/trading securities Indemnity	$ 767	$ 43	$ 713	$ 11
Exchange				
Fixed maturity securities:				
Priced via pricing services	$ 6,913	$ 17	$ 6,896	$ 0
Priced via market comparables/non-binding broker quote (1)	51	0	50	1
Priced via internal modeling (2)	55	0	0	55
Total fixed maturity securities	7,019	17	6,946	56
Preferred stock securities:				
Priced via pricing services	521	160	356	5
Priced via market comparables/non-binding broker quote (1)	17	0	17	0
Priced via internal modeling (2)	0	0	0	0
Total preferred stock securities	538	160	373	5

Common stock securities:					
Priced via pricing services		1,973	1,973	0	0
Priced via market comparables/non-binding broker quote [(1)]		0	0	0	0
Priced via internal modeling [(2)]		12	1	0	11
Total common stock securities		1,985	1,974	0	11
Total available-for-sale/trading securities	Exchange	$ 9,542	$ 2,151	$ 7,319	$ 72
Total available-for-sale/trading securities Group	Erie Insurance	$ 10,309	$ 2,194	$ 8,032	$ 83

(1) All broker quotes obtained for securities were non-binding. When a non-binding broker quote was the only price available, the security was classified as Level 3.

We have no assets that were measured at fair value on a nonrecurring basis during the nine months ended September 30, 2010.

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Note 7. Investments
The following tables summarize the cost and fair value of our available-for-sale securities at September 30, 2010 and December 31, 2009:

	Erie Insurance Group September 30, 2010			
(in millions)	Amortized	Gross unrealized	Gross unrealized	Estimated fair
Available-for-sale securities	cost	gains	losses	value
Indemnity				
Fixed maturities				
U.S. treasuries and government agencies	$ 5	$ 1	$ 0	$ 6
U.S. government sponsored enterprises	13	0	0	13
Municipal securities	249	14	0	263
U.S. corporate debt non-financial	164	16	0	180
U.S. corporate debt financial	140	10	1	149
Foreign corporate debt non-financial	26	3	0	29
Foreign corporate debt financial	23	2	0	25
Structured securities:				
Asset-backed securities auto loans	2	0	0	2
Collateralized debt obligations	10	1	1	10
Commercial mortgage-backed	4	0	0	4
Residential mortgage-backed:				
Government sponsored enterprises	10	1	0	11
Non-government sponsored enterprises	3	0	0	3
Total fixed maturities-Indemnity	$ 649	$ 48	$ 2	$ 695
Equity securities				
U.S. nonredeemable preferred securities:				
Financial	$ 23	$ 4	$ 0	$ 27
Non-financial	13	1	0	14
Foreign nonredeemable preferred securities:				
Financial	3	1	0	4
Non-financial	1	0	0	1
Total equity securities Indemnity	$ 40	$ 6	$ 0	$ 46
Total available-for-sale securities Indemnity	$ 689	$ 54	$ 2	$ 741
Exchange				
Fixed maturities				
U.S. treasuries and government agencies	$ 5	$ 1	$ 0	$ 6
U.S. government sponsored enterprises	60	2	0	62
Foreign government	20	1	0	21
Municipal securities	1,364	81	0	1,445
U.S. corporate debt non-financial	2,114	236	3	2,347

U.S. corporate debt financial	1,666	168	6	1,828
Foreign corporate debt non-financial	407	42	0	449
Foreign corporate debt financial	363	28	1	390
Structured securities:				
Asset-backed securities auto loans	36	3	0	39
Asset-backed securities other	28	1	0	29
Collateralized debt obligations	80	5	6	79
Commercial mortgage-backed	90	6	1	95
Residential mortgage-backed:				
Government sponsored enterprises	191	10	0	201
Non-government sponsored enterprises	29	0	1	28
Total fixed maturities Exchange	$ 6,453	$ 584	$ 18	$ 7,019
Equity securities				
U.S. nonredeemable preferred securities:				
Financial	$ 291	$ 60	$ 2	$ 349
Non-financial	124	9	1	132
Government sponsored enterprises	0	0	0	0
Foreign nonredeemable preferred securities:				
Financial	44	5	1	48
Non-financial	8	1	0	9
Total equity securities Exchange	$ 467	$ 75	$ 4	$ 538
Total available-for-sale securities Exchange	$ 6,920	$ 659	$ 22	$ 7,557
Total available-for-sale securities Erie Insurance Group	$ 7,609	$ 713	$ 24	$ 8,298

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	Erie Insurance Group December 31, 2009			
(in millions) Available-for-sale securities	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Indemnity				
Fixed maturities				
U.S. treasuries and government agencies	$ 3	$ 0	$ 0	$ 3
U.S. government sponsored enterprises	14	0	0	14
Foreign government	2	0	0	2
Municipal securities	235	9	0	244
U.S. corporate debt non-financial	172	10	1	181
U.S. corporate debt financial	135	7	4	138
Foreign corporate debt non-financial	26	2	0	28
Foreign corporate debt financial	19	2	1	20
Structured securities:				
Asset-backed securities auto loans	4	0	0	4
Collateralized debt obligations	10	0	2	8
Commercial mortgage-backed	5	0	0	5
Residential mortgage-backed:				
Government sponsored enterprises	14	0	0	14
Non-government sponsored enterprises	3	0	0	3
Total fixed maturities-Indemnity	$ 642	$ 30	$ 8	$ 664
Equity securities				
U.S. nonredeemable preferred securities:				
Financial	$ 20	$ 3	$ 1	$ 22
Non-financial	9	1	0	10
Foreign nonredeemable preferred securities:				
Financial	5	0	0	5
Non-financial	1	0	0	1
Total equity securities Indemnity	$ 35	$ 4	$ 1	$ 38
Total available-for-sale securities Indemnity	$ 677	$ 34	$ 9	$ 702
Exchange				
Fixed maturities				
U.S. treasuries and government agencies	$ 5	$ 0	$ 0	$ 5
U.S. government sponsored enterprises	76	1	0	77
Foreign government	10	1	0	11
Municipal securities	1,389	55	3	1,441
U.S. corporate debt non-financial	2,078	125	10	2,193
U.S. corporate debt financial	1,498	82	28	1,552
Foreign corporate debt non-financial	375	22	2	395

Foreign corporate debt financial	292	11	4	299
Structured securities:				
Asset-backed securities auto loans	48	3	0	51
Asset-backed securities credit cards	5	0	0	5
Asset-backed securities other	35	0	2	33
Collateralized debt obligations	88	5	16	77
Commercial mortgage-backed	127	5	5	127
Residential mortgage-backed:				
Government sponsored enterprises	192	6	0	198
Non-government sponsored enterprises	59	0	6	53
Total fixed maturities Exchange	$ 6,277	$ 316	$ 76	$ 6,517
Equity securities				
U.S. nonredeemable preferred securities:				
Financial	$ 259	$ 53	$ 11	$ 301
Non-financial	111	4	2	113
Government sponsored enterprises	1	2	0	3
Foreign nonredeemable preferred securities:				
Financial	46	4	3	47
Non-financial	8	0	0	8
Total equity securities Exchange	$ 425	$ 63	$ 16	$ 472
Total available-for-sale securities Exchange	$ 6,702	$ 379	$ 92	$ 6,989
Total available-for-sale securities Erie Insurance Group	$ 7,379	$ 413	$ 101	$ 7,691

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The amortized cost and estimated fair value of fixed maturities at September 30, 2010, are shown below by remaining contractual term to maturity. Mortgage-backed securities are allocated based on their stated maturity dates. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Erie Insurance Group	
(in millions)	Amortized cost	Estimated fair value
Indemnity		
Due in one year or less	$ 34	$ 36
Due after one year through five years	268	283
Due after five years through ten years	244	268
Due after ten years	103	108
Total fixed maturities Indemnity	$ 649	$ 695
Exchange		
Due in one year or less	$ 314	$ 330
Due after one year through five years	2,279	2,450
Due after five years through ten years	2,575	2,855
Due after ten years	1,285	1,384
Total fixed maturities Exchange	$ 6,453	$ 7,019
Total fixed maturities Erie Insurance Group	$ 7,102	$ 7,714

Fixed maturities and equity securities in a gross unrealized loss position at September 30, 2010 are as follows for Indemnity. Data is provided by length of time securities were in a gross unrealized loss position.

September 30, 2010

	Erie Insurance Group						
	Less than 12 months		12 months or longer		Total		
(dollars in millions)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair Value	Unrealized losses	No. of holdings
Indemnity							
Fixed maturities:							
U.S. government sponsored enterprises	$ 3	$ 0	$ 0	$ 0	$ 3	$ 0	1
Municipal securities	4	0	2	0	6	0	4
U.S. corporate debt non-financial	5	0	2	0	7	0	3
U.S. corporate debt financial	0	0	10	1	10	1	5
Foreign corporate debt non-financial	0	0	1	0	1	0	1
Foreign corporate debt financial	0	0	2	0	2	0	1
Structured securities:							

Collateralized debt obligations	0	0	4	1	4	1	5
Commercial mortgage-backed	1	0	0	0	1	0	1
Total fixed maturities Indemnity	$ 13	$ 0	$ 21	$ 2	$ 34	$ 2	21
Equity securities:							
U.S. nonredeemable preferred securities:							
Financial	$ 0	$ 0	$ 5	$ 0	$ 5	$ 0	3
Non-financial	0	0	2	0	2	0	1
Government sponsored enterprises	0	0	0	0	0	0	2
Foreign nonredeemable preferred securities:							
Financial	0	0	1	0	1	0	1
Total equity securities Indemnity	$ 0	$ 0	$ 8	$ 0	$ 8	$ 0	7

<u>Quality breakdown of fixed maturities at September 30, 2010</u>

	Less than 12 months		12 months or longer		Total		
(dollars in millions)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair Value	Unrealized losses	No. of holdings
Indemnity							
Investment grade	$ 13	$ 0	$ 19	$ 1	$ 32	$ 1	18
Non-investment grade	0	0	2	1	2	1	3
Total fixed maturities Indemnity	$ 13	$ 0	$ 21	$ 2	$ 34	$ 2	21

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Fixed maturities and equity securities in a gross unrealized loss position at September 30, 2010 are as follows for the Exchange. Data is provided by length of time securities were in a gross unrealized loss position.

September 30, 2010

	Erie Insurance Group						
	Less than 12 months		12 months or longer		Total		
(dollars in millions)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair Value	Unrealized losses	No. of holdings
Exchange							
Fixed maturities:							
U.S. government sponsored enterprises	$ 16	$ 0	$ 0	$ 0	$ 16	$ 0	2
Municipal securities	16	0	14	0	30	0	4
U.S. corporate debt non-financial	37	0	38	3	75	3	11
U.S. corporate debt financial	13	0	90	6	103	6	30
Foreign corporate debt non-financial	0	0	15	0	15	0	3
Foreign corporate debt financial	5	0	16	1	21	1	4
Structured securities:							
Asset backed other	0	0	3	0	3	0	1
Collateralized debt obligations	7	0	37	6	44	6	8
Commercial mortgage-backed	0	0	12	1	12	1	3
Residential mortgage-backed:							
Non-government sponsored enterprises	0	0	8	1	8	1	2
Total fixed maturities Exchange	$ 94	$ 0	$ 233	$ 18	$ 327	$ 18	68
Equity securities:							
U.S. nonredeemable preferred securities:							
Financial	$ 27	$ 0	$ 25	$ 2	$ 52	$ 2	7
Non-financial	12	0	18	1	30	1	5
Government sponsored enterprises	0	0	0	0	0	0	2
Foreign nonredeemable preferred securities:							
Financial	2	0	15	1	17	1	4
Total equity securities Exchange	$ 41	$ 0	$ 58	$ 4	$ 99	$ 4	18

Quality breakdown of fixed maturities at September 30, 2010

	Less than 12 months		12 months or longer		Total		
(dollars in millions)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair Value	Unrealized losses	No. of holdings
Exchange							
Investment grade	$ 85	$ 0	$ 174	$ 13	$ 259	$ 13	48
Non-investment grade	9	0	59	5	68	5	20
Total fixed maturities Exchange	$ 94	$ 0	$ 233	$ 18	$ 327	$ 18	68

The above securities for Indemnity and the Exchange have been evaluated and determined to be temporary impairments for which we expect to recover our entire principal plus interest. The primary components of this analysis are a general review of market conditions and financial performance of the issuer along with the extent and duration of which fair value is less than cost. A large portion of the unrealized losses greater than 12 months are related to U.S. financial sector securities. Any debt securities that we intend to sell or will more likely than not be required to sell before recovery are included in other-than-temporary impairments with the impairment charges recognized in earnings.

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Fixed maturities and equity securities in a gross unrealized loss position at December 31, 2009 are as follows for Indemnity. Data is provided by length of time securities were in a gross unrealized loss position.

December 31, 2009

	Erie Insurance Group						
	Less than 12 months		12 months or longer		Total		
(dollars in millions)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair Value	Unrealized losses	No. of holdings
Indemnity							
Fixed maturities:							
U.S. government sponsored enterprises	$ 8	$ 0	$ 0	$ 0	$ 8	$ 0	2
Municipal securities	18	0	5	0	23	0	12
U.S. corporate debt non-financial	19	0	8	1	27	1	16
U.S. corporate debt financial	16	1	40	3	56	4	42
Foreign corporate debt non-financial	0	0	4	0	4	0	3
Foreign corporate debt financial	2	0	3	1	5	1	4
Structured securities:							
Collateralized debt obligations	0	0	3	2	3	2	6
Commercial mortgage-backed	0	0	1	0	1	0	1
Residential mortgage-backed:							
Government sponsored enterprises	6	0	0	0	6	0	2
Non-government sponsored enterprises	0	0	3	0	3	0	2
Total fixed maturities Indemnity	$ 69	$ 1	$ 67	$ 7	$ 136	$ 8	90
Equity securities:							
U.S. nonredeemable preferred securities:							
Financial	$ 5	$ 0	$ 5	$ 1	$ 10	$ 1	8
Non-financial	3	0	4	0	7	0	3
Foreign nonredeemable preferred securities:							
Financial	0	0	1	0	1	0	1
Total equity securities Indemnity	$ 8	$ 0	$ 10	$ 1	$ 18	$ 1	12

Quality breakdown of fixed maturities at December 31, 2009

(dollars in millions)	Less than 12 months Fair value	Less than 12 months Unrealized losses	12 months or longer Fair value	12 months or longer Unrealized losses	Total Fair value	Total Unrealized losses	No. of holdings
Indemnity							
Investment grade	$ 69	$ 1	$ 49	$ 4	$ 118	$ 5	71
Non-investment grade	0	0	18	3	18	3	19
Total fixed maturities Indemnity	$ 69	$ 1	$ 67	$ 7	$ 136	$ 8	90

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Fixed maturities and equity securities in a gross unrealized loss position at December 31, 2009 are as follows for the Exchange. Data is provided by length of time securities were in a gross unrealized loss position.

