SEC FILE NO 2-39709 12--09 SIC 633 G 62 47 50 000

GOVERNMENT EMPLOYEES INSURANCE CO 10-K

OTHER

CARD 1 MICROFICHE BY DISCLOSURE INCORPORATED FOR 12/31/76

Government Employees Insurance Co. [D.C.] Co: G624750000
5260 Western Avenue, N.W.
Chevy Chase, Md. 20076
SEC File No: 2-39709 Exch: Other
IRS No: 53-0075853 CUSIP: 3837127
Fiscal Year Ends: 12/31 SIC No: 633
Auditor: Ernst & Ernst

ARS	For:	12/31/75	
Proxy	Dated:	03/08/76	
Proxy	Dated:	06/30/76	
Prspct	Eff:	11/12/76	
Prspct	Eff:	11/30/76	
Prspct	Eff:	12/02/76	
Regst S01	Filed:	09/22/76	
10-K	For:	12/31/75	
10-Q	For:	03/31/76	
10-Q	For:	06/30/76	
10-Q	For:	09/30/76	
8-K	For:	01/31/76	Amendment 1
8-K	For:	02/29/76	
8-K	For:	07/31/76	
8-K	For:	10/31/76	
8-K	For:	12/31/76	

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PROCESSED BY MAR 31 1977 DISCLOSURE INCORPORATED

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

SECURITIES AND EXCHANGE COMMISSION FEE RECEIVED MAR 1977 OFFICE OF REPORTS & INFORMATION SERVICES

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, 1976 Commission file no. 2-39709

GOVERNMENT EMPLOYEES INSURANCE COMPANY

81

District of Columbia
(Jurisdiction of Incorporation)

53-0075853
(IRS Employer Identification No.)

5260 Western Avenue, Chevy Chase, Md. 20076

Registrant's telephone number 301-986-3000

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 (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 X NO _____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report.

	As of December 31, 1976
Capital shares outstanding - Common Stock, $.10 par value	17,736,760

* Common Stock, Warrants to purchase Common Stock and Cumulative Convertible Preferred Stock registered pursuant to the Securities Act of 1933.

GOVERNMENT EMPLOYEES INSURANCE COMPANY
(GEICO)

Form 10-K Annual Report

PART I

Item 1. Business

GEICO is a multiple line property and casualty insurer engaged principally in writing all lines of private passenger automobile insurance. To a much more limited degree, the Company also writes homeowners, fire and extended coverage, comprehensive personal liability and boatowners insurance.

The Company writes fire, casualty and inland marine insurance in the District of Columbia and in all states of the United States, with the exception of New Jersey, Alaska and Guam, where the Company has voluntarily withdrawn from doing business, and Kansas, where its certificate of authority has been suspended because of the reduction of the par value of the Common Stock to $.10 per share. It is subject to varying legal requirements in each of the jurisdictions where it does business. The Company is not authorized to write new business in Hawaii, Iowa, and New Hampshire, and is no longer licensed to write automobile insurance in Massachusetts.

In the past GEICO's rates were generally lower than those of many other companies writing similar types of insurance because its underwriting expenses (the total cost of producing and processing insurance policies) were, and still are, substantially below the average for other stock companies in the property and casualty insurance industry, primarily as a result of GEICO's direct marketing methods. Originally GEICO dealt directly with its applicants and obtained substantially all its new business exclusively by mail. In the early 1960's, while GEICO continued to solicit new business primarily through a direct mail advertising program, it also began to utilize sales offices and General Field Representatives (commission agents) throughout the United States. All renewals of existing policies have always been and continue to be effected by mail directly with the policyholders. Starting in mid-1975, GEICO terminated all advertising expenditures and, in January 1976, undertook a program to reduce significantly the number of voluntary automobile policies in force and to keep in balance the risk quality of the remaining policies in force by maintaining the relationship between preferred risk and other policyholders. This program involves very stringent limitations on any new policies and the selective review, to the extent permitted by insurance regulations, of all policies subject to renewal. In addition, of the 44 GEICO sales offices and 91 General Field Representatives existing on January 1, 1976, GEICO has closed 23 such offices and terminated 81 such agents as of December 31, 1976. GEICO's Western Regional Office in San Francisco was closed in September 1976. With this reduction in sales facilities, GEICO will concentrate its efforts on the servicing of its policyholders and claimants. The drive-in claims portion of certain GEICO offices, the sales function of which has been closed, will remain open.

During the past three years the cost of settling claims has risen rapidly due to increased automobile repair costs, the high cost of hospital and medical services as well as the social inflation of jury awards. In order to offset these costs, GEICO substantially increased its premium rates in all lines. Voluntary automobile policy premium rates increased the equivalent of 18% in 1975 and 38% in 1976 on a countrywide basis. Involuntary automobile rates increased the equivalent of 24% and 20% in 1975 and 1976 respectively. Homeowners policy rates were increased the equivalent of 6% in 1975 and 21% in 1976 while fire and extended coverage rates were raised the equivalent of 7% in 1975 and 38% in 1976. As a result of these increases, GEICO's premium rate structure has improved and, at current levels, is expected to eventually produce a moderate underwriting profit on most lines of voluntary business in most jurisdictions.

In 1976 voluntary automobile coverage premium rates were adjusted at least once in each jurisdiction where GEICO is continuing to write automobile coverage, except North Carolina (where the industry is locked in a continuing battle with the regulator over adequate rates). There were 63 major rate increases in 1976 and a comparable number of minor increases which resulted from changes in the rating rules. These increases combined with those implemented in 1975 have raised the rate level of voluntary automobile policies the equivalent of 63% over the last two years.

Since it is virtually impossible to predict inflation on claim settlement costs and operating expenses with any precise degree of accuracy, premium rates will continue to be closely monitored in each jurisdiction to assure their adequacy. If this monitoring process reveals potential or existing rate inadequacies, rate relief will be promptly sought.

Due to continued increases in servicing costs, GEICO's service charge on installment payments has been increased to $2.00 per payment. Approximately $10.8 million was generated in 1976 by these service charges.

GEICO has specialized in writing private passenger automobile insurance since the Company's founding in 1936. Consequently, this line has traditionally accounted for over 90% of written premium volume. In 1976 automobile written premiums totaled $598,159,336 down 4.3% or $26,808,015 from the $624,967,351 written in 1975. Voluntarily selected and underwritten automobile insurance business decreased in volume by $41,077,864 or 7.1% during the year while involuntary business increased by $14,269,849 or 29.0% over the prior year. Active automobile insurance policies in force at year-end 1976 totaled 1,612,746, down 27.1% from the 2,211,362 active policies in force at December 31, 1975.

In 1976 GEICO sustained an underwriting loss of $65.6 million on the automobile line compared with a loss of $150.4 million in 1975. Of the 1976 loss, 50.4% or $38.4 million resulted from involuntary automobile policies, which in contrast accounted for only 10.6% of the Company's total automobile written premium volume. This growing and invariably unprofitable portion of the Company's business accounted for 7.9% and 6.7% of total automobile insurance premiums in 1975 and 1974 respectively. Underwriting losses from involuntary business totaled $29.9 million in 1975 and $11.7 million in 1974.

Loss reserves are estimates of the eventual costs of claims incurred but not finally settled. They are based not only on historical experience but also on a judgment of the effect on such claim costs of future economic and social forces, as well as on GEICO's experience with the type of risk involved, knowledge of the circumstances surrounding individual claims and experience with respect to the probable number and nature of claims arising from losses not yet reported. Consequently, they are inherently subject to a number of highly variable circumstances. In 1974 and 1975, escalating inflation of double-digit magnitude on the costs for hospital and medical care and auto crash parts combined with "social" inflation of jury awards, changes in tort law and the widespread introduction of "no-fault" automobile insurance made accurate assessment of loss reserve estimates particularly difficult.

GEICO substantially underestimated the impact of such factors on its loss reserves during 1974 and in 1975 prior to year-end adjustments. As shown in GEICO's annual statutory statement for the year ended December 31, 1975 (Exhibit 2 to GEICO's SEC Form 10-K for the year ended December 31, 1975), payments in 1975 for accidents occurring during 1974 and prior years plus the reserves for those accidents at December 31, 1975, exceeded by approximately $67.9 million the reserves at December 31, 1974. In 1976 claim settlement costs continued to rise at a rate that exceeded the national rate of inflation, but at a more manageable pace than in 1975. Automobile repair and hospital and medical costs are among the most rapidly increasing costs in the country; unfortunately for automobile insurers, these costs account for the greatest portion of claim settlement costs and loss reserves. GEICO is continuously monitoring its actual losses as compared with past reserve estimates and makes revisions of the reserves as indicated.

GEICO currently sets loss reserves from case evaluations, average claim costs and other estimated components. GEICO's Office of the Actuary tests the aggregate reserves derived from these components against other statistical indicators of ultimate claim losses. GEICO's reserves for losses and loss adjustment expenses, before the effect of quota share reinsurance, have been as shown in the following table:

Year-end	Reserves	Increase over Previous Period	Ratio of Reserves to Last 12 Months Earned Premiums
1973	$247,784,516	9.6%	49.9%
1974	262,981,553	6.1	49.4
1975	368,438,778	40.1	61.9
1976	430,500,000	16.8	66.7

During 1976 GEICO continued to refine its estimating procedures employed in arriving at its reserves which resulted in increases in reserve components. The net results of such refinements closed the gap between GEICO's loss reserves at December 31, 1976, and such reserves as estimated by its consulting actuaries, to $5.3 million. Recoverability available through GEICO's excess reinsurance treaties essentially eