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GOVERNMENT EMPLOYEES INSURANCE CO

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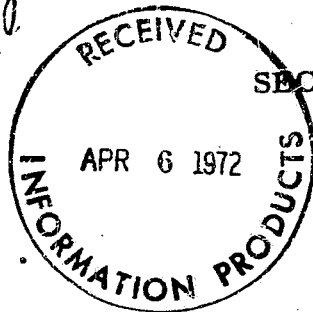
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SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 1971 Commission File Number 2-39709

GOVERNMENT EMPLOYEES INSURANCE COMPANY

District of Columbia
(Jurisdiction of Incorporation)

53-0075853
(IRS Employer Identification
No.)

5260 Western Avenue, N. W., Chevy Chase, Md. 20015

Registrant's Telephone Number 301-656-1000

Securities registered pursuant to Section 12(b) of the Act:

None*

Securities registered pursuant to Section 12(g) of the Act:

None*

Indicate by check mark whether the registrant has filed all annual, quarterly
and other reports required to be filed with the Commission within the past
90 days and in addition has filed the most recent annual report required to
be filed.

Yes

No

*Common stock (\$4.00 par value) registered pursuant to the Securities Act of
1933.

APR 4 1972

GOVERNMENT EMPLOYEES INSURANCE COMPANY (GEICO)

Form 10-K Annual Report

PART I

Item 1. Business

(a) Description

See Exhibit No. 3, Business and Operations (pp. 10-19).

(b) (1) Competition

See Exhibit No. 3, Business and Operations-Competition (p. 18).

(2) Employees

See Exhibit No. 3, Business and Operations-General (p. 11).

(c) (1) Information as to lines of business

See Exhibit No. 3, Business and Operations-General and Classes of Insurance Written (pp. 10 and 11).

Item 2. Summary of Operations (1)

	Year Ended December 31				
	1971	1970	1969	1968	1967
Underwriting Income					
Premiums earned	\$377,328,635	\$289,243,236	\$233,611,248	\$200,871,565	\$176,163,445
Losses and loss expenses	312,906,075	247,588,818	197,372,687	165,458,265	140,034,742
Underwriting expenses	57,387,753	41,222,225	33,713,580	29,692,036	26,449,268
	<u>370,293,828</u>	<u>288,811,043</u>	<u>231,086,267</u>	<u>195,150,301</u>	<u>166,484,010</u>
Underwriting Income	7,034,807	432,193	2,524,981	5,721,264	9,679,435
Investment Income					
Interest, dividend, and real estate income	21,535,657	16,214,536	13,534,169	11,704,797	9,896,459
Less investment expenses	(2,387,515)	(2,145,139)	(1,867,749)	(1,766,472)	(1,859,296)
Investment Income	<u>19,148,142</u>	<u>14,069,397</u>	<u>11,666,420</u>	<u>9,938,325</u>	<u>8,037,163</u>
Underwriting and Investment Income	26,182,949	14,501,590	14,191,401	15,659,589	17,716,598
Realized gain (loss) on sale of investments	(1,152,496)	212,833	1,000,339	1,091,372	366,781
Expenses related to abandoned holding company project	---	---	(282,929)	---	---
Income Before Income Taxes	<u>25,030,453</u>	<u>14,714,423</u>	<u>14,908,811</u>	<u>16,750,961</u>	<u>18,083,379</u>
Federal income taxes (2)	<u>4,679,948</u>	<u>2,003,956</u>	<u>3,052,279</u>	<u>5,041,008</u>	<u>5,988,048</u>
STATUTORY NET INCOME	<u>\$ 20,350,505</u>	<u>\$ 12,710,467</u>	<u>\$ 11,856,532</u>	<u>\$ 11,709,953</u>	<u>\$ 12,095,331</u>
Statutory earnings per common share (3)	<u>\$2.46</u>	<u>\$1.63</u>	<u>\$1.52</u>	<u>\$1.51</u>	<u>\$1.56</u>
Pro forma statutory earnings per common share (4)	<u>\$1.23</u>	<u>\$.81</u>	<u>\$.76</u>	<u>\$.75</u>	<u>\$.78</u>
Cash dividends per common share (3)	<u>\$1.30</u>	<u>\$1.15</u>	<u>\$1.08</u>	<u>\$.94</u>	<u>\$.81</u>
Weighted Average Shares of Common Stock Outstanding	8,257,077	7,799,912	7,781,759	7,760,650	7,748,051

(1) The foregoing Summary of Operations has been prepared in conformity with statutory accounting practices prescribed or permitted by the Insurance Department of the District of Columbia. Such accounting practices differ in some respects from generally accepted accounting principles as more fully explained in Note A to the financial statements included elsewhere in this Annual Report on Form 10-K.

Item 2. Summary of Operations (Continued)

- (2) Federal income tax expense reflects the effect of tax exempt interest income, exclusion from taxation of 85% of dividend income, and investment tax credit (which is not material) accounted for by the flow-through method.
- (3) Per share data are based on the weighted average shares outstanding during each year adjusted for stock dividends and stock distributions (1968 - 4 1/2%; 1969 - 50%; 1970 - 2%) but exclusive of the proposed May 1972 two-for-one stock distribution as described in Note 4, and further excluding stock options and warrants which have a dilutive effect of less than 1%. Cash dividends per share are based on the shares outstanding at the dates paid, adjusted for the aforementioned stock dividends and stock distributions. Percent stock dividends and distributions are as actually declared. Pro forma per share data gives effect to the proposed two-for-one stock distribution described in Note 4.
- (4) The Board of Directors has declared a two-for-one stock distribution payable on May 2, 1972 to shareholders of record April 11, 1972 subject to shareholder approval of an increase in authorized capital stock to 24,000,000 shares. Supplementary pro forma per share data has been provided, which gives effect to the aforementioned distribution.

	Year Ended December 31				
	1971	1970	1969	1968	1967
<u>Paid-in Surplus</u>					
Balance at beginning of year	\$ 2,754,095	\$ 2,389,695	\$ 1,802,811	\$ 924,787	\$ 404,597
Excess of proceeds over par value of shares sold in connection with rights offering to shareholders, less expenses in connection therewith	35,980,753	---	---	---	---
Excess of proceeds over par value from shares issued on exercise of warrants	75,417	---	---	---	---
Excess of proceeds over par value of shares sold under stock options	1,008,426	355,100	575,527	849,443	520,190
Excess of proceeds over par value of fractional shares sold with stock dividends	---	9,300	11,357	28,581	---
Balance at End of Year	<u>\$ 39,818,691</u>	<u>\$ 2,754,095</u>	<u>\$ 2,389,695</u>	<u>\$ 1,802,811</u>	<u>\$ 924,787</u>
<u>Surplus (Deficiency) Arising From Revaluation of Assets</u>					
Balance at beginning of year	\$ (4,403,813)	\$(7,597,157)	\$ 11,975,209	\$ 5,350,155	\$ 2,740,052
Unrealized gains (losses) from changes in valuation of investment securities	<u>7,528,110</u>	<u>3,193,344</u>	<u>(19,572,366)</u>	<u>6,625,054</u>	<u>2,610,103</u>
Balance at End of Year	<u>\$ 3,124,297</u>	<u>\$(4,403,813)</u>	<u>\$ (7,597,157)</u>	<u>\$11,975,209</u>	<u>\$ 5,350,155</u>

Item 2. Summary of Operations (Continued)

	Year Ended December 31				
	1971	1970	1969	1968	1967
<u>Earned Surplus</u>					
Balance at beginning of year	\$ 29,847,676	\$29,980,786	\$ 37,988,629	\$33,779,348	\$28,866,545
Statutory net income	20,350,505	12,710,467	11,856,532	11,709,953	12,095,331
Cash dividends paid	(10,823,507)	(8,935,039)	(8,396,350)	(7,289,804)	(6,290,110)
Stock dividends and stock distributions to shareholders	---	(611,489)	(10,161,878)	(871,772)	---
(Increase) decrease in non-admitted assets	(3,645,393)	(3,297,049)	(1,306,107)	660,904	(892,418)
Balance at End of Year	<u>\$ 35,729,281</u>	<u>\$29,847,676</u>	<u>\$ 29,980,786</u>	<u>\$37,988,629</u>	<u>\$33,779,348</u>

Item 3. Properties

See Exhibit No. 3, Business and Operations-Property (pp. 18-19).

Item 4. Parents and Subsidiaries

There are no parents or subsidiaries of the registrant.

Item 5. Pending Legal Proceedings

See Exhibit No. 3, Business and Operations-Litigation (p. 19).

Item 6. Increases and Decreases in Outstanding Securities

(a) See Exhibit No. 3, Statement of Capital Stock and Surplus-Common Stock (p. 32).

(b) Pursuant to its restricted and qualified employee stock option plans (see Management in Exhibit 3), GEICO sold the following shares of Common Stock to key GEICO officers and executive personnel only, during the past year through May 25:

<u>Number of Shares Sold</u>	<u>Number of Such Optionees Purchasing Shares During Year</u>	<u>Aggregate Sales Price</u>
20,766(1)	81	\$950,603.87

(1) 0.25% of 8,482,496 shares outstanding December 31, 1971.

A copy of the "Stock Option Plan for Officers and Executive Personnel" as amended and a copy of the form of Option Agreement including the Notice of Exercise of Stock Option under that Plan are incorporated by reference as Exhibits 10 and 11.

As a result of the above sales Registrant credited to its capital stock account an amount equal to the aggregate par value (\$4.00 per share) of the shares of Common Stock. The difference between aggregate par value and the aggregate option prices has been credited to paid-in surplus. No underwriters were used in connection with these sales.

Pursuant to Registration Statement No. 2-39846, which became effective May 24, 1971, GEICO has registered the sale to employees of shares of Common Stock reserved for issuance under outstanding options and shares which may be issuable pursuant to additional options which may be issued from time to time under such Plan, and the resale by optionees of such shares and of such shares previously issued by GEICO upon exercise of stock options.

In connection with the sales by GEICO of such shares to its employees upon their exercise of stock options prior to May 25, 1971, the purchasing employees represented to GEICO that such shares were being acquired "as an investment and not with a view to distribution", and such sales were not registered under the Securities Act of 1933 in reliance on the nonpublic offering exemption set forth in § 4(2)

of that Act. For the reasons set forth in this and the preceding paragraphs the shares have not been legended and stop transfer instructions have not been given.

Item 7. Approximate Number of Equity Security Holders

<u>Title of Class</u>	<u>Number of Record Holders as of February 8, 1972</u>
Common Stock - \$4.00 par value	5,336
Warrant-to purchase one share of Common Stock at \$73, exercisable from August 1, 1971 until August 1, 1978.	2,670

Item 8. Executive Officers of the Registrant

<u>Name</u>	<u>Age</u>	<u>Title</u>
David Lloyd Kreeger	63	Chairman of the Board and Chief Executive Officer
Norman L. Gidden	55	President and Chief Operating Officer
Ralph C. Peck	54	Senior Vice President
George F. Lewin	55	Senior Vice President
Harry C. Clay	51	Vice President, New York Regional Office
Milton S. Cole	51	Vice President, Personnel
Walter F. Culver	52	Vice President, Branch Offices
Walter R. Herman	58	Vice President, Underwriting
J. Gardner Lawlor	61	Vice President, Investments
Ernest M. Lucas	46	Vice President and General Counsel
Ross W. Pierce	48	Vice President, Operations
Edward S. Ring	45	Vice President, Claims
George E. Smith	51	Vice President, Production
Robert F. Springer	48	Vice President, Data Processing
Walter R. Tinsley	53	Vice President, Office Services
George E. Fries	61	Vice President
Alvin E. Kraus	59	Vice President

Raymond F. Rodgers	51	Vice President
Neal J. Boyle	47	Comptroller
Henry J. Collins	44	Treasurer
Charles T. Connolly	43	Actuary
John M. O'Connor	42	Secretary

There is no family relationship between the above-named executive officers of the registrant.

Item 9.

Indemnification of Directors and Officers

Neither Title 29, Chapter 2 nor Title 35, Chapter 13 of the District of Columbia Code, under which GEICO is organized, provides for the insurance or indemnification of directors or officers. Reference is made to the Underwriting Agreement (Article VII), and the Agreement Among Underwriters (Article IX), all included in Exhibit 4 incorporated herein by reference, which provide for indemnification by the Underwriters, under certain circumstances, of each of GEICO's Directors and each of its Officers who have signed Registration Statement No. 2-43455.

The Selling Shareholders set forth in the above-referenced Registration Statement have agreed to indemnify, to the extent set forth in the Underwriting Agreement, each Underwriter, the Company and each officer and director of the Company, including in each case any controlling persons, against certain civil liabilities, including liabilities under the Securities Act of 1933, as amended. The Selling Shareholders have also agreed to provide, at their own expense, a policy or policies of insurance (the form of which is incorporated herein by reference as Exhibit 14 to this Annual Report), in substance indemnifying and holding harmless, to the extent of not less than 50% of the aggregate public offering price of the shares of Common Stock offered in the above referenced Registration Statement by them, each Underwriter (and each person, if any, controlling such Underwriter), the Company, its directors and officers and each person, if any, controlling the Company, and themselves, against certain liabilities. Leo Goodwin, Jr., in his individual capacity, has agreed to indemnify each Underwriter, the Company, and each officer and director of the Company, including, in each case, any controlling persons to the extent of the deductible, if any, provided in such insurance policy.

Item 10.

Financial Statements and Exhibits

(a) The response to this item is submitted as a separate section of this report.

(b) Exhibits

Exhibit 1A	Annual Report to Shareholders for the year ended December 31, 1971
Exhibit 2	Convention Form Annual Statement for the year ended December 31, 1971

- Exhibit 3** Preliminary Prospectus dated March 22, 1972 filed on that date as part of Registration Statement No. 2-43455
- Exhibit 4** Exhibit 1 of Registration Statement No. 2-43455 is hereby incorporated by reference (Form of Agreement Among Underwriters with form of Underwriting Agreement and Agreement with Dealers attached in preliminary form)
- Exhibit 5** Exhibit 3-a of Registration Statement No. 2-39709 is hereby incorporated by reference (GEICO's Certificate of Incorporation, as amended through May 5, 1971)
- Exhibit 6** Exhibit 3-c of Registration Statement No. 2-43455 is hereby incorporated by reference (GEICO's By-Laws)
- Exhibit 7** Exhibit 4 of Registration Statement No. 2-39709 is hereby incorporated by reference (Specimen certificate representing the Common Stock, \$4.00 par value, of GEICO)
- Exhibit 8** Exhibit 5-b of Registration Statement No. 2-39709 is hereby incorporated by reference (Specimen Warrant Certificate evidencing right to purchase Common Stock)
- Exhibit 9** Exhibit 5-c of Registration Statement No. 2-39709 is hereby incorporated by reference (Warrant Agreement dated May 5, 1971, between GEICO and American Security and Trust Company)
- Exhibit 10** Exhibit 5-d of Registration Statement No. 2-39709 is hereby incorporated by reference (Stock Option Plan, as amended)
- Exhibit 11** Exhibit 5-e of Registration Statement No. 2-39709 is hereby incorporated by reference (Form of Option Agreement under the Stock Option Plan with form of Notice of Intent to Exercise)
- Exhibit 12** Exhibit 11-a of Registration Statement No. 2-43455 is hereby incorporated by reference (Pension Plan of GEICO, as amended)
- Exhibit 13** Exhibit 11-b of Registration Statement No. 2-43455 is hereby incorporated by reference (Profit-Sharing Plan of GEICO, as amended)
- Exhibit 14** Exhibit 12 of Registration Statement No. 2-43455 is hereby incorporated by reference (Form of Securities Act Liability Insurance Policy)

- Exhibit 15 Exhibit 13-a of Registration Statement No. 2-39709 is hereby incorporated by reference (Statement of Cash Profit-Sharing Bonus Program)
- Exhibit 16 Exhibit 13-b of Registration Statement No. 2-43455 is hereby incorporated by reference (Statement of Incentive Bonus Program for the President and the Chief Executive Officer)
- Exhibit 17 Exhibit 13-c of Registration Statement No. 2-43455 is hereby incorporated by reference (Statement of Incentive Bonus Program for Executive Staff Group and Junior and Senior Officers)
- Exhibit 18 Exhibit 13-d of Registration Statement No. 2-39709 is hereby incorporated by reference (Employment Contract dated May 28, 1969, between GEICO and L. A. Davidson and amendment thereto dated January 28, 1970)

PART II

Item 11. Principal Security Holders and Security Holdings of Management

See Exhibit No. 3, Management (p. 23) and Selling Shareholders (pp. 24 and 25)

Item 12. Directors of the Registrant

- (a) The present term of office of all directors expires on March 29, 1972.
- (b) There is no family relationship between any of the directors or between any of the directors and the executive officers of the registrant.

<u>Name</u>	<u>Principal Occupation and Other Information</u> ^{1/}	<u>Position and Offices Held Within Past Five Years (Other than as Listed Under Principal Occupation)</u> ^{1/}
David Lloyd Kreeger ^{2/3/}	Chairman of the Board, Chief Executive Officer and Director, Government Employees Companies; Director, National Savings and Trust Co., Washington, D. C.	Vice Chairman of the Board, Director, Chairman of the Executive Committees and member of the Investment Committees, Government Employees Companies; President, Government Employees Insurance Co. and Criterion Insurance Co.
Daniel J. Callhan, Jr.	Director, Government Employees Companies; retired Senior Vice President, The Riggs National Bank of Washington, D. C.; Director, Washington Mutual Investors Fund, Inc.	

<u>Name</u>	<u>Principal Occupation and Other Information</u> ^{1/}	<u>Position and Offices Held Within Past Five Years (Other Than as Listed Under Principal Occupation)</u> ^{1/}
John M. Christie ^{2/}	President and Director, The Riggs National Bank of Washington, D. C.; Director, Government Employees Companies.	Senior Vice President, The Riggs National Bank of Washington, D. C.
Lorimer A. Davidson ^{2/3/}	Chairman of the Executive and Investment Committees and Director, Government Employees Companies; Director, The Riggs National Bank of Washington, D. C.	Chairman of the Board, Chief Executive Officer, Director, Member of Executive and Investment Committees, Government Employees Companies.
Norman L. Gidden ^{4/}	President, Chief Operating Officer and Director, Government Employees Insurance Company	Vice President, Government Employees Companies other than Government Employees Insurance Company
Leo Goodwin, Jr. ^{3/}	Director, Government Employees Companies	
Harvey B. Gram, Jr. ^{2/3/}	Managing Partner, Johnston, Lemon & Co., investment bankers; Director Government Employees Companies, Washington Mutual Investors Fund, Inc., International General Industries, Inc., D. C. Paper Mills, Inc., Financial International Corporation, National Press Building Corporation and Telcom, Inc.	Partner, Johnston, Lemon & Co.
Paul J. Hanna	Senior Vice President, Manufacturers Hanover Trust Co., New York, New York; Director Government Employees Companies.	
William K. Jacobs, Jr.	Chairman of the Board, Abacus Fund, Inc., a registered investment company; Director, Government Employees Companies.	President and Director, Abacus Fund, Inc.; member of the Investment Committees, Government Employees Companies.

<u>Name</u>	<u>Principal Occupation and Other Information ^{1/}</u>	<u>Position and Offices Held Within Past Five Years (Other Than as Listed Under Principal Occupation) ^{1/}</u>
Howard A. Newman	Chairman of the Board and President, Western Pacific Industries, Inc., a holding and management company; Director, Government Employees Companies	Chairman of the Board and Director, Northwest Industries, Inc.; Chairman of the Board, Director and President, Philadelphia and Reading Corp.
Melvin M. Payne	President and Chief Executive Officer, National Geographic Society, scientific and educational organization; Director, Government Employees Companies, Equitable Savings and Loan Association and Washington Mutual Investors Fund, Inc., Advisory Director, The Riggs National Bank of Washington, D. C.	Various executive capacities with the National Geographic Society

Item 13. Remuneration of Directors and Officers

See Exhibit No. 3, Management (pp. 21 and 22).

Item 14. Options Granted to Management to Purchase Securities

See Exhibit No. 3, Management (p. 22) and Note (5) to the Financial Statements (pp. 36 and 37).

Item 15. Interest of Management and Others in Certain Transactions

See Exhibit No. 3, Business and Operations-Arrangements and Transactions with Affiliates (p. 19); Management (pp. 20-23); and Underwriting (pp. 25-27).

1/ The Government Employees Companies consist of Government Employees Insurance Co., Government Employees Life Insurance Co., Government Employees Corp., Government Employees Financial Corp., and Criterion Insurance Co.

2/ Member of Investment Committees, Criterion Insurance Co., Government Employees Insurance Co., and Government Employees Life Insurance Company

3/ Member of Executive Committees, Criterion Insurance Co., Government Employees Insurance Co., Government Employees Life Insurance Co., Government Employees Corp. and Government Employees Financial Corp.

4/ Member of Executive and Investment Committees, Government Employees Insurance Co.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GOVERNMENT EMPLOYEES INSURANCE
COMPANY

By *H. J. Collins*
H. J. Collins, Treasurer

Dated: March 29, 1972

FORM 10-K

Item 10(a)

Financial Statements and Schedules
Government Employees Insurance Company
December 31, 1971 and December 31, 1970

The following financial statements of the Company, included in the annual report of the Company to its shareholders for the year ended December 31, 1971, filed as Exhibit 1 hereto, are incorporated herein by reference:

Balance Sheets - December 31, 1971 and December 31, 1970

Statements of Income - Years ended December 31, 1971 and
December 31, 1970

Statement of Adjusted Income - Years ended December 31, 1971 and
December 31, 1970

Statement of Capital Stock and Surplus - Years ended December 31, 1971
and December 31, 1970

Statement of Adjusted Shareholders' Equity - December 31, 1971 and
December 31, 1970

Statement of Changes in Financial Position - Years ended December 31,
1971 and December 31, 1970

Notes to Financial Statements

The following financial information for the years 1971 and 1970 is
submitted herewith:

Report of Independent Accountants

Supplementary Notes to Financial Statements

Schedule I - Bonds

Included by reference to Schedule D - Part 1 of the Annual
Statement for the year ended December 31, 1971 filed as
Exhibit No. 2 to this Annual Report on Form 10-K.

Schedule II - Stocks (other than stocks of affiliates)

Included by reference to Schedule D - Part 2 (Sections 1 and
2) of the Annual Statement for the year ended December 31, 1971
filed as Exhibit No. 2 to this Annual Report on Form 10-K.

Schedule IV - Real Estate

Included by reference to Schedule A - Part 1 of the Annual
Statement for the year ended December 31, 1971 filed as
Exhibit 2 to this Annual Report on Form 10-K.

Schedule V - Summary of investments in securities (other than securities of affiliates)

Included by reference to Schedule D - Summary of the Annual Statement for the year ended December 31, 1971 filed as Exhibit No. 2 to this Annual Report on Form 10-K.

Schedule VII - Premiums, losses and underwriting expenses for the two years ended December 31, 1971.

Schedule XI - Summary of realized gains or losses on sale or maturity of investments for the two years ended December 31, 1971.

All other Schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission have been omitted as they either are not required under the related instructions, are inapplicable, or the information required thereby is set forth in the financial statements or the notes thereto.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders of
Government Employees Insurance Company

We have examined the financial statements and the supplementary notes and schedules listed on the preceding page of Government Employees Insurance Company for the two years ended December 31, 1971. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the balance sheets and statements of income, capital stock and surplus, and changes in financial position included in the annual report of Government Employees Insurance Company to its shareholders for the year ended December 31, 1971 filed as Exhibit 1 to this Form 10-K present fairly the admitted assets, liabilities and capital stock and surplus of Government Employees Insurance Company at December 31, 1971 and December 31, 1970 and the results of its operations, changes in capital stock and surplus and changes in financial position for the years then ended, in conformity with statutory reporting practices prescribed or permitted by the Insurance Department of the District of Columbia which vary in some respects from generally accepted accounting principles as described in Note A to the financial statements, applied on a consistent basis. Further, it is our opinion that the supplemental statements of adjusted income and adjusted shareholders' equity, also included in the aforementioned annual shareholders report, present fairly the adjusted shareholders' equity at December 31, 1971 and December 31, 1970, and the adjusted net income for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Further, it is our opinion that the supplementary notes and the schedules submitted herewith present fairly the information required to be shown therein.

/s/ Ervedo Ernst
ERNST & ERNST

Washington, D. C.
February 25, 1972

Supplementary Notes to Financial Statements

Government Employees Insurance Company

December 31, 1971 and December 31, 1970

Note H - Underwriting Expenses

Underwriting expenses consist of:

	Year Ended December 31	
	1971	1970
Commissions and brokerage	\$ 5,674,794	\$ 3,258,543
Salaries and other compensation	20,890,461	14,917,179
Taxes, licenses and fees	13,416,708	10,339,279
Other underwriting expenses	<u>13,584,826</u>	<u>10,684,346</u>
	<u>\$53,566,789</u>	<u>\$39,199,347</u>

Note I - Other Liabilities

Other liabilities consist of:

	December 31	
	1971	1970
Unpaid drafts issued in settlement of claims	\$10,085,214	\$ 7,865,320
Unapplied premium receipts	3,659,657	3,465,633
Policyholders' credit balances	5,172,827	2,774,722
Massachusetts statute 1971 C.977, section 2 special reserve	217,153	---
All other	<u>328,806</u>	<u>205,731</u>
	<u>\$19,463,657</u>	<u>\$14,311,406</u>

Note J - Stock Options (Continued)

Options have been granted to purchase Common Stock of the Company in equal installments over a three year period (eight years for options granted in 1963) commencing two years from date of grant. Options not exercised are cumulative to the expiration date of the grant. The Company's stock option plan as approved by the shareholders provides for 184,367 shares maximum aggregate issuance. At December 31, 1971, a total of 5,960 shares are available for future grant under the existing plan, with no provision for any grants subsequent to May 1973. The following tabulations show the options granted, the options which became exercisable and the options which were exercised during the two years ended December 31, 1971; and the shares under option at December 31, 1971.

All of the foregoing and following share figures and per share amounts have been restated to give effect to stock dividends and stock distributions, exclusive of the proposed May 1972 two-for-one stock distribution described in Note G.

OPTIONS GRANTED

Year ended December 31:	Number of Shares	Per Share	Total
1970	19,535	\$40.00 to \$43.50	\$ 786,300
1971	<u>16,985</u>	72.63 to 78.50	<u>1,242,936</u>
	<u>36,520</u>		<u>\$2,029,236</u>

Supplementary Notes to Financial Statements - Continued

Government Employees Insurance Company

December 31, 1971 and December 31, 1970

Note J - Stock Options (Continued)

OPTIONS WHICH HAVE BECOME EXERCISABLE

Year ended December 31:	No. of Shares	Option Price		Market Price on Date Options Became Exercisable	
		Per Share	Total	Per Share	Total
1970	13,046	\$43.79 to \$53.16	\$ 636,649	\$40.00 to \$44.00	\$ 536,235
1971	10,672	43.79 to 52.57	511,119	72.94 to 80.30	792,296
	<u>23,718</u>		<u>\$1,147,768</u>		<u>\$1,328,531</u>

OPTIONS EXERCISED

Year ended December 31:	Actual No. of Shares	Restated No. of Shares	Option Price		Market Price on Date Options Were Exercised	
			Per Share	Total	Per Share	Total
1970	12,674	12,754	\$29.14 to \$51.91	\$ 405,796	\$40.00 to \$59.63	\$ 635,259
1971	24,197	24,197	29.14 to 53.16	1,105,214	59.13 to 89.75	1,756,634
	<u>36,871</u>	<u>36,951</u>		<u>\$1,511,010</u>		<u>\$2,391,893</u>

SHARES UNDER OPTION AT DECEMBER 31, 1971

Period During Which Options Were Granted	Under Option	Option Price	
		Per Share	Total
Year ended December 31:			
1963	7,850	\$29.14	\$ 228,718
1967	6,994	\$45.03 to \$51.91	360,871
1968	9,330	43.79 to 48.69	412,575
1969	10,972	47.71 to 52.57	531,192
1970	19,065	40.00 to 43.50	767,500
1971	16,785	72.63 to 78.50	1,228,411
	<u>70,996</u>		<u>\$3,529,267</u>

Upon sale of shares of Common Stock under the option plan (the full amount therefor must be paid in cash prior to issuance of the shares), the difference between the option price and the par value of the shares issued is credited to capital surplus. There are no charges to income with respect to the above arrangements.

Note K - Investment Tax Credit

Investment tax credit, which is not material, is accounted for by the flow-through method.

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SCHEDULE VII

GOVERNMENT EMPLOYEES INSURANCE COMPANY

PREMIUMS, LOSSES AND UNDERWRITING EXPENSE

2 Years Ended December 31, 1971

Line of Business	Part I—Premiums				Part II—Losses and Underwriting Expense			
	Unearned Premiums Beginning of Period	Net Premiums Written	Unearned Premiums End of Period	Premiums Earned During Period	Losses Incurred During Period	Loss Expense Incurred During Period	Commissions and Brokerage Incurred During Period	Other Underwriting Expenses Incurred During Period
YEAR ENDED DECEMBER 31, 1970:								
Fire	\$ 893,622	\$ 1,099,293	\$ 1,041,027	\$ 951,888	\$ 656,977			
Extended coverage	614,119	703,879	726,195	591,803	219,546			
Homeowners multiple peril	9,016,063	13,585,069	12,113,924	10,487,208	6,748,893			
Earthquake	5,699	7,065	6,195	6,569	—			
Inland marine	193,956	561,350	295,630	459,676	197,325			
Oklahoma auto bail bonds	—	6,852	—	6,852	60			
Liability other than auto (B.I.)	215,470	212,707	218,161	210,016	45,541			
Auto liability (B.I.)	62,583,442	143,335,436	76,642,676	129,276,202	82,276,086	\$36,962,027	\$3,258,543	\$35,940,804
Auto liability (P.D.)	24,765,976	58,160,657	31,075,170	51,851,463	45,445,482			
Auto physical damage	43,962,991	104,071,570	54,969,671	93,074,890	75,036,881			
Inland marine service charges	623	8,040	959	7,704	—			
Fire service charges	2,242	7,444	3,771	5,915	—			
Homeowners service charges	17,877	36,472	27,187	27,162	—			
Auto service charges	17,082	2,271,356	20,410	2,268,028	—			
Municipal taxes	13,475	32,593	18,208	27,860	—			
Total	\$142,302,637	\$324,099,783	\$177,159,184	\$289,243,236	\$210,626,791	\$36,962,027	\$3,258,543	\$35,940,804
YEAR ENDED DECEMBER 31, 1971:								
Fire	\$ 1,041,027	\$ 1,447,073	\$ 1,165,089	\$ 1,323,010	\$ 986,986			
Extended coverage	726,195	782,608	804,414	704,389	223,160			
Homeowners multiple peril	12,113,925	18,585,875	16,342,138	14,357,662	8,033,961			
Earthquake	6,195	28,335	19,898	14,632	722			
Inland marine	295,630	795,475	436,804	654,301	257,176			
Oklahoma auto bail bonds	—	6,182	—	6,182	113			
Liability other than auto (B.I.)	218,161	216,744	217,626	217,280	91,039			
Auto liability (B.I.)	76,642,675	186,008,953	96,559,786	166,091,842	109,730,898	\$48,882,712	\$5,674,794	\$47,891,995
Auto liability (P.D.)	31,075,171	78,731,728	41,060,021	68,746,877	55,647,707			
Auto physical damage	54,969,670	138,967,194	71,473,744	122,463,121	89,051,601			
Inland marine service charges	958	9,932	1,161	9,729	—			
Fire service charges	3,771	8,421	5,510	6,682	—			
Homeowners service charges	27,187	65,783	51,243	41,728	—			
Auto service charges	20,410	2,657,328	22,178	2,655,559	—			
Municipal taxes	18,208	37,652	20,220	35,641	—			
Total	\$177,159,184	\$428,349,283	\$228,179,832	\$377,328,635	\$264,023,363	\$48,882,712	\$5,674,794	\$47,891,995

GOVERNMENT EMPLOYEES INSURANCE COMPANY

SUMMARY OF REALIZED GAINS OR LOSSES ON SALE OR MATURITY OF INVESTMENTS
For the Two Years Ended December 31, 1971

Type of security	Aggregate cost*	Aggregate proceeds	Gain (loss)
Year ended December 31, 1970			
Bonds	\$45,459,287	\$45,453,330	\$ (5,957)
Stocks—other than stocks of affiliates	6,077,717	6,296,507	218,790
Total	<u>\$51,537,004</u>	<u>\$51,749,837</u>	212,833
Income taxes allocable to realized gains			60,120
Net realized gain			<u>\$ 152,713</u>
Year ended December 31, 1971			
Bonds	\$125,345,729	\$125,407,011	\$ 61,282
Stocks—other than stocks of affiliates	9,176,039	7,979,270	(1,196,769)
Demolition of fountain**	17,009	—	(17,009)
Total	<u>\$134,538,777</u>	<u>\$133,386,281</u>	(1,152,496)
Income tax effect of realized losses			309,557
Net realized (loss)			<u>\$ (842,939)</u>

* Bonds are stated at aggregate amortized cost.

** Fountain stated at depreciated value.

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