December 31, 2009

	Erie Insurance Group						
	Less than 12 months		12 months or longer		Total		
(dollars in millions)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair Value	Unrealized losses	No. of holdings
Exchange							
Fixed maturities:							
U.S. government sponsored enterprises	$ 50	$ 0	$ 0	$ 0	$ 50	$ 0	6
Municipal securities	105	2	26	1	131	3	24
U.S. corporate debt non-financial	128	3	129	7	257	10	56
U.S. corporate debt financial	159	2	318	26	477	28	98
Foreign corporate debt non-financial	12	0	36	2	48	2	9
Foreign corporate debt financial	17	0	68	4	85	4	17
Structured securities:							
Asset backed credit cards	0	0	5	0	5	0	1
Asset backed other	0	0	18	2	18	2	3
Collateralized debt obligations	8	1	28	15	36	16	15
Commercial mortgage-backed	1	0	34	5	35	5	6
Residential mortgage-backed:							
Government sponsored enterprises	28	0	0	0	28	0	4
Non-government sponsored enterprises	0	0	45	6	45	6	9
Total fixed maturities Exchange	$ 508	$ 8	$ 707	$ 68	$ 1,215	$ 76	248
Equity securities:							
U.S. nonredeemable preferred securities:							
Financial	$ 36	$ 2	$ 72	$ 9	$ 108	$ 11	20
Non-financial	14	0	43	2	57	2	10
Foreign nonredeemable preferred securities:							
Financial	0	0	18	3	18	3	4
	$ 50	$ 2	$ 133	$ 14	$ 183	$ 16	34

Total equity securities
Exchange

Quality breakdown of fixed maturities at December 31, 2009

	Less than 12 months		12 months or longer		Total		
(dollars in millions)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	No. of holdings
Exchange							
Investment grade	$ 494	$ 8	$ 522	$ 50	$ 1,016	$ 58	191
Non-investment grade	14	0	185	18	199	18	57
Total fixed maturities Exchange	$ 508	$ 8	$ 707	$ 68	$ 1,215	$ 76	248

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Investment income, net of expenses, was generated from the following portfolios:

	Erie Insurance Group			
	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2010	2009	2010	2009
Indemnity				
Fixed maturities	$ 8	$ 9	$ 25	$ 28
Equity securities	1	1	3	4
Cash equivalents and other	1	0	1	1
Total investment income	10	10	29	33
Less: investment expenses	0	0	1	1
Investment income, net of expenses Indemnity	$ 10	$ 10	$ 28	$ 32
Exchange				
Fixed maturities	$ 88	$ 83	$ 261	$ 257
Equity securities	18	15	52	49
Cash equivalents and other	1	0	1	4
Total investment income	107	98	314	310
Less: investment expenses	7	6	20	18
Investment income, net of expenses Exchange	$ 100	$ 92	$ 294	$ 292
Total consolidated investment income, net of expenses Erie Insurance Group	$ 110	$ 102	$ 322	$ 324

Dividend income is recognized as earned and recorded to net investment income.
Realized gains (losses) on investments were as follows:

	Erie Insurance Group			
	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2010	2009	2010	2009
Indemnity				
Available-for-sale securities:				
Fixed maturities				
Gross realized gains	$ 2	$ 0	$ 5	$ 1
Gross realized losses	(1)	0	(1)	(3)
Net realized gains (losses)	1	0	4	(2)
Equity securities				
Gross realized gains	0	3	1	6
Gross realized gains (losses)	1	(3)	0	(6)

Net realized gains		1	0	1	0
Trading securities:					
Common stock					
Gross realized gains		4	1	5	2
Gross realized losses		(1)	0	(1)	(3)
Valuation adjustments		0	4	(2)	8
Net realized gains		3	5	2	7
Net realized gains on investments	Indemnity	$ 5	$ 5	$ 7	$ 5

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	Erie Insurance Group			
	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2010	2009	2010	2009

Exchange

The components of other-than-temporary impairments on investments are included below.

	Erie Insurance Group			
	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2010	2009	2010	2009
Indemnity				
Fixed maturities	$ 0	$ (2)	$ (1)	$ (6)
Equity securities	0	(1)	0	(4)
Total	0	(3)	(1)	(10)
Portion recognized in other comprehensive income	0	0	0	0
Net impairment losses recognized in earnings Indemnity	$ 0	$ (3)	$ (1)	$ (10)
Exchange				
Fixed maturities	$ 0	$ (11)	$ (4)	$ (43)
Equity securities	0	(2)	(1)	(46)
Total	0	(13)	(5)	(89)
Portion recognized in other comprehensive income	0	0	0	0
Net impairment losses recognized in earnings Exchange	$ 0	$ (13)	$ (5)	$ (89)
Net impairment losses recognized in earnings Erie Insurance Group	$ 0	$ (16)	$ (6)	$ (99)

In considering if fixed maturity securities were credit impaired some of the factors considered include: potential for the default of interest and/or principal, level of subordination, collateral of the issue, compliance with financial covenants, credit ratings and industry conditions. We have the intent to sell all credit-impaired fixed maturity securities, therefore the entire amount of the impairment charges were included in earnings and no non-credit impairments were recognized in other comprehensive income. Prior to the second quarter of 2009 when new impairment guidance was issued for debt securities, the impairment policy for fixed maturities was consistent with that of equity securities.

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Limited partnerships

Our limited partnership investments are recorded using the equity method of accounting. As these investments are generally reported on a one-quarter lag, our limited partnership results through September 30, 2010 are comprised of general partnership financial results for the fourth quarter of 2009 and the first two quarters of 2010. Given the lag in reporting, our limited partnership results do not reflect the market conditions of the third quarter of 2010. Cash contributions made to and distributions received from the partnerships are recorded in the period in which the transaction occurs.

We have provided summarized financial information in the following table for the nine months ended September 30, 2010 and for the year ended December 31, 2009. Amounts provided in the table are presented using the latest available financial statements received from the partnerships. Limited partnership financial information has been presented based on the investment percentage in the partnerships for the Erie Insurance Group consistent with how management evaluates the investments.

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As these investments are generally reported on a one-quarter lag, our limited partnership results through September 30, 2010 include the general partnership financial results for the fourth quarter of 2009 and the first six months of 2010.

	As of and for the nine months ended September 30, 2010			
(dollars in millions) Investment percentage in partnership for Erie Insurance Group	Number of partnerships	Asset recorded	Income (loss) recognized due to valuation adjustments by the partnerships	Income (loss) recorded
Indemnity				
Private equity:				
Less than 10%	26	$ 77	$ 7	$ 2
Greater than or equal to 10% but less than 50%	3	8	1	(1)
Greater than 50%	1	3	0	0
Total private equity	30	88	8	1
Mezzanine debt:				
Less than 10%	12	33	4	1
Greater than or equal to 10% but less than 50%	3	16	2	(2)
Greater than 50%	1	2	0	0
Total mezzanine debt	16	51	6	(1)
Real estate:				
Less than 10%	19	70	0	(2)
Greater than or equal to 10% but less than 50%	5	15	0	(1)
Greater than 50%	4	10	3	(3)
Total real estate	28	95	3	(6)
Total limited partnerships Indemnity	74	$ 234	$ 17	$ (6)
Exchange				
Private equity:				
Less than 10%	41	$ 491	$ 26	$ 14
Greater than or equal to 10% but less than 50%	3	36	5	(1)
Greater than 50%	1	6	0	0
Total private equity	45	533	31	13
Mezzanine debt:				
Less than 10%	15	151	12	5
Greater than or equal to 10% but less than 50%	4	42	2	(2)
Greater than 50%	3	30	1	1
Total mezzanine debt	22	223	15	4

Real estate:						
Less than 10%	32	301		(12)		(3)
Greater than or equal to 10% but less than 50%	7	56		0		(3)
Greater than 50%	4	35		13		(11)
Total real estate	43	392		1		(17)
Total limited partnerships Exchange	110	$ 1,148	$	47	$	0
Total limited partnerships Erie Insurance Group		$ 1,382	$	64	$	(6)

Per the limited partner financial statements, total partnership assets were $56 billion and total partnership liabilities were $10 billion at September 30, 2010 (as recorded in the June 30, 2010 limited partnership financial statements). For the nine month period comparable to that presented in the preceding table (fourth quarter 2009 and first two quarters of 2010), total partnership valuation adjustment gains were $4 billion and total partnership net income was $449 million.

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As these investments are generally reported on a one-quarter lag, our limited partnership results through December 31, 2009 include the general partnership results for the fourth quarter of 2008 and the first three quarters of 2009.

(dollars in millions)	As of and for the year ended December 31, 2009			
Investment percentage in partnership for Erie Insurance Group	Number of partnerships	Asset recorded	(Loss) income recognized due to valuation adjustments by the partnerships	(Loss) income recorded
Indemnity				
Private equity:				
Less than 10%	26	$ 76	$ (11)	$ (1)
Greater than or equal to 10% but less than 50%	3	6	0	0
Greater than 50%	1	3	0	0
Total private equity	30	85	(11)	(1)
Mezzanine debt:				
Less than 10%	12	30	(4)	(1)
Greater than or equal to 10% but less than 50%	3	18	(2)	2
Greater than 50%	1	3	(1)	0
Total mezzanine debt	16	51	(7)	1
Real estate:				
Less than 10%	19	65	(31)	1
Greater than or equal to 10% but less than 50%	5	17	(6)	1
Greater than 50%	4	17	(21)	(2)
Total real estate	28	99	(58)	0
Total limited partnerships Indemnity	74	$ 235	$ (76)	$ 0
Exchange				
Private equity:				
Less than 10%	41	$ 466	$ (46)	$ 14
Greater than or equal to 10% but less than 50%	3	31	1	(1)
Greater than 50%	1	6	(1)	(1)
Total private equity	45	503	(46)	12
Mezzanine debt:				
Less than 10%	14	138	(11)	4
Greater than or equal to 10% but less than 50%	4	48	(4)	9
Greater than 50%	3	30	(2)	2
Total mezzanine debt	21	216	(17)	15

Real estate:							
Less than 10%		32	302		(164)		(8)
Greater than or equal to 10% but less than 50%		7	61		(40)		(1)
Greater than 50%		4	34		(48)		4
Total real estate		43	397		(252)		(5)
Total limited partnerships	Exchange	109	$ 1,116	$	(315)	$	22
Total limited partnerships	Erie Insurance Group		$ 1,351	$	(391)	$	22

Per the limited partner financial statements, total partnership assets were $53 billion and total partnership liabilities were $11 billion at December 31, 2009 (as recorded in the September 30, 2009 limited partnership financial statements). For the twelve month period comparable to that presented in the preceding table (fourth quarter of 2008 and first three quarters of 2009), total partnership valuation adjustment losses were $8 billion and total partnership net losses were $1 billion.

See also Note 12 for investment commitments related to limited partnerships.

Note 8. Bank Line of Credit

As of September 30, 2010, Indemnity has available a $100 million line of credit that expires on December 31, 2011. There were no borrowings outstanding on the line of credit as of September 30, 2010. Bonds with a fair value of $128 million are pledged as collateral on the line at September 30, 2010.

As of September 30, 2010, the Exchange has available a $200 million revolving line of credit that expires on September 30, 2012. There were no borrowings outstanding on the line of credit as of September 30, 2010. Bonds with a fair value of $258 million are pledged as collateral on the line at September 30, 2010.

Securities pledged as collateral on both lines have no restrictions and are reported as available-for-sale fixed maturities in the Consolidated Statements of Financial Position as of September 30, 2010. The banks require compliance with certain covenants, which include statutory surplus and risk based capital ratios for the Exchange s line of credit and minimum net worth and leverage ratios for Indemnity s line of credit. We are in compliance with all covenants at September 30, 2010.

Note 9. Income Tax

Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in the financial statement or tax returns. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. At September 30, 2010, we recorded a net deferred tax liability of $92 million on our Consolidated Statements of Financial Position. Of this amount, $103 million represents a net deferred tax liability relating to the Exchange, offset by a net deferred tax asset of $11 million relating to Indemnity. Although realization of the deferred tax asset is not assured, management believes it is more likely than not that the deferred tax asset will be realized based on our assessment that the losses ultimately recognized for tax purposes will be fully utilized. As such, there was no deferred tax valuation allowance recorded at September 30, 2010. The Exchange records an actual period-to-date tax rate rather than the annual projected effective tax rate. This is primarily due to the uncertainty in making a reliable estimate of the annual projected effective tax rate due to the volatility of pre-tax income related to investment and underwriting income.

Note 10. Postretirement Benefits

The liabilities for the plans described in this note are presented in total for all employees of the Erie Insurance Group. The gross liability for the pension plans is presented in the Consolidated Statements of Financial Position as part of other liabilities. A portion of annual expenses related to the pension plans is allocated to related entities within the Erie Insurance Group.

We offer a noncontributory defined benefit pension plan that covers substantially all employees. This is the largest benefit plan we offer. We also offer an unfunded supplemental retirement plan (SERP) for certain members of executive and senior management of the Erie Insurance Group. The components of net periodic benefit cost for our pension benefits are:

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2010	2009	2010	2009
Service cost	$ 3	$ 3	$ 11	$ 11
Interest cost	5	5	15	15
Expected return on plan assets	(6)	(6)	(19)	(18)
Amortization of prior service cost	1	1	1	1
Amortization of actuarial loss	1	1	3	2
Net periodic benefit cost	$ 4	$ 4	$ 11	$ 11

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Note 11. Reconciliation of Shareholders Equity

A reconciliation of shareholders equity follows for the year to date December 31, 2009 and September 30, 2010:

(in millions, except per share data)	Indemnity shareholders interest	Exchange noncontrolling interest	Erie Insurance Group
Balance at December 31, 2008	$ 792	$ 3,967	$ 4,759
Comprehensive income:			
Net income	108	338	446
Other comprehensive income, net of tax:			
Unrealized gains on securities	75	518	593
Postretirement plans:			
Prior service cost	0		0
Net actuarial gain	27		27
Loss due to amendments	(2)		(2)
Curtailment/settlement loss	(1)		(1)
Postretirement plans	24		24
Other comprehensive income, net of tax	99	518	617
Comprehensive income	207	856	1,063
Purchase of treasury stock	(3)		(3)
Conversion of Class B shares to Class A shares	0		0
Dividends declared:			
Class A $1.83 per share	(94)		(94)
Class B $274.50 per share	0		0
Balance at December 31, 2009	$ 902	$ 4,823	$ 5,725
Comprehensive income:			
Net income	150	256	406
Other comprehensive income, net of tax:			
Unrealized gains on securities	26	189	215
Other comprehensive income, net of tax	26	189	215
Comprehensive income	176	445	621
Purchase of treasury stock	(46)		(46)
Dividends declared:			
Class A $1.44 per share	(73)		(73)
Class B $216.00 per share	(1)		(1)
Balance at September 30, 2010	$ 958	$ 5,268	$ 6,226

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Note 12. Commitments and Contingencies

Indemnity has contractual commitments to invest up to $60 million related to its limited partnership investments at September 30, 2010. These commitments are split between private equity securities of $27 million, real estate activities of $21 million and mezzanine debt securities of $12 million. These commitments will be funded as required by the partnership agreements.

The Exchange, including EFL, has contractual commitments to invest up to $472 million related to its limited partnership investments at September 30, 2010. These commitments are split between private equity securities of $215 million, real estate activities of $173 million and mezzanine debt securities of $84 million. These commitments will be funded as required by the partnership agreements.

We are involved in litigation arising in the ordinary course of business. In our opinion, the effects, if any, of such litigation are not expected to be material to our consolidated financial condition, operations or cash flows.

Note 13. Statutory Information

Cash and securities with a carrying value of $14 million and $13 million were deposited by the property and casualty and life entities with regulatory authorities under statutory requirements at September 30, 2010 and December 31, 2009, respectively.

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Note 14. Indemnity Supplemental Information

	Consolidated Statement of Financial Position			
September 30, 2010 *(in millions)*	Indemnity shareholder interest	Exchange noncontrolling Interest	Reclassifications and eliminations	Erie Insurance Group
Assets				
Investments				
Available-for-sale securities, at fair value:				
Fixed maturities	$ 695	$ 7,019	$	$ 7,714
Equity securities	46	538		584
Trading securities, at fair value	26	1,985		2,011
Limited partnerships	234	1,148		1,382
Other invested assets	1	19		20
Total investments	1,002	10,709		11,711
Cash and cash equivalents	73	239		312
Premiums receivable from policyholders	262	997	(266)	993
Reinsurance recoverable	2	202		204
Deferred income taxes	11			11
Deferred acquisition costs	57	416		473
Other assets	115	339		454
Reinsurance recoverables and receivables from Exchange and other affiliates	1,075		(1,075)	
Note receivable from EFL	25		(25)	
Equity in EFL	87		(87)	
Total assets	$ 2,709	$ 12,902	$ (1,453)	$ 14,158
Liabilities				
Losses and loss expense reserves(1)	$ 931	$ 3,442	$ (760)	$ 3,613
Life policy and deposit contract reserves		1,600		1,600
Unearned premiums(1)	474	2,039	(355)	2,158
Deferred income taxes		103		103
Other liabilities	346	363	(251)	458
Total liabilities	1,751	7,547	(1,366)	7,932
Shareholders equity and noncontrolling interest				
Total Indemnity shareholders equity	958			958
Noncontrolling interest in consolidated entity Exchange		5,355	(87)	5,268
Total equity	958	5,355	(87)	6,226
Total liabilities, shareholders equity and noncontrolling interest	$ 2,709	$ 12,902	$ (1,453)	$ 14,158

(1) Indemnity s insurance related accounts in this table include its wholly-owned property and casualty insurance subsidiaries direct business in addition to their share of the pooling transactions, which represents 5.5% of the total Property and Casualty Group business. The Consolidated Statements of Financial Position include direct business only as the 5.5% of activity assumed in accordance with the intercompany pooling arrangement has been eliminated in the consolidated presentation.

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December 31, 2009 *(in millions)*	Consolidated Statement of Financial Position Indemnity shareholder interest	Exchange noncontrolling interest	Reclassifications and eliminations	Erie Insurance Group
Assets				
Investments				
Available-for-sale securities, at fair value:				
Fixed maturities	$ 664	$ 6,517	$	$ 7,181
Equity securities	38	472		510
Trading securities, at fair value	42	1,835		1,877
Limited partnerships	235	1,116		1,351
Other invested assets	1	20		21
Total investments	980	9,960		10,940
Cash and cash equivalents	76	158		234
Premiums receivable from policyholders	237	872	(203)	906
Reinsurance recoverable	2	213		215
Deferred income taxes	41	75		116
Deferred acquisition costs	17	450		467
Other assets	102	308	(1)	409
Reinsurance recoverables and receivables from Exchange and other affiliates	1,115		(1,115)	
Note receivable from EFL	25		(25)	
Equity in EFL	72		(72)	
Total assets	$ 2,667	$ 12,036	$ (1,416)	$ 13,287
Liabilities				
Losses and loss expense reserves[1]	$ 965	$ 3,424	$ (791)	$ 3,598
Life policy and deposit contract reserves		1,540		1,540
Unearned premiums[1]	434	1,872	(325)	1,981
Other liabilities	366	305	(228)	443
Total liabilities	1,765	7,141	(1,344)	7,562
Shareholders equity and noncontrolling interest				
Total Indemnity shareholders equity	902			902
Noncontrolling interest in consolidated entity Exchange		4,895	(72)	4,823
Total equity	902	4,895	(72)	5,725
Total liabilities, shareholders equity and noncontrolling interest	$ 2,667	$ 12,036	$ (1,416)	$ 13,287

(1) Indemnity s insurance related accounts in this table include its wholly-owned property and casualty insurance subsidiaries direct business in addition to their share of the pooling transactions, which represents 5.5% of the total Property and Casualty Group business. The Consolidated Statements of Financial Position include direct business only as the 5.5% of activity assumed in accordance with the intercompany pooling arrangement has been eliminated in the consolidated presentation.

Indemnity is due $25 million from EFL in the form of a surplus note that was issued in 2003. The note may be repaid only out of unassigned surplus of EFL. Both principal and interest payments are subject to prior approval by the Pennsylvania Insurance Commissioner. The note bears an annual interest rate of 6.7% and will be payable on demand on or after December 31, 2018, with interest scheduled to be paid semi-annually. EFL accrued interest to Indemnity of $0.4 million in each of the third quarters ended September 30, 2010 and 2009.

		Income attributable to Indemnity shareholder interest			
		Three months ended September 30,		Nine months ended September 30,	
(in millions)	Percent	2010	2009	2010	2009
Management operations					
Management fee revenue, net	100.0%	$ 266	$ 253	$ 773	$ 742
Service agreement revenue	100.0%	9	9	26	26
Total revenue from management operations		275	262	799	768
Cost of management operations	100.0%	217	214	626	615
Income from management operations before taxes		58	48	173	153
Property and casualty insurance operations					
Premiums earned	5.5%	55	53	161	157
Losses and loss expenses	5.5%	38	34	118	112
Underwriting expenses	5.5%	16	18	46	48
Income (loss) from property and casualty insurance operations before taxes		1	1	(3)	(3)
Life insurance operations					
Total revenue	21.6%	10	7	28	20
Total benefits and expenses	21.6%	7	5	20	18
Income from life insurance operations before taxes		3	2	8	2
Investment operations					
Investment income, net of expenses		10	10	28	32
Net realized gains on investments		5	5	7	5
Impairment losses recognized in earnings		0	(3)	(1)	(10)
Equity in earnings (losses) of limited partnerships		5	(9)	11	(64)
Income (loss) from investment operations before taxes		20	3	45	(37)
Income from operations before income taxes and noncontrolling interest		82	54	223	115
Provision for income taxes		28	14	73	31
Net income		$ 54	$ 40	$ 150	$ 84

Indemnity s components of direct cash flows as presented in the Consolidated Statements of Cash Flows is as follows for the nine months ended September 30:

Direct method of cash flows

	Indemnity	
(in millions)	2010	2009
Management fee received	$ 713	$ 690
Service agreement fee received	26	26
Premiums collected	166	162
Net investment income received	33	33
Limited partnership distributions	14	9
Decrease in reimbursements collected from affiliates	(5)	(21)
Commissions and bonuses paid to agents	(414)	(420)
Salaries and wages paid	(80)	(80)
Pension contribution and employee benefits paid	(29)	(29)
Losses paid	(99)	(94)
Loss expenses paid	(17)	(16)
Other underwriting and acquisition costs paid	(42)	(45)
General operating expenses paid	(87)	(81)
Income taxes paid	(50)	(45)
Net cash provided by operating activities	129	89
Net cash used in investing activities	(14)	(42)
Net cash used in financing activities	(118)	(71)
Net decrease in cash	(3)	(24)
Cash and cash equivalents at beginning of period	76	61
Cash and cash equivalents at end of period	$ 73	$ 37

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Note 15. EFL Supplemental Information

EFL is a Pennsylvania-domiciled life insurance company operating in 10 states and the District of Columbia. Indemnity owns 21.6% of EFL s common shares outstanding and accounts for its ownership interest using the equity method of accounting.

The following presents condensed financial information for EFL on a U.S. GAAP basis:

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2010	2009	2010	2009
Policy and other revenues	$ 16	$ 14	$ 48	$ 49
Net investment income	27	19	79	45
Benefits and expenses	27	25	90	86
Income before income taxes	16	8	37	8
Income tax expense (benefit)	7	(16)	10	(18)
Net income	9	24	27	26
Comprehensive income	$ 24	$ 62	$ 68	$ 138

EFL recorded no impairment charges in the third quarter of 2010 compared to $3 million in the third quarter of 2009. Realized gains on investments totaled $3 million in both the third quarter of 2010 and 2009. Equity in earnings of limited partnerships improved by $3 million in the third quarter of 2010 compared to the third quarter of 2009.

Net income in the third quarter of 2009 was positively impacted by the reversal of the deferred tax valuation allowance of $19 million. As a result of improved market conditions, the valuation allowance was reduced by $4 million to $0 in the first quarter of 2010 and remains at $0 at September 30, 2010.

EFL experienced unrealized gains, after tax of $13 million in the third quarter of 2010 which contributed to the change in comprehensive income. Comprehensive income for the third quarter of 2009 included unrealized gains after tax of $38 million.

For the nine months ended September 30, 2010, total investment income increased $34 million over the nine months ended September 30, 2009 primarily as a result of a $10 million increase in realized gains, a $16 million decrease in impairment losses and a $7 million decrease in equity in losses of limited partnerships.

(in millions, except per share data)	At September 30, 2010	At December 31, 2009
Investments	$ 1,823	$ 1,639
Total assets	2,090	1,941
Liabilities	1,690	1,609
Accumulated other comprehensive income	57	18
Cumulative effect adjustment		27
Total shareholders equity	400	333
Book value per share	$ 42.36	$ 35.19

EFL shareholders equity increased $67 million at September 30, 2010 compared to December 31, 2009. The main factors driving this increase were $38 million in unrealized gains, net of tax and net income of $29 million.

In 2009, Indemnity made a $12 million capital contribution to EFL and the Exchange made a $43 million capital contribution to EFL to strengthen its surplus. The $55 million in capital contributions increased EFL s investments and total shareholders equity. Also in 2009, a required cumulative effect adjustment reclassified previously recognized non-credit other-than-temporary impairments of $27 million out of retained earnings. Deferred taxes of $9 million related to this cumulative effect adjustment were offset by a reduction in the valuation allowance in the same amount related to previously recognized impairments.

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Note 16. Capital Stock

Stock repurchase plan

In April 2010, our Board of Directors approved a continuation of the current stock repurchase program through June 30, 2011 for a total of $100 million.

Note 17. Subsequent Events

We have evaluated for recognized and nonrecognized subsequent events through the date of financial statement issuance and have identified the following:

On November 4, 2010, Erie Indemnity Company (Indemnity) entered into a definitive agreement (the Wholly Owned Subsidiaries Stock Purchase Agreement) with Erie Insurance Exchange (the Exchange) for the sale of Indemnity s wholly-owned property and casualty subsidiaries Erie Insurance Company, Erie Insurance Company of New York and Erie Insurance Property and Casualty Company (collectively, the Wholly Owned Subsidiaries) to the Exchange for an aggregate purchase price equal to the GAAP book value as of December 31, 2010, of the Wholly Owned Subsidiaries (the Final Purchase Price of the Wholly Owned Subsidiaries).

In addition, on November 4, 2010, Indemnity entered into a definitive agreement (the Erie Family Life Stock Purchase Agreement) for the sale of Indemnity s 21.6% ownership interest in Erie Family Life Insurance Company (EFL) to the Exchange for a per share purchase price equal to 95% of GAAP book value per share as of March 31, 2011, (the Final Purchase Price of the Erie Family Life Stock Purchase Agreement).

Under the new structure, all property and casualty and life insurance operations will be owned by the Exchange, and Indemnity will continue to function as the management company. This structure removes underwriting volatility from Indemnity s operations and allows it to better utilize capital. It also centralizes underwriting risk and its supporting capital within the Exchange, providing greater capital management flexibility to enhance service and product offerings. There is no impact to the pooling agreement between the Exchange and the Wholly Owned Subsidiaries, and there is no impact to policyholders, agents, or employees as a result of these transactions.

The sale of the Wholly Owned Subsidiaries, pending regulatory approval, is scheduled to close by December 31, 2010. On the closing date, the Exchange will pay Indemnity $293 million in cash based on an estimated purchase price (the Estimated Purchase Price of the Wholly Owned Subsidiaries). Within ninety (90) days following the closing date, the financials of the Wholly Owned Subsidiaries for the year ending December 31, 2010, will be finalized. In the event that the final December 31, 2010, GAAP book value is higher than the Estimated Purchase Price of the Wholly Owned Subsidiaries, the Exchange will pay Indemnity the difference; if it is lower, Indemnity will pay the Exchange the difference.

Net cash proceeds to Indemnity from the sale of the Wholly Owned Subsidiaries to the Exchange are estimated to be $290 million to $300 million.

The sale of Indemnity s 21.6% ownership interest in EFL, pending regulatory approval, is scheduled to be completed by March 31, 2011. On the closing date, the Exchange will pay Indemnity approximately $82 million in cash based on an estimated purchase price (the Estimated Purchase Price of Indemnity s ownership interest in EFL). Within ninety (90) days following the closing date, the financials of EFL as of March 31, 2011, will be finalized. In the event that the final March 31, 2011, GAAP book value per share is higher than the Estimated Purchase Price of Indemnity s ownership interest in EFL, the Exchange will pay Indemnity 95% of the difference; if it is lower, Indemnity will pay the Exchange 95% of the difference.

Net cash proceeds to Indemnity from the sale of Indemnity s 21.6% ownership interest in EFL are estimated to be $55 million to $60 million.

Because Indemnity and the Exchange are under common control for financial reporting purposes, any gains or losses resulting from the sale of the Wholly Owned Subsidiaries and Indemnity s equity interest in EFL will be recorded as an adjustment directly to the equity balance of Indemnity.

Indemnity will record a deferred tax liability of approximately $17 million in the fourth quarter of 2010 related to its equity

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interest in EFL. This deferred tax charge is required due to Indemnity s decision to sell its 21.6% ownership interest in EFL rather than receiving its share of EFL s capital in the form of future dividends, which would have been eligible for an 80% dividend received deduction.

The agreements for each sale contain customary representations, warranties, agreements, indemnification rights and termination provisions. The completion of each transaction is subject to regulatory approvals and the satisfaction of other customary conditions, some of which are beyond our control, and no assurance can be given that such completion will occur.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

On June 12, 2009, the Financial Accounting Standards Board (FASB) updated Accounting Standards Codification (ASC) 810, *Consolidation*, which amended the existing guidance for determining whether an enterprise is the primary beneficiary of a variable interest entity (VIE). As of January 1, 2010 Erie Indemnity Company (Indemnity) adopted the new accounting principle on a retrospective basis since inception.

The following discussion of financial condition and results of operations highlights significant factors influencing Erie Insurance Group (we, us, our). This discussion should be read in conjunction with the historical financial information and the related notes thereto included in Item 1. Financial Statements of this Quarterly Report on Form 10-Q and with Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2009 contained in our Form 8-K as filed with the Securities and Exchange Commission on May 6, 2010.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995:

Statements contained herein that are not historical fact are forward-looking statements and, as such, are subject to risks and uncertainties that could cause actual events and results to differ, perhaps materially, from those discussed herein. Forward-looking statements relate to future trends, events or results and include, without limitation, statements and assumptions on which such statements are based that are related to our plans, strategies, objectives, expectations, intentions and adequacy of resources. Examples of forward-looking statements are discussions relating to premium and investment income, expenses, operating results, agency relationships, and compliance with contractual and regulatory requirements. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. Among the risks and uncertainties, in addition to those set forth in our filings with the Securities and Exchange Commission, that could cause actual results and future events to differ from those set forth or contemplated in the forward-looking statements include the following:

Risk factors related to Indemnity s business:

- dependence on Indemnity s relationship with the Exchange and the management fee under the agreement with the subscribers at the Exchange;
- dependence on the independent agency system;

accuracy and adequacy of pricing and loss reserving methodologies;

geographic concentration of business as a result of being a regional company;

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ability to maintain the uninterrupted operations of our business, including our information technology system;

quality and liquidity of our investment portfolio; and

outcome of pending and potential litigations against us.

Risk factors related to the business of the property/casualty and life insurance industry:

factors affecting price competition;

government regulation of the insurance industry, including approval of rate increases and rating factors such as credit and prior experience, and required processes related to underwriting and claims handling;

the uncertain role of the Federal Government, and the ongoing role of the States, in regulating the property/casualty or life insurance industries;

frequency and severity of claims and trends in auto and home repair costs;

changes in driving habits;

weather conditions and natural disasters;

exposure to environmental claims;

fluctuations in interest rates;

inflation and general business and economic conditions;

trends in litigation;

changes in the laws and regulations that govern the insurance industry; and

acts of war and terrorist activities.

A forward-looking statement speaks only as of the date on which it is made and reflects Indemnity s analysis only as of that date. Indemnity undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, changes in assumptions, or otherwise.

RECENT ACCOUNTING PRONOUNCEMENTS

Indemnity adopted amended guidance related to the consolidation of affiliated entities that became effective January 1, 2010 as required under generally accepted accounting principles (GAAP). As a result of this new guidance, Indemnity is considered to have a controlling financial interest in its affiliated entity, the Erie Insurance Exchange (Exchange). Indemnity is named as, and serves as, the Exchange s attorney-in-fact. Consolidation of the Exchange is required given the significance of the management fee to the Exchange and because Indemnity has the power to direct the activities of the Exchange that most significantly impact the Exchange s economic performance. The consolidation of the Exchange resulted in no change to Indemnity s net income or equity. The Exchange s net income and equity is identified as the noncontrolling interest net income or equity.

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OPERATING REVIEW

Overview

Erie Insurance Group represents the consolidated results of Indemnity and the results of its VIE, the Exchange. The Erie Insurance Group operates as a property and casualty insurer through its regional insurance carriers that write a broad line of personal and commercial lines coverages. The property and casualty insurance companies include the Exchange, a consolidated affiliate and its property and casualty insurance subsidiary, Flagship City Insurance Company (Flagship), and Indemnity s three wholly-owned property and casualty insurance subsidiaries, Erie Insurance Company (EIC), Erie Insurance Property and Casualty Company (EPC) and Erie Insurance Company of New York (ENY). These entities operate collectively as the Property and Casualty Group. The Erie Insurance Group also operates as a life insurer through its affiliate, Erie Family Life Insurance Company (EFL), which is owned 21.6% by Indemnity and 78.4% by the Exchange. EFL underwrites and sells nonparticipating individual and group life insurance policies and fixed annuities.

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 the Exchange signs a subscriber s agreement, which contains an appointment of Indemnity as their attorney-in-fact to transact the business of the Exchange on their behalf. As attorney-in-fact, Indemnity is required to perform certain services relating to the sales, underwriting and issuance of policies on behalf of the Exchange. The Exchange is a VIE.

The Exchange s equity, which is comprised of its retained earnings and accumulated other comprehensive income, is held for the benefit of its subscribers (policyholders) and meets the definition of a noncontrolling interest and is reflected as such in our consolidated financial statements. Indemnity shareholders benefit from their interest in Indemnity s income and equity but not in the noncontrolling interest s income or equity.

Generally, Indemnity shareholders interest in income comprises:

- a 25% management fee on all property and casualty insurance policies written, less the costs associated with the sales, underwriting and issuance of these policies,
- a 5.5% interest in the net underwriting results of the property and casualty lines operations,
- a 21.6% equity interest in the net earnings of EFL,
- net investment income and results on investments that do not belong to the Exchange or its subsidiaries, and
- other income and expenses, including income taxes, that are not the responsibility of the Exchange or its subsidiaries.

Generally, the noncontrolling interest s income comprises:

- a 94.5% interest in the net underwriting results of the property and casualty lines operations,
- a 78.4% equity interest in the net earnings of EFL,
- net investment income and related results on investments that belong to the Exchange and its subsidiaries, and
- other income and expenses, including income taxes, that are the responsibility of the Exchange and its subsidiaries.

Indemnity shareholder interest refers to the interest in Indemnity owned by the Class A and Class B shareholders. Exchange refers to the noncontrolling interest held for the benefit of the subscribers (policyholders) and includes its interests in Flagship and EFL.

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The following tables represent a breakdown of the composition of the income attributable to Indemnity and the income attributable to the noncontrolling interest (Exchange) for the three and nine months ended September 30, 2010. For purposes of this discussion, EFL s investments are included in the life insurance operations.

Results of the Erie Insurance Group s operations by interest (Unaudited)

	Indemnity shareholder interest			Noncontrolling interest (Exchange)			Eliminations of related party transactions		Erie Insurance Group	
		Three months ended September 30,			Three months ended September 30,		Three months ended September 30,		Three months ended September 30,	
(in millions)	Percent	2010	2009	Percent	2010	2009	2010	2009	2010	2009
Management operations										
Management fee revenue, net	100.0%	$ 266	$ 253		$	$	$ (266)	$ (253)	$	$
Service agreement revenue	100.0%	9	9						9	9
Total revenue from management operations		275	262				(266)	(253)	9	9
Cost of management operations	100.0%	217	214				(217)	(214)		
Income from management operations before taxes		58	48				(49)	(39)	9	9
Property and casualty insurance operations										
Premiums earned	5.5%	55	53	94.5%	935	911			990	964
Losses and loss expenses	5.5%	38	34	94.5%	652	579	(1)	(1)	689	612
Underwriting expenses	5.5%	16	18	94.5%	272	317	(51)	(41)	237	294
Income from property and casualty insurance operations before taxes		1	1		11	15	52	42	64	58

Life insurance operations [1]										
Total revenue	21.6%	10	7	78.4%	33	26	(1)	(1)	42	32
Total benefits and expenses	21.6%	7	5	78.4%	20	20	(1)	(1)	26	24
Income from life insurance operations before taxes		3	2		13	6	0	0	16	8
Investment operations										
Investment income, net of expenses		10	10		79	73	(3)	(3)	86	80
Net realized gains on investments		5	5		197	244			202	249
Impairment losses recognized in earnings		0	(3)		0	(10)			0	(13)
Equity in earnings (losses) of limited partnerships		5	(9)		23	(26)			28	(35)
Income from investment operations before taxes		20	3		299	281	(3)	(3)	316	281
Income from operations before income taxes and noncontrolling interest		82	54		323	302			405	356
Provision for income taxes		28	14		102	90			130	104
Net income		$ 54	$ 40		$ 221	$ 212	$	$	$ 275	$ 252

(1) *Earnings on life insurance-related invested assets are integral to the evaluation of the life insurance operations because of the long duration of life products. On that basis, for*

presentation purposes, the life insurance operations in the table above include life insurance related investment results. However, the life insurance investment results are included in the investment operations segment discussion as part of the Exchange s investment results.

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Results of the Erie Insurance Group s operations by interest (Unaudited)

	Indemnity shareholder interest			Noncontrolling interest (Exchange)			Eliminations of related party transactions		Erie Insurance Group	
		Nine months ended September 30,			Nine months ended September 30,		Nine months ended September 30,		Nine months ended September 30,	
(in millions)	Percent	2010	2009	Percent	2010	2009	2010	2009	2010	2009
Management operations										
Management fee revenue, net	100.0%	$ 773	$ 742		$	$	$ (773)	$ (742)	$	$
Service agreement revenue	100.0%	26	26						26	26
Total revenue from management operations		799	768				(773)	(742)	26	26
Cost of management operations	100.0%	626	615				(626)	(615)		
Income from management operations before taxes		173	153				(147)	(127)	26	26
Property and casualty insurance operations										
Premiums earned	5.5%	161	157	94.5%	2,765	2,695			2,926	2,852
Losses and loss expenses	5.5%	118	112	94.5%	2,027	1,921	(4)	(4)	2,141	2,029
Underwriting expenses	5.5%	46	48	94.5%	783	826	(151)	(131)	678	743
(Loss) Income from property and casualty insurance operations before taxes		(3)	(3)		(45)	(52)	155	135	107	80
Life insurance operations (1)										

Total revenue	21.6%	28	20	78.4%	99	74	(2)	(2)	125	92
Total benefits and expenses	21.6%	20	18	78.4%	70	68	(2)	(2)	88	84
Income from life insurance operations before taxes		8	2		29	6	0	0	37	8
Investment operations										
Investment income, net of expenses		28	32		232	231	(8)	(8)	252	255
Net realized gains on investments		7	5		99	298			106	303
Impairment losses recognized in earnings		(1)	(10)		(3)	(71)			(4)	(81)
Equity in earnings (losses) of limited partnerships		11	(64)		47	(253)			58	(317)
Income (loss) from investment operations before taxes		45	(37)		375	205	(8)	(8)	412	160
Income from operations before income taxes and noncontrolling interest		223	115		359	159			582	274
Provision for income taxes		73	31		103	(29)			176	2
Net income		$ 150	$ 84		$ 256	$ 188	$	$	$ 406	$ 272

(1) Earnings on life insurance-related invested assets are integral to the evaluation of the life insurance operations because of the long duration of life products. On that basis, for

presentation purposes, the life insurance operations in the table above include life insurance related investment results. However, the life insurance investment results are included in the investment operations segment discussion as part of the Exchange s investment results.

Reconciliation of operating income to net income

We believe that investors understanding of our performance related to the Indemnity shareholder interest is enhanced by the disclosure of the following non-GAAP financial measure. Our method of calculating this measure may differ from those used by other companies and therefore comparability may be limited.

Operating income is net income excluding realized capital gains and losses, impairment losses and related federal income taxes. Our common stock portfolio is measured at fair value. As such, changes in fair value related to common stocks are reported in earnings. These unrealized gains or losses are included in the net realized gains and losses on investments in our Consolidated Statements of Operations that is used to calculate operating income. Equity in earnings or losses of EFL and equity in earnings or losses of limited partnerships are included in the calculation of operating income. Equity in earnings or losses of limited partnerships includes the respective investment s realized capital gains and losses, as well as unrealized gains and losses.

Net income is the generally accepted accounting principle (GAAP) measure that is most directly comparable to operating income. We use operating income to evaluate the results of operations. It reveals trends in our management services, insurance underwriting and investment operations that may be obscured by the net effects of realized capital gains and losses including impairment losses. Realized capital gains and losses, including impairment losses, may vary significantly between periods and are generally driven by business decisions and economic developments such as capital market conditions, the timing of which is unrelated to our management services and insurance underwriting processes. We believe it is useful for investors to evaluate these components separately and in the aggregate when reviewing our performance. We are aware that the price to earnings multiple commonly used by investors as a forward-looking valuation technique uses operating income as the denominator. Operating income should not be considered as a substitute for net income and does not reflect our overall profitability.

The following table reconciles operating income and net income for Indemnity shareholder interest:

	Indemnity Shareholder Interest			
	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
(in millions, except per share data)	(Unaudited)		(Unaudited)	
Operating income attributable to Indemnity	$ 51	$ 38	$ 146	$ 87
Net realized gains and impairments on investments	5	2	6	(5)
Income tax (expense) benefit	(2)	0	(2)	2
Realized gains and impairments, net of income taxes	3	2	4	(3)
Net income attributable to Indemnity	$ 54	$ 40	$ 150	$ 84
Per Indemnity Class A common share-diluted:				
Operating income attributable to Indemnity	$ 0.89	$ 0.66	$ 2.55	$ 1.52
Net realized gains and impairments on investments	0.08	0.04	0.11	(0.09)
Income tax (expense) benefit	(0.03)	(0.01)	(0.04)	0.03
Realized gains and impairments, net of income taxes	0.05	0.03	0.07	(0.06)
Net income attributable to Indemnity	$ 0.94	$ 0.69	$ 2.62	$ 1.46

The increase in operating income was primarily the result of Indemnity s limited partnership investments generating earnings of $5 million in the third quarter of 2010, compared to generating losses of $9 million in the third quarter of 2009. For the nine months ended September 30, 2010, limited partnership earnings totaled $11 million compared to losses of $64 million recorded for the same period in 2009.

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Operating Segments

As a result of the changes in our reporting entity at January 1, 2010 (see Note 2), our reportable segments have increased from three to four. Our reportable segments include management operations, property and casualty insurance operations, life insurance operations and investment operations. The segment information presented below includes reclassification of all comparative prior period segment information.

Management operations

Management operations generate internal fee revenue by providing services to the Exchange. Management fee revenue is based upon the management fee rate, determined by our Board of Directors, and the direct written premiums of the Property and Casualty Group.

Property and casualty insurance operations

The property and casualty insurance industry is highly cyclical, with periods of rising premium rates and shortages of underwriting capacity followed by periods of substantial price competition and excess capacity. The cyclical nature of the insurance industry has a direct impact on the direct written premiums of the Property and Casualty Group. The Property and Casualty Group s economically sensitive lines, such as workers compensation and commercial auto, continue to experience reduced exposures and reduced average premium per policy due to continuing unfavorable economic conditions. Industry premium exposures in property and casualty lines were suppressed in 2009, with premium rates for personal lines showing signs of firming and most commercial lines reflecting rate reductions.

The property and casualty insurance business is driven by premium growth, the combined ratio and investment returns. The property and casualty operations premium growth strategy focuses on growth by expansion of existing operations including a careful agency selection process and increased market penetration in existing operating territories. Expanding the size of our existing agency force of almost 2,100 independent agencies will contribute to future growth as new agents build up their books of business with the Property and Casualty Group. We appointed 83 new agencies during the first nine months of 2010. In 2009, we appointed 120 new agencies and plan to appoint a similar number during 2010.

The property and casualty insurance operations insure standard and preferred risks while adhering to a set of consistent underwriting standards. Nearly 50% of premiums are derived from personal auto, 20% from homeowners and 30% from commercial lines. Pennsylvania, Maryland and Virginia made up 64% of the property and casualty lines insurance business based on 2009 direct written premium. As a result of the intercompany pooling arrangement, Indemnity retains a 5.5% interest in the net underwriting results of the Property and Casualty Group. The Exchange retains 94.5% of the net underwriting results of the Property and Casualty Group.

The combined ratio, expressed as a percentage, is the key measure of underwriting profitability traditionally used in the property and casualty insurance industry. It is the sum of the ratio of losses and loss expenses to premiums earned (loss ratio) plus the ratio of policy acquisition and other underwriting expenses to premiums earned (expense ratio). When the combined ratio is less than 100%, underwriting results are generally considered profitable; when the combined ratio is greater than 100%, underwriting results are generally considered unprofitable.

Factors affecting loss and loss expenses include the frequency and severity of losses, the nature and severity of catastrophic losses, the quality of risks underwritten and underlying claims and settlement expenses related to medical costs and litigation.

Investments held by the Property and Casualty Group are reported in the investment operations segment, separate from the underwriting business.

Life insurance operations

EFL generates revenues through sales of its individual and group life insurance policies and fixed individual and group annuities. These products provide our property and casualty agency force an opportunity to cross-sell both personal and commercial accounts. EFL s profitability depends principally on the ability to develop, price and distribute insurance products, attract and retain deposit funds, generate investment returns and manage expenses. Other drivers include mortality and morbidity experience, persistency experience to enable the recovery of acquisition costs, maintaining interest spreads over the amounts credited to deposit funds and the maintenance of strong ratings from rating agencies.

Earnings on life insurance-related invested assets are integral to the evaluation of the life insurance operations because of the long duration of life products. On that basis, for presentation purposes in the Management s Discussion and Analysis, the life insurance operations include life insurance related investment results. However, for presentation purposes in the segment footnote, the life insurance investment results are included in the investment operations segment discussion as part of the Exchange s investment results.

Investment operations

We generate revenues from our fixed maturity, equity security and alternative investment portfolios. The portfolios are managed with a view toward maximizing after-tax returns on a risk-adjusted basis. Management actively evaluates the portfolios for impairments. We record impairment writedowns on investments in circumstances where the fair value of the investment is substantially below cost, and we conclude that the decline in fair value is other-than-temporary.

Our investment operations reflect the improvement experienced in the financial markets. During the third quarter 2010, there were no impairments of securities compared to impairments of $16 million in the third quarter 2009.

Our alternative investments benefited from improving financial market conditions in the fourth quarter of 2009 and the first six months of 2010. In particular, the improvement in the private equity and mezzanine debt markets had a positive impact on our limited partnership portfolio. Equity in earnings of limited partnerships was $58 million through September 30, 2010 compared to losses of $324 million through September 30, 2009. The valuation adjustments in the limited partnerships are based on financial statements received from our general partners, which are generally received on a quarter lag. As a result, the third quarter partnership earnings do not reflect the valuation changes from the third quarter of 2010.

General conditions and trends affecting our business

Financial conditions

Unfavorable changes in economic conditions, including declining consumer confidence, inflation, unemployment and recession, among others, may lead the Property and Casualty Group s customers to modify coverage, not renew policies, or even cancel policies. Our key challenge is to generate profitable revenue growth in a highly competitive market that currently continues to experience the effects of these unfavorable economic conditions.

Market volatility

Our portfolio of fixed income, preferred and common stocks and limited partnerships is subject to market volatility. Depending upon market conditions, this could cause considerable fluctuation in reported total investment income.

RESULTS OF OPERATIONS

The information that follows is presented on a segment basis prior to eliminations.

Management operations

Management fee revenue earned by Indemnity from services provided to the Exchange is eliminated upon consolidation.

	Erie Insurance Group					
	Three months ended September 30,			Nine months ended September 30,		
	2010	2009	%Change	2010	2009	%Change
(in millions)	(Unaudited)			(Unaudited)		
Management fee revenue	$ 266	$ 253	5.3%	$ 773	$ 742	4.2%
Service agreement revenue	9	9	(1.9)	26	26	(1.7)
Total revenue from management operations	275	262	5.1	799	768	4.0
Cost of management operations	217	214	1.1	626	615	1.7
Income from management operations Indemnity[1]	$ 58	$ 48	23.0%	$ 173	$ 153	13.4%
Gross margin	21.1%	18.1%	3.0 pts.	21.7%	19.9%	1.8 pts.

(1) Indemnity retains 100% of the income from management operations.

Management fee revenue

The following table presents the direct written premium of the Property and Casualty Group and the calculation of the management fee revenue.

	Erie Insurance Group					
	Three months ended September 30,			Nine months ended September 30,		
	2010	2009	%Change	2010	2009	%Change
(dollars in millions)	(Unaudited)			(Unaudited)		
Property and Casualty Group direct written premiums	$ 1,062	$ 1,009	5.2%	$ 3,098	$ 2,974	4.2%
Management fee rate	25.00%	25.00%		25.00%	25.00%	
Management fee revenue, gross	$ 265	$ 252	5.2%	$ 774	$ 743	4.2%
Change in allowance for management fee returned on cancelled policies[1]	1	1	NM	(1)	(1)	NM
	$ 266	$ 253	5.3%	$ 773	$ 742	4.2%

Management fee revenue, net of allowance

NM = not meaningful

(1) Management fees are returned to the Exchange when policies are cancelled mid-term and unearned premiums are refunded. We record an estimated allowance for management fees returned on mid-term policy cancellations.

Management fee revenue is based upon the management fee rate, determined by our Board of Directors, and the direct written premiums of the Property and Casualty Group. Changes in the management fee rate can affect the segment s revenue and net income significantly. The management fee rate was set at 25%, the maximum rate, for both 2010 and 2009.

Direct written premiums of the Property and Casualty Group increased 5.2% in the third quarter of 2010, compared to the third quarter of 2009, due to a 3.4% increase in policies in force and modest increases in average premium. The year-over-year average premium per policy for all lines of business increased 0.4% at September 30, 2010, compared to a decrease of 2.2% at September 30, 2009. The policy retention ratio remained steady at 90.6% at September 30, 2010, compared to 90.6% at December 31, 2009, and 90.7% at September 30, 2009. See the Property and casualty insurance operations segment that follows for a complete discussion of property and casualty direct written premiums.

Service agreement revenue

Service agreement revenue includes service charges Indemnity collects from policyholders for providing extended payment terms on policies written by the Property and Casualty Group and late payment and policy reinstatement fees. The service charges are fixed dollar amounts per billed installment. Service agreement revenue totaled $9 million in both third quarters of 2010 and 2009.

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Cost of management operations

	Erie Insurance Group					
	Three months ended September 30,			Nine months ended September 30,		
	2010	2009	%Change	2010	2009	%Change
(in millions)	(Unaudited)			(Unaudited)		
Commissions	$ 149	$ 146	1.3%	$ 426	$ 419	1.5%
Non-commission expense	68	68	0.7	200	196	2.1
Total cost of management operations	$ 217	$ 214	1.1%	$ 626	$ 615	1.7%

Commissions Scheduled rate commissions increased $8 million in the third quarter of 2010 and $18 million for the nine months ended September 30, 2010, compared to the same periods in 2009, impacted by the 5.2% and 4.2%, respectively, increase in direct written premiums of the Property and Casualty Group. Offsetting these increases were decreases in agent bonuses of $5 million in the third quarter of 2010 and $10 million for the nine months ended September 30, 2010, reflecting a reduction in our estimate of the profitability component of the bonus when factoring in the most recent year s underwriting data.

Non-commission expense Non-commission expense was flat in the third quarter of 2010 compared to the third quarter of 2009. Personnel costs, the second largest component in the cost of management operations, increased $1 million primarily due to an increase in salaries and wages as a result of higher average pay rates and staffing levels. Hardware and software costs also increased $1 million, offset by a $3 million decrease in professional fees due to the capitalization of contract labor costs, related to our technology initiatives.

For the nine months ended September 30, 2010, non-commission expense increased $4 million. Driving this increase was a $4 million increase in software costs related to various technology initiatives, a $4 million increase in personnel costs as salaries and wages were impacted by higher average pay rates and staffing levels, and a $2 million increase in survey and underwriting expense. These increases were offset by a $5 million reduction for a favorable ruling related to an outstanding judgment against us, and a $4 million decrease in professional fees primarily resulting from the capitalization of contract labor costs related to various technology initiatives.

The gross margin of 21.7% for the nine months ended September 30, 2010, was positively impacted by a $5 million reduction for a favorable court ruling. Excluding this adjustment, the gross margin would have been 21.0%, compared to 19.9% for the first nine months of 2009. The improved gross margin in the first nine months of 2010, compared to the first nine months of 2009, resulted from revenue growth slightly outpacing expense growth.

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Property and casualty insurance operations

A summary of the results of operations of our property and casualty insurance business is as follows:

	Property and Casualty Group					
	Three months ended September 30,			Nine months ended September 30,		
	2010	2009	%Change	2010	2009	%Change
(dollars in millions)	(Unaudited)			(Unaudited)		
Direct written premium	$ 1,062	$ 1,009	5.2%	$ 3,098	$ 2,974	4.2%
Reinsurance assumed and ceded	(5)	2	NM	(11)	4	NM
Net written premium	1,057	1,011	4.6	3,087	2,978	3.6
Change in unearned premium	67	47	44.3	161	126	28.0
Net premiums earned	990	964	2.7	2,926	2,852	2.6
Losses and loss expenses	690	613	12.4	2,145	2,033	5.5
Policy acquisition and other underwriting expenses	288	335	(13.5)	829	874	(5.0)
Total losses and expenses	978	948	3.3	2,974	2,907	2.3
Underwriting income (loss) Erie Insurance Group	$ 12	$ 16	(31.6)%	$ (48)	$ (55)	9.9%
Underwriting income (loss) Indemnity	$ 1	$ 1		$ (3)	$ (3)	
Underwriting income (loss) Exchange	$ 11	$ 15		$ (45)	$ (52)	
Loss and loss expense ratio	69.7%	63.7%	6.0 pts.	73.3%	71.3%	2.0 pts.
Policy acquisition and other underwriting expense ratio	29.0	34.4	(5.4)	28.4	30.6	(2.2)
Combined ratio	98.7%	98.1%	0.6 pts.	101.7%	101.9%	(0.2) pts.

NM = not meaningful

We measure profit or loss for our property and casualty segment based upon underwriting results, which represent net earned premium less loss and loss expenses and underwriting expenses on a pre-tax basis. Loss and combined ratios are key performance indicators that we use to assess business trends and to make comparisons to industry results. Investment results of our property and casualty insurance company subsidiaries are included in our investment operations segment.

Direct written premiums

Direct written premiums of the Property and Casualty Group increased 5.2% to nearly $1.1 billion in the third quarter of 2010, compared to the third quarter of 2009, driven by an increase in policies in force and modest increases in average premium per policy. The combined impact of these increases was seen primarily in personal lines renewal business, commercial lines new business, and commercial multi-peril renewal business.

Premiums generated from new business increased 4.3% in the third quarter of 2010, compared to 4.8% in the third quarter of 2009. Underlying the trend in new business premiums was an increase in new business policies in force of 4.4% in the third quarter of 2010, compared to 6.3% in the third quarter of 2009, while the year-over-year average premium per policy on new business increased 2.1% at September 30, 2010, compared to a decline of 1.9% at September 30, 2009.

Premiums generated from renewal business increased 5.4% in the third quarter of 2010, compared to 1.6% in the third quarter of 2009. Underlying the trend in renewal business premiums was an increase in renewal business policies in force of 3.3% in the third quarter of 2010, compared to 3.0% in the third quarter of 2009, while the year-over-year average premium per policy on renewal business increased 0.3% at September 30, 2010, compared to a decline of 2.2% at September 30, 2009. The Property and Casualty Group s year-over-year policy retention ratio was 90.6% at September 30, 2010, compared to 90.6% at December 31, 2009, and 90.7% at September 30, 2009.

Personal lines Total personal lines premiums written increased 5.7% to $803 million in the third quarter of 2010, compared to $759 million in the third quarter of 2009. Total personal lines policies in force increased 3.3% in the third quarter of 2010 and the total personal lines year-over-year average premium per policy increased 2.0%.

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New business premiums written on personal lines decreased 0.6% in the third quarter of 2010, compared to an increase of 6.5% in the third quarter of 2009. Personal lines new business policies in force increased 3.2% for the twelve months ended September 30, 2010, compared to 7.9% for the same period in the prior year. The year-over-year average premium per policy on personal lines new business increased 1.7% at September 30, 2010, compared to 0.3% at September 30, 2009.

Private passenger auto new business premiums written decreased 0.6% in the third quarter of 2010, compared to an increase of 6.9% in the third quarter of 2009. Private passenger auto new business policies in force increased 2.2% for the twelve months ended September 30, 2010, compared to 9.4% for the same period in the prior year. The new business year-over-year average premium per policy for private passenger auto increased 2.2% at September 30, 2010, compared to a decrease of 0.9% at September 30, 2009.

Homeowners new business premiums written decreased 3.9% in the third quarter of 2010, compared to an increase of 9.0% in the third quarter of 2009. Homeowners new business policies in force increased 4.9% compared to 5.6% for the twelve months ended September 30, 2010 and 2009, respectively. The new business year-over-year average premium per policy for homeowners increased 1.5% at September 30, 2010, compared to 1.8% at September 30, 2009.

Renewal premiums written on personal lines increased 6.5% in the third quarter 2010, compared to 3.7% in the third quarter of 2009, driven by a modest increase in average premium per policy and steady policy retention ratio trends. The year-over-year average premium per policy on personal lines renewal business increased 2.0% at September 30, 2010, compared to a decline of 0.5% at September 30, 2009. The year-over-year policy retention ratio for personal lines was 91.4% at September 30, 2010, 91.5% at December 31, 2009, and 91.6% at September 30, 2009.

Private passenger auto renewal premiums written increased 5.1% in the third quarter of 2010 compared to 2.1% in the third quarter of 2009. The year-over-year average premium per policy on private passenger auto renewal business increased 1.8% at September 30, 2010, compared to a decline of 0.9% at September 30, 2009. The private passenger auto year-over-year policy retention ratio remained steady at 91.8% at September 30, 2010, compared to 91.9% at December 31, 2009 and September 30, 2009.

Homeowners renewal premiums written increased 9.3% in the third quarter of 2010, compared to 6.8% in the third quarter of 2009. The year-over-year average premium per policy on homeowners renewal business increased 4.1% at September 30, 2010, compared to 1.9% at September 30, 2009. The homeowners year-over-year policyholder retention ratio was 91.0% at September 30, 2010, 91.2% at December 31, 2009, and 91.4% at September 30, 2009.

Commercial lines Total commercial lines premiums written increased 3.8% to $259 million in the third quarter of 2010, compared to $249 million in the third quarter of 2009. Total commercial lines policies in force increased 3.9% while the total commercial lines year-over-year average premium per policy decreased 3.7%.

New business premiums written on commercial lines increased 15.4% in the third quarter of 2010, compared to 1.1% in the third quarter of 2009. Commercial lines new business policies in force increased 9.9% in the third quarter of 2010, compared to a decline of 0.4% in the third quarter of 2009. The year-over-year average premium per policy on commercial lines new business was flat at September 30, 2010, compared to a decline of 2.5% at September 30, 2009.

Renewal premiums for commercial lines increased 1.9% in the third quarter of 2010 compared to a decrease of 4.5% in the third quarter of 2009, driven by improved policy retention trends and smaller decreases in average premium per policy, the combined impact of which was seen primarily in the commercial multi-peril line of business. The commercial lines year-over-year policy retention ratio improved to 85.2% at September 30, 2010, compared to 84.9% at December 31, 2009, and 84.8% at September 30, 2009. The year-over-year average premium per policy on commercial lines renewal business decreased 4.0% at September 30, 2010, compared to 6.5% at September 30, 2009, driven primarily by the workers compensation and commercial auto lines of business in both years. The workers compensation and commercial auto year-over-year average premium per policy decreases were 10.6% and 3.3%, respectively, at September 30, 2010, compared to decreases of 14.5% and 4.2%, respectively, at September 30, 2009. Contributing to the workers compensation lower average premium per policy were shifts in the mix of our book of business and lower exposures driven by reductions in payroll levels. The commercial auto average premium per policy decrease was driven by shifts in the mix of our book of business and fewer insured vehicles.

Future trends premium revenue We are continuing our efforts to grow Property and Casualty Group premiums and improve our competitive position in the marketplace. Expanding the size of the agency force will contribute to future growth as existing and new agents build up their book of business with the Property and Casualty Group. Through the first nine months of 2010, we appointed 83 new agencies, which increased our total to 2,087 agencies. We expect our pricing actions to result in a net increase in direct written premium in 2010, however, exposure reductions and changes in our mix of business could impact the average premium written by the Property and Casualty Group as customers may continue to reduce coverages.

Current year losses and loss expenses

The current accident year loss and loss expense ratio, excluding catastrophe losses, was 72.2% in the third quarter of 2010 compared to 67.6% in the third quarter of 2009.

The personal lines loss and loss expense ratio related to the current accident year, excluding catastrophe losses, was 72.6% in the third quarter of 2010 compared to 65.5% in the third quarter of 2009. Excluding catastrophe losses, the current accident year loss and loss expense ratio for personal auto increased to 73.7% in the third quarter of 2010 from 72.9% in the third quarter of 2009, while the homeowners loss and loss expense ratio increased to 71.5% from 54.2% for the same periods, respectively. The homeowners line of business experienced an increase in frequency in the third quarter of 2010 compared to the third quarter 2009.

The commercial lines loss and loss expense ratio related to the current accident year, excluding catastrophe losses, was 71.0% in the third quarter of 2010 compared to 72.7% in the third quarter of 2009. Excluding catastrophe losses, the current accident year loss and loss expense ratios for the third quarters of 2010 and 2009, respectively, were 69.9% and 95.0% for the workers compensation line of business, 72.7% and 60.6% for the commercial multi-peril line of business, and 79.3% and 70.2% for the commercial auto line of business. The workers compensation line of business was impacted by three new large workers compensation claims in the third quarter of 2009, while the commercial multi-peril line of business experienced an increase in frequency in the third quarter of 2010.

Catastrophe losses

Catastrophes are an inherent risk of the property and casualty insurance business and can have a material impact on our insurance underwriting results. In addressing this risk, we employ what we believe are reasonable underwriting standards and monitor our exposure by geographic region. The Property and Casualty Group s definition of catastrophes includes those weather-related or other loss events which we consider significant to our geographic footprint which, individually or in the aggregate, may not reach the level of a national catastrophe as defined by the Property Claim Service (PCS). The Property and Casualty Group maintains sufficient property catastrophe reinsurance coverage from unaffiliated reinsurers and no longer participates in the voluntary assumed reinsurance business, which lowers the variability of the underwriting results of the Property and Casualty Group.

Catastrophe losses, as defined by the Property and Casualty Group, totaled $52 million in the third quarter of 2010 and $23 million in the third quarter of 2009. These catastrophe losses contributed 5.2 points and 2.4 points to the combined ratios at September 30, 2010 and 2009, respectively. Catastrophe losses in the third quarter of 2010 were the result of flooding, hail and wind storms primarily in the states of Wisconsin and Maryland. In the third quarter of 2009, catastrophe losses resulted from flooding, wind and hail storms primarily in Indiana and Wisconsin. Catastrophe losses incurred for the first nine months of 2010 and 2009 were $245 million and $111 million, respectively, and contributed 8.3 points and 3.8 points to the combined ratio, respectively.

Prior year loss development

The following table provides the details of the prior year loss reserve development:

	Erie Insurance Group			
	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
(in millions)	(Unaudited)		(Unaudited)	
Prior year loss development:				
Direct business including salvage and subrogation	$ (49)	$ (41)	$ (105)	$ (6)

Assumed reinsurance business	(26)	(18)	(37)	(26)
Ceded reinsurance business	(1)	(1)	(6)	1
Total prior year loss development	$ (76)	$ (60)	$ (148)	$ (31)

Negative amounts represent a redundancy (decrease in reserves), while positive amounts represent a deficiency (increase in reserves).

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Development of loss reserves

Direct business including salvage and subrogation Favorable development of prior accident years, including the effects of salvage and subrogation recoveries totaled $49 million and improved the combined ratio by 4.9 points in the third quarter of 2010, compared to $41 million, or 4.2 points in the third quarter of 2009. The favorable development in the third quarter of 2010 was primarily the result of improved severity trends, of which $16 million related to the workers compensation line of business, $12 million related to the private passenger auto line of business, and $8 million related to the commercial multi-peril line of business. In the third quarter of 2009, the favorable development was primarily the result of reserve releases for one large workers compensation claim.

Favorable development of prior accident years, including the effects of salvage and subrogation recoveries, totaled $105 million during the first nine months of 2010 and improved the combined ratio by 3.6 points, compared to $6 million, or 0.2 points in the first nine months of 2009. Driving the prior accident year development through September 30, 2010 was favorable development of $34 million related to the personal auto line of business, $33 million related to the commercial multi-peril line of business, $21 million related to the workers compensation line of business, and $10 million related to the homeowners line of business. Of the $34 million of favorable development in the personal auto line of business, the majority was primarily the result of improvements in severity trends on automobile bodily injury and uninsured/underinsured motorist bodily injury, while $7 million was the result of closing two pre-1986 automobile massive injury claims. The favorable development experienced in the commercial multi-peril and workers compensation lines of business was primarily the result of improvements in severity trends, while the favorable development in the homeowners line of business was primarily the result of the settlement of one large claim. The favorable development in 2009 was primarily the result of the settlement of several massive injury workers compensation claims, offset by adverse development related to the commercial multi-peril line as a result of reserve strengthening and the outcome of certain court decisions.

Assumed reinsurance The Property and Casualty Group s favorable development of prior accident year loss reserves on its assumed reinsurance business totaled $26 million in the third quarter of 2010, compared to $18 million in the third quarter of 2009. For the first nine months of 2010, favorable development of prior accident year loss reserves on assumed reinsurance totaled $37 million, compared to $26 million in the first nine months of 2009. The favorable development for all periods was due to less than anticipated growth in involuntary reinsurance.

Ceded reinsurance Favorable development of ceded reinsurance reserves was flat at $1 million in the third quarters of 2010 and 2009. During the first nine months of 2010, ceded reinsurance reserves increased $6 million, which is reflected as favorable development of reserves, compared to a reduction of $1 million during the first nine months of 2009, which is reflected as adverse development of reserves. The favorable development in 2010 was primarily the result of a $9 million increase related to the business catastrophe liability line, offset by a $4 million reduction in ceded recoveries related to the pre-1986 automobile massive injury reserves.

Policy acquisition and other underwriting expenses

Our expense ratio decreased 5.4 points in the third quarter of 2010 and 2.2 points for the nine months ended September 30, 2010, compared to the same respective periods in 2009. The management fee rate was 25% at both September 30, 2010 and 2009. The third quarter and first nine months of 2009 include a charge of $62 million related to the write-off of assumed involuntary reinsurance premium related to the North Carolina Beach and Coastal Plans deemed uncollectible as a result of state legislation, and added 6.5 points and 2.2 points to the third quarter and first nine months of 2009, respectively, policy acquisition and other underwriting expense ratios. The third quarter of 2009 also includes the reversal of a charge for the North Carolina Escrow account of $10 million, originally incurred in the first and second quarters of 2009, as the final rate was approved by North Carolina and approximated our filed rates. This reversal reduced policy acquisition and other underwriting expense ratio by 1.0 point in the third quarter of 2009.

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Life insurance operations
EFL is a Pennsylvania-domiciled life insurance company which underwrites and sells nonparticipating individual and group life insurance policies and fixed annuities and operates in 10 states and the District of Columbia.

	Erie Family Life Insurance Company					
	Three months ended September 30,			Nine months ended September 30,		
	2010	2009	%Change	2010	2009	%Change
(in millions)	(Unaudited)			(Unaudited)		
Individual life premiums, net of reinsurance	$ 15	$ 12	14.6%	$ 46	$ 46	1.7%
Group life and other premiums	1	1	(2.4)	2	2	(5.0)
Other revenue	0	1	4.8	0	1	(3.6)
Total net policy revenue	16	14	13.6	48	49	1.3
Net investment income	24	22	5.5	71	70	0.9
Net realized gains on investments	3	3	24.4	11	1	NM
Impairment losses recognized in earnings	0	(3)	NM	(2)	(18)	89.2
Equity in losses of limited partnerships	0	(3)	NM	(1)	(8)	91.7
Total revenues	43	33	26.4	127	94	36.6
Benefits and other changes in policy reserves	21	19	8.2	67	65	3.5
Amortization of deferred policy acquisition costs	3	3	(16.7)	12	10	20.3
Other operating expenses	3	3	(10.0)	11	11	(2.8)
Total benefits and expenses	27	25	2.5	90	86	4.7
Income before income taxes	$ 16	$ 8	97.6%	$ 37	$ 8	NM
Income before taxes Indemnity[1]	$ 3	$ 2		$ 8	$ 2	
Income before taxes Exchange	$ 13	$ 6		$ 29	$ 6	

NM = not meaningful

Premiums

Gross policy revenues increased 3.2% to $26 million in the third quarter of 2010, compared to $25 million in the third quarter of 2009. EFL reinsures a large portion of its traditional products in order to reduce claims volatility. Our reinsurers assume 75% of the risk on new term business. Ceded reinsurance premiums were $10 million and $11 million in the third quarters of 2010 and 2009, respectively. For the first nine months of 2010 compared to the first nine months of 2009, gross policy revenues totaled $78 million and $75 million, respectively, while ceded reinsurance premiums totaled $30 million and $28 million, respectively.

Premiums received on annuity and universal life products totaled $26 million in the third quarter of 2010, compared to $49 million in the third quarter of 2009. Of this amount, annuity and universal life premiums recorded as deposits, and therefore not reflected in revenue on the Consolidated Statements of Operations, totaled $22 million and $45 million in the third quarters of 2010 and 2009, respectively. For the first nine months of 2010 compared to the first nine months of 2009, premiums received on annuity and universal life products totaled $89 million and $132 million, respectively, while annuity and universal life deposits totaled $77 million and $119 million, respectively.

Investments

Due to continued improvements in market conditions in the third quarter and first nine months of 2010, EFL experienced low levels of impairments and an increase in net realized gains on investments compared to the third quarter and first nine months of 2009. Equity in earnings of limited partnerships also reflected the improvement in market conditions, as limited partnership activity is reported on a one quarter lag. See additional discussion of investments in the Investment Operations segment that follows.

Benefits and expenses

The third quarter and first nine months of 2010 benefits and other changes in policy reserves were impacted by an increase in surrender and other benefits offset by decreases in interest on annuity deposits. The amortization of deferred policy acquisition costs increased during the first nine months of 2010 as a result of a significant reduction in impairments and experiencing a greater level of realized gains as compared to the first nine months of 2009.

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Investment operations

	Erie Insurance Group			
	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
(in millions)	(Unaudited)		(Unaudited)	
Indemnity				
Net investment income	$ 10	$ 10	$ 28	$ 32
Net realized gains on investments	5	5	7	5
Net impairment losses recognized in earnings	0	(3)	(1)	(10)
Equity in earnings (losses) of limited partnerships	5	(9)	11	(64)
Net revenue (loss) from investment operations Indemnity	$ 20	$ 3	$ 45	$ (37)
Exchange				
Net investment income	$ 100	$ 92	$ 294	$ 292
Net realized gains on investments	200	246	110	299
Net impairment losses recognized in earnings	0	(13)	(5)	(89)
Equity in earnings (losses) of limited partnerships	23	(28)	47	(260)
Net revenue from investment operations Exchange(1)	$ 323	$ 297	$ 446	$ 242

(1) The Exchange s results for the third quarter of 2010 and 2009 include net investment revenues from EFL s operations of $27 million and $19 million, respectively. The Exchange s results for the first nine months of 2010 and 2009 include net investment revenues from EFL s operations of $79 million and $45 million,

respectively.

Investment income

Net investment income primarily includes interest and dividends on our fixed maturity and equity security portfolios. Net investment income was relatively flat for both Indemnity and the Exchange. Though our invested balances have increased, yields on new security purchases are down.

Realized gains and losses

Realized gains on investments were flat for Indemnity and decreased for the Exchange for the quarter ended September 30, 2010 compared to the quarter ended September 30, 2009. The Exchange s realized gains on investments were impacted by a $39 million decline in unrealized gains on the common stock trading portfolio.

Impairment losses recognized in earnings

There were no impairments that triggered a loss for Indemnity during the third quarter of 2010, compared to losses of $3 million recorded in the third quarter of 2009. Impairment losses recognized in earnings for the Exchange decreased $13 million for the same period. Year-to-date 2010 impairment losses are down $9 million in Indemnity and $84 million in the Exchange from the prior year-to-date as a result of improved market conditions.

Equity in earnings of limited partnerships

Indemnity s equity in earnings of limited partnerships was $11 million through September 30, 2010 compared to losses of $64 million through September 30, 2009. The Exchange s equity in earnings of limited partnerships was $47 million through September 30, 2010 compared to losses of $260 million through September 30, 2009.

Limited partnership earnings pertain to investments in U.S. and foreign private equity, real estate and mezzanine debt partnerships. Valuation adjustments are recorded to reflect the fair value of limited partnerships. These adjustments are recorded as a component of equity in earnings of limited partnerships in the Consolidated Statements of Operations.

We experienced an increase in earnings as a result of fair value increases in our private equity and mezzanine debt limited partnerships which were offset by losses in our real estate limited partnerships. Limited partnership earnings tend to be cyclical based on market conditions, the age of the partnership and the nature of the investments. Generally, limited partnership earnings are recorded on a quarter lag from financial statements we receive from our general partners. As a consequence, earnings from limited partnerships reported at September 30, 2010 reflect investment valuation changes resulting from the financial markets and the economy in the first half of 2010 and the fourth quarter of 2009.

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The breakdown of our net realized (losses) gains on investments is as follows:

	Erie Insurance Group			
	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
(in millions)	(Unaudited)		(Unaudited)	
Indemnity				
Securities sold:				
Fixed maturities	$ 1	$ 0	$ 4	$ (2)
Preferred stock equity securities	1	0	1	0
Common stock equity securities	3	1	4	(1)
Common stock valuation adjustments	0	4	(2)	8
Total net realized gains Indemnity	$ 5	$ 5	$ 7	$ 5
Exchange				
Securities sold:				
Fixed maturities	$ 6	$ (1)	$ 22	$ (20)
Preferred stock equity securities	3	7	9	7
Common stock equity securities	4	14	63	(100)
Common stock valuation adjustments	187	226	16	412
Total net realized gains Exchange(1)	$ 200	$ 246	$ 110	$ 299

(1) The Exchange s net realized gains for the third quarter of 2010 and 2009 include net realized gains from EFL s operations of $3 million for both periods. The Exchange s results for the first nine months of 2010 and 2009 include net realized gains from EFL s operations of $11 million and $1 million,

respectively

The components of equity in earnings (losses) of limited partnerships are as follows:

	Erie Insurance Group			
	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
(in millions)	(Unaudited)		(Unaudited)	
Indemnity				
Private equity	$ 1	$ 2	$ 9	$ (14)
Real estate	3	(11)	(3)	(48)
Mezzanine debt	1	0	5	(2)
Total equity in earnings (losses) of limited partnerships Indemnity	$ 5	$ (9)	$ 11	$ (64)
Exchange				
Private equity	$ 7	$ 17	$ 44	$ (48)
Real estate	9	(51)	(16)	(214)
Mezzanine debt	7	6	19	2
Total equity in earnings (losses) of limited partnerships Exchange[(1)]	$ 23	$ (28)	$ 47	$ (260)

(1) The Exchange s results for the third quarter of 2010 and 2009 include equity in losses of limited partnerships from EFL of $0 million and $3 million, respectively. The Exchange s results for the first nine months of 2010 and 2009 include equity in losses of limited partnerships from EFL of $1 million and $8 million, respectively.

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FINANCIAL CONDITION

Investments

Our investment strategy takes a long-term perspective emphasizing investment quality, diversification and superior investment returns. Investments are managed on a total return approach that focuses on current income and capital appreciation. Our investment strategy also provides for liquidity to meet our short- and long-term commitments. Investments, along with our operating cash flow, provide the liquidity we require to meet the demands on our funds.

Distribution of investments (Unaudited)

	Erie Insurance Group			
	Carrying value at September 30,		Carrying value at December 31,	
(in millions)	2010	% to total	2009	% to total
Indemnity				
Fixed maturities	$ 695	69%	$ 664	68%
Equity securities:				
Preferred stock	46	5	38	4
Common stock	26	3	42	4
Limited partnerships:				
Real estate	95	9	99	10
Private equity	88	9	85	9
Mezzanine debt	51	5	51	5
Real estate mortgage loans	1	0	1	0
Total investments Indemnity	$ 1,002	100%	$ 980	100%
Exchange				
Fixed maturities	$ 7,019	65%	$ 6,517	65%
Equity securities:				
Preferred stock	538	5	472	5
Common stock	1,985	19	1,835	18
Limited partnerships:				
Real estate	392	3	397	4
Private equity	533	5	503	5
Mezzanine debt	223	2	216	2
Policy loans	14	1	15	1
Real estate mortgage loans	5	0	5	0
Total investments Exchange	$ 10,709	100%	$ 9,960	100%
Total investments Erie Insurance Group	$ 11,711		$ 10,940	

We continually review the investment portfolio to evaluate positions that might incur other-than-temporary declines in value. For all investment holdings, general economic conditions and/or conditions specifically affecting the underlying issuer or its industry, including downgrades by the major rating agencies, are considered in evaluating impairment in value. In addition to specific factors, other factors considered in our review of investment valuation are the length of time and amount the fair value is below cost.

We individually analyze all positions with emphasis on those that have, in management s opinion, declined significantly below costs. With the issuance of new impairment guidance for debt securities in the second quarter of 2009, we further analyze debt securities to determine if a credit-related impairment has occurred. Some of the factors considered in determining whether a debt security is credit impaired include potential for the default of interest and/or principal, level of subordination, collateral of the issue, compliance with financial covenants, credit ratings and industry conditions. We have the intent to sell all credit-impaired debt securities, therefore the entire amount of the impairment charges were included in earnings and non-credit impairments were recorded in other comprehensive income. Prior to the second quarter of 2009, there was no differentiation between impairments related to credit loss and those related to other factors, declines in the fair value of debt securities were deemed other-than-temporary if we did not have the intent and ability to hold a security to recovery. For available-for-sale equity securities, a charge is recorded in the Consolidated Statement of Operations for positions that have

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experienced other-than-temporary impairments due to credit quality or other factors (See Investment Operations section herein).

If our policy for determining the recognition of impaired positions was different, our Consolidated Results of Operations could be significantly impacted. Management believes its investment valuation philosophy and accounting practices result in appropriate and timely measurement of value and impairment recognition.

Fixed maturities

Under our investment strategy, we maintain a fixed maturities portfolio that is of high quality and well diversified within each market sector. This investment strategy also achieves a balanced maturity schedule. The fixed maturities portfolio is managed with the goal of achieving reasonable returns while limiting exposure to risk. The municipal bond portfolio accounts for $263 million, or 38%, of the total fixed maturity portfolio for Indemnity and $1.4 billion, or 21% of the fixed maturity portfolio for the Exchange at September 30, 2010. The overall credit rating of the municipal portfolio without consideration of the underlying insurance is AA-. Because of the rating downgrades of municipal bond insurers, the insurance does not improve the overall credit rating.

Fixed maturities classified as available-for-sale are carried at fair value with unrealized gains and losses, net of deferred taxes, included in shareholders equity. At September 30, 2010, Indemnity s net unrealized gains on fixed maturities, net of deferred taxes, amounted to $30 million compared to net unrealized gains of $14 million at December 31, 2009. At September 30, 2010, the Exchange had net unrealized gains on fixed maturities of $368 million compared to net unrealized gains of $156 million at December 31, 2009.

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The following tables present a breakdown of the fair value of our fixed maturities portfolio by sector and rating as of September 30, 2010 for Indemnity and the Exchange, respectively:

Erie Insurance Group (Unaudited)

(in millions)

Indemnity Industry Sector	AAA	AA	A	BBB	Not Investment Grade	Fair value
Structured securities[1]	$ 20	$ 3	$ 0	$ 3	$ 7	$ 33
Basic materials	0	0	0	6	1	7
Communications	0	0	10	22	0	32
Consumer	0	4	18	37	2	61
Diversified	0	0	1	0	0	1
Energy	2	1	2	25	1	31
Financial	5	24	86	45	13	173
Government-municipal	69	134	56	4	0	263
Industrial	0	0	9	16	2	27
U.S. treasury	6	0	0	0	0	6
Government sponsored entity	13	0	0	0	0	13
Technology	0	0	2	3	0	5
Utilities	0	0	5	35	3	43
Total	$ 115	$ 166	$ 189	$ 196	$ 29	$ 695

Exchange Industry Sector	AAA	AA	A	BBB	Not Investment Grade	Fair value
Structured securities[1]	$ 342	$ 41	$ 7	$ 22	$ 58	$ 470
Basic materials	0	0	47	133	5	185
Communications	0	0	118	331	21	470
Consumer	0	24	189	384	65	662
Diversified	0	0	22	0	0	22
Energy	17	11	108	296	30	462
Financial	24	297	1,126	603	167	2,217
Funds	0	0	0	6	0	6
Government-municipal	392	800	229	22	2	1,445
Industrial	0	6	89	217	28	340
U.S. treasury	6	0	0	0	0	6
Government sponsored entity	59	0	2	0	0	61
Government other countries	0	0	16	6	0	22
Technology	0	0	40	62	0	102
Utilities	0	3	77	413	56	549
Total	$ 840	$ 1,182	$ 2,070	$ 2,495	$ 432	$ 7,019

(1) Structured securities include asset-backed securities, collateral, lease and debt obligations, commercial mortgage-backed securities and residential mortgage-backed securities.

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Equity securities

Our equity securities consist of common stock and nonredeemable preferred stock. Investment characteristics of common stock and nonredeemable preferred stock differ substantially from one another. Our nonredeemable preferred stock portfolio provides a source of current income that is competitive with investment-grade bonds.

The following tables present an analysis of the fair value of our non-redeemable preferred and common stock securities by sector for Indemnity and Exchange, respectively.

	Indemnity (Unaudited)			
(in millions)	Fair Value at September 30, 2010		Fair Value at December 31, 2009	
Industry sector	Preferred stock	Common stock	Preferred stock	Common stock
Basic materials	$ 0	$ 1	$ 0	$ 2
Communications	1	2	1	2
Consumer	0	13	0	15
Diversified	0	0	0	1
Energy	0	1	0	3
Financial	31	5	27	9
Funds	0	0	0	3
Industrial	2	3	2	6
Technology	3	1	3	1
Utilities	9	0	5	0
Total	$ 46	$ 26	$ 38	$ 42

	Exchange (Unaudited)			
(in millions)	Fair Value at September 30, 2010		Fair Value at December 31, 2009	
Industry sector	Preferred stock	Common stock	Preferred stock	Common stock
Basic materials	$ 0	$ 81	$ 0	$ 95
Communications	8	174	8	170
Consumer	5	502	0	457
Diversified	0	8	0	8
Energy	0	131	0	157
Financial	397	253	348	231
Funds	0	312	0	298
Government	0	0	3	0
Industrial	6	268	5	207
Technology	15	231	12	190
Utilities	107	25	96	22

Total	$ 538	$ 1,985	$ 472	$ 1,835

Our preferred stock equity securities are classified as available-for-sale and are carried at fair value on the Consolidated Statements of Financial Position with all changes in unrealized gains and losses reflected in other comprehensive income. At September 30, 2010, the unrealized gain on preferred stock classified as available-for-sale securities, net of deferred taxes amounted to $4 million for Indemnity and $46 million for the Exchange compared to a $2 million gain for Indemnity and $31 million gain for the Exchange at December 31, 2009.

The common stock portfolio is classified as a trading portfolio and measured at fair value with all changes in unrealized gains and losses reflected in our Consolidated Statements of Operations.

Limited partnerships

In the third quarter of 2010, investments in limited partnerships remained relatively flat from the investment levels at December 31, 2009. The changes in partnership value are a function of contributions and distributions, adjusted for fair value changes. During 2010, the limited partnership market values and partnerships earnings have been generally positive as the recent market conditions continue to show signs of improvement.

The components of limited partnership investments are as follows:

	Erie Insurance Group	
	At September 30, 2010	December 31, 2009
(in millions)	(Unaudited)	
Indemnity		
Private equity	$ 88	$ 85
Real estate	95	99
Mezzanine debt	51	51
Total limited partnerships Indemnity	$ 234	$ 235
Exchange		
Private equity	$ 533	$ 503
Real estate	392	397
Mezzanine debt	223	216
Total limited partnerships Exchange	$ 1,148	$ 1,116

Liabilities

Property and casualty loss reserves

Loss reserves are established to account for the estimated ultimate costs of loss and loss expenses for claims that have been reported but not yet settled and claims that have been incurred but not reported.

The factors which may potentially cause the greatest variation between current reserve estimates and the actual future paid amounts are: unforeseen changes in statutory or case law altering the amounts to be paid on existing claim obligations, new medical procedures and/or drugs with costs significantly different from those seen in the past, and claims patterns on current business that differ significantly from historical claims patterns.

Loss and loss expense reserves are presented on our Consolidated Statements of Financial Position on a gross basis. The following tables represent the direct and assumed loss and loss expense reserves by major line of business for Indemnity and Exchange, respectively. The reinsurance recoverable amount represents the related ceded amounts which results in the net liability attributable to Indemnity and Exchange, respectively.

	Erie Insurance Group	
	At September 30, 2010	At December 31, 2009
(in millions)	(Unaudited)	
Indemnity		
Gross reserve liability:		
Personal auto	$ 219	$ 221

Automobile massive injury	146	147
Homeowners	19	22
Workers compensation	165	169
Workers compensation massive injury	12	12
Commercial auto	59	56
Commercial multi-peril	72	68
All other lines of business	51	57
Gross reserves	743	752
Reinsurance recoverable	1	1
Net reserve liability Indemnity	$ 742	$ 751

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	Erie Insurance Group	
	At September 30, 2010	At December 31, 2009
(in millions)	(Unaudited)	
Exchange		
Gross reserve liability:		
Personal auto	$ 881	$ 887
Automobile massive injury	298	316
Homeowners	239	178
Workers compensation	341	342
Workers compensation massive injury	124	132
Commercial auto	228	226
Commercial multi-peril	498	475
All other lines of business	261	290
Gross reserves	2,870	2,846
Reinsurance recoverable	188	199
Net reserve liability Exchange	$ 2,682	$ 2,647

The reserves that have the greatest potential for variation are the massive injury claim reserves. The Property and Casualty Group is currently reserving for about 300 claimants requiring lifetime medical care, of which about 120 involve massive injuries. The reserve carried by the Property and Casualty Group for the massive injury claimants, which includes automobile and workers compensation massive injury reserves, totaled $406 million at September 30, 2010, which is net of $174 million of anticipated reinsurance recoverables, compared to $428 million at December 31, 2009, which was net of $179 million of anticipated reinsurance recoverables. The pre-1986 automobile massive injury and workers compensation massive injury reserves decreased at September 30, 2010 compared to December 31, 2009 primarily due to settling four claims.

The reserves above are presented on a gross basis. After the effects of the intercompany pooling transactions are considered, Indemnity retains 5.5% of the gross reserves and the Exchange retains 94.5% of the gross reserves. Indemnity s 5.5% share of the massive injury liability reserves, net of unaffiliated reinsurance recoveries, totaled $23 million at September 30, 2010, and $24 million at December 31, 2009.

Life insurance reserves

EFL s primary commitment is its obligation to pay future policy benefits under the terms of its life insurance and annuity contracts. To meet these future obligations, EFL establishes life insurance reserves based on the type of policy, the age, gender and risk class of the insured and the number of years the policy has been in force. EFL also establishes annuity and universal life reserves based on the amount of policyholder deposits (less applicable insurance and expense charges) plus interest earned on those deposits. Life insurance and annuity reserves are supported primarily by EFL s long-term, fixed income investments as the underlying policy reserves are generally also of a long-term nature.

IMPACT OF INFLATION

Property and casualty insurance premiums are established before losses and loss expenses, and therefore, before the extent to which inflation may impact such costs are known. Consequently, in establishing premium rates, we attempt to anticipate the potential impact of inflation, including medical cost inflation, construction and auto repair cost inflation and tort issues. Medical costs are a broad element of inflation that impacts personal and commercial auto, general liability, workers compensation and commercial multi-peril lines of insurance written by the Property and

Casualty Group.

LIQUIDITY AND CAPITAL RESOURCES

Sources and uses of cash

Liquidity is a measure of a company s ability to generate sufficient cash flows to meet the short- and long-term cash requirements of its business operations and growth needs. Our liquidity requirements have been met primarily by funds generated from premiums collected and income from investments. The insurance operations provide liquidity in that premiums are collected in advance of paying losses under the policies purchased with those premiums. Cash outflows for the property and casualty business are generally variable since settlement dates for liabilities for unpaid losses and the potential for large losses, whether individual or in the aggregate, cannot be predicted with absolute certainty. Accordingly, after satisfying our operating cash requirements, excess cash flows are used to build our investment portfolio in order to increase future investment income, which then may be used as a source of liquidity if cash from our insurance operations would not be sufficient to meet our obligations. Cash provided from these sources is used primarily to fund losses and policyholder benefits, fund the costs of operations including commissions, salaries and wages, pension plans, share repurchases, dividends to shareholders and the purchase and development of information technology. We expect that our operating cash needs will be met by funds generated from operations.
Continuing volatility in the financial markets presents challenges to us as we do occasionally access our investment portfolio as a source of cash. Some of our fixed income investments, despite being publicly traded, are illiquid due to current credit market conditions. Further volatility in these markets could impair our ability to sell certain of our fixed income securities or cause such securities to sell at deep discounts. Additionally, our limited partnership investments are illiquid. We believe we have sufficient liquidity to meet our needs from other sources even if market volatility persists throughout 2010.

Cash flow activities

The following table is a summary of our condensed consolidated cash flows:

	Erie Insurance Group Nine months ended September 30,	
	2010	2009
(in millions)	(Unaudited)	
Net cash provided by operating activities	$ 465	$ 713
Net cash used in investing activities	(301)	(591)
Net cash used in financing activities	(86)	(44)
Net increase in cash	$ 78	$ 78

The decrease in cash flows from operating activities in the first nine months of 2010 was primarily driven by the payment of federal income taxes of $105 million, compared to the recovery of federal income taxes of $161 million in the first nine months of 2009. Also reducing the cash flows from operating activities in 2010 was an increase in loss and loss expenses paid, offset somewhat by increases in premiums collected, net investment income received and limited partnership distributions.
At September 30, 2010, we recorded a net deferred tax liability of $92 million, which included capital loss carry-forwards of $12 million. There was no valuation allowance at September 30, 2010. We have the ability to carry-back capital losses of $281 million as a result of gains recognized in prior years. At September 30, 2010, the carry-back relating to the 2009 capital losses has not been received. This carry-back is estimated to be $260 million with a tax refund expected to be $91 million.
Cash flows used in investing activities decreased in the first nine months of 2010 compared to the same period in 2009. In the first nine months of 2010, we generated more proceeds from certain fixed maturities and used more cash for the purchase of other fixed maturities, while generating fewer proceeds from common stocks and using less cash for the purchase of other common stocks. At September 30, 2010, we had contractual commitments to invest up to $532 million related to our limited partnership investments to be funded as required by the partnerships agreements.

At September 30, 2010, the total remaining commitment to fund limited partnerships that invest in private equity securities was $242 million, real estate activities was $194 million and mezzanine debt securities was $96 million.

Cash flow activities Indemnity

The following table summarizes Indemnity cash flows:

	Indemnity Nine months ended September 30, 2010	Indemnity Nine months ended September 30, 2009
(in millions)	(Unaudited)	
Net cash provided by operating activities	$ 129	$ 89
Net cash used in investing activities	(14)	(42)
Net cash used in financing activities	(118)	(71)
Net decrease in cash	$ (3)	$ (24)

See Indemnity s supplemental information footnote (Note 14) for more detail on Indemnity cash flows.

Indemnity s cash flows provided from operating activities increased to $129 million in the first nine months of 2010, compared to $89 million for the same period in 2009. Higher operating cash flows in 2010 were primarily due to an increase in management fee revenues received and a smaller decrease in reimbursements collected from affiliates as compared to 2009. Management fee revenues were higher reflecting the increase in the Property and Casualty Group s direct written premium. Cash paid for agent commissions and bonuses decreased to $414 million in the first nine months of 2010, compared to $420 million in the first nine months of 2009, as a result of a decrease in cash paid for agent bonuses. We made a contribution to our pension plan of $13 million in the second quarter of 2010, compared to $14 million made in the third quarter of 2009. Indemnity s policy is to contribute at least the minimum required contribution to its pension plan that is in accordance with the Pension Protection Act of 2006 and to fund the annual normal costs of the pension. Indemnity is generally reimbursed about 50% of the net periodic benefit cost of the pension plan from its affiliates.

At September 30, 2010, Indemnity recorded a net deferred tax asset of $11 million, which included capital loss carry-forwards of $4 million. There was no valuation allowance at September 30, 2010. Indemnity has the ability to carry back capital losses of $39 million as a result of gains recognized in prior years. At September 30, 2010, the carry-back relating to the 2009 capital losses has not been received. This carry-back is estimated to be $32 million with a tax refund expected to be $11 million. Indemnity s capital gain and loss strategies take into consideration its ability to offset gains and losses in future periods, further capital loss carry-back opportunities to the three preceding years, and capital loss carry-forward opportunities to apply against future capital gains over the next five years.

Cash flows used in Indemnity investing activities decreased to $14 million in the first nine months of 2010 compared to $42 million for the same period in 2009. Investing activities in 2009 include a capital contribution to EFL in the amount of $12 million to support EFL s life insurance and annuity business and to strengthen its surplus. Impacting future investing activities are limited partnership commitments, which totaled $60 million at September 30, 2010, and will be funded as required by the partnerships agreements.

The increase in cash used in financing activities in the third quarter of 2010 was primarily driven by increases in the cash outlay for share repurchases and dividends paid to shareholders. During the third quarter of 2010, Indemnity repurchased 551,088 shares of our Class A nonvoting common stock at a total cost of $28 million. Of this amount, 546,288 shares were repurchased in conjunction with our current stock repurchase plan for a total cost of $28 million. The remaining 4,800 shares were purchased related to the vesting of stock-based awards for executive management at a total cost of $0.2 million, or $48.75 per share. During the first nine months of 2010, 950,601 shares were repurchased under the plan at a total cost of $46 million, of which $1 million occurred the last week of September that was settled in cash in October. There were no shares repurchased in the third quarter of 2009, while 42,200 shares were repurchased at a total cost of $1 million during the first nine months of 2009. In April 2010, our Board of Directors approved a continuation of the current stock repurchase plan through June 30, 2011 for a total of $100 million. Indemnity has approximately $58 million of repurchase authority remaining under this plan at

September 30, 2010. Indemnity plans to continue to repurchase shares through this program as cash becomes available for this purpose. (See Part II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds, Issuer Purchases of Equity Securities .) Dividends paid to shareholders totaled $74 million and $70 million for the first nine months of 2010 and 2009, respectively. Indemnity increased both its Class A and Class B shareholder quarterly dividend by 6.7% in 2010, compared to 2009. There are no regulatory restrictions on the payment of dividends to Indemnity shareholders, although there are state law restrictions on the payment of dividends from Indemnity s property and casualty insurance subsidiaries.

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Capital outlook

If the financial market volatility continues, we have the ability to meet our future funding requirements through various alternatives available to us. Outside of our normal operating and investing cash activities, future funding requirements could be met through (1) a $200 million bank line of credit held by the Exchange, from which there were no borrowings at September 30, 2010, (2) a $100 million bank line of credit held by Indemnity, from which there were no borrowings as of September 30, 2010, and (3) our more liquid investments that can be sold, such as our common stock and cash and cash equivalents, which total approximately $2.3 billion at September 30, 2010. Indemnity has no rights to the assets or capital of the Exchange and, conversely, the Exchange has no rights to the assets or capital of Indemnity.

Additionally, Indemnity has the ability to curtail or modify discretionary cash outlays such as those related to shareholder dividends and our share repurchase activities. We believe we have the funding sources available to us to support future cash flow requirements in 2010.

The Exchange and Indemnity had no borrowings under their respective lines of credit at September 30, 2010. At September 30, 2010, bonds with fair values of $258 million and $128 million were pledged as collateral on the Exchange s and Indemnity s lines of credit, respectively. These securities have no restrictions. The bank requires compliance with certain covenants, which include statutory surplus and risk based capital ratios for the Exchange line of credit and minimum net worth and leverage ratios for Indemnity line of credit. The Exchange and Indemnity were in compliance with all bank covenants at September 30, 2010.

Off-Balance Sheet Arrangements

Off-balance sheet arrangements include those with unconsolidated entities that may have a material current or future effect on our financial condition or results of operations, including material variable interests in unconsolidated entities that conduct certain activities. We have no material off-balance sheet obligations or guarantees, other than the limited partnership investment commitments.

Surplus notes

The Exchange has a surplus note for $20 million with EFL that is payable on demand on or after March 31, 2025. EFL accrued interest to the Exchange on the surplus note of $0.9 million through September 30, 2010 and 2009. No other interest is charged or received on these intercompany balances due to the timely settlement terms and nature of the items.

Indemnity has a surplus note for $25 million with EFL that is payable on demand on or after December 31, 2018. EFL accrued interest to Indemnity on the surplus note of $1.3 million through September 30, 2010 and 2009. No other interest is charged or received on these intercompany balances due to the timely settlement terms and nature of the items.

Capital contribution

In June 2009, the Exchange made a $43 million capital contribution to EFL and Indemnity made a $12 million capital contribution to EFL to strengthen its surplus. This $55 million in capital contributions increased EFL s investments and total shareholders equity.

CRITICAL ACCOUNTING ESTIMATES

We make estimates and assumptions that have a significant effect on the amounts and disclosures reported in the financial statements. The most significant estimates relate to the valuation of investments, reserves for property/casualty insurance unpaid losses and loss adjustment expenses, life insurance and annuity policy reserves, deferred taxes and retirement benefits. While management believes its estimates are appropriate, the ultimate amounts may differ from estimates provided. Our most critical accounting estimates are described in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2009 of our Form 8-K as filed with the Securities and Exchange Commission on May 6, 2010. See Note 6, Fair Value, for additional information on our valuation of investments.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk is primarily related to fluctuations in prices and interest rates. Quantitative and qualitative disclosures about market risk resulting from changes in prices and interest rates for the year ended December 31, 2009 are included in Item 7A. in our Form 8-K as filed with the Securities and Exchange Commission on May 6, 2010. There have been no material changes that impact our portfolio or reshape our periodic investment reviews of asset allocation during the nine months ended September 30, 2010. The information contained in the investments section of Management s Discussion and Analysis of Financial Condition and Results of Operations is incorporated herein by reference.

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ITEM 4. CONTROLS AND PROCEDURES

We carried out an evaluation, with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective. Our management evaluated, with the participation of the Chief Executive Officer and Chief Financial Officer, any change in our internal control over financial reporting and determined there has been no change in our internal control over financial reporting during the nine months ended September 30, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

The following table summarizes Indemnity s Class A common stock repurchased each month, based upon trade date, during the quarter ended September 30, 2010:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan
July 1 31, 2010	225,496	$ 47.25	220,696	
August 1 31, 2010	189,725	$ 50.77	189,725	
September 1 30, 2010	135,867	$ 55.02	135,867	
Total	551,088		546,288	$ 57,600,000

In April 2010, our Board of Directors approved a continuation of the current stock repurchase program, authorizing repurchases through June 30, 2011 for a total of $100 million.

In addition, the month of July 2010 includes a repurchase of 4,800 shares of our Class A nonvoting common stock for $0.2 million, or $48.75 per share, for the vesting of stock-based awards for executive management. These shares were delivered in July 2010.

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ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibit
10.1	Second Amendment to Erie Indemnity Company Annual Incentive Plan (As Amended and Restated Effective January 1, 2009) effective January 1, 2010
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	Erie Indemnity Company (Registrant)
Date: November 4, 2010	/s/ Terrence W. Cavanaugh Terrence W. Cavanaugh, President & CEO
	/s/ Marcia A. Dall Marcia A. Dall, Executive Vice President & CFO

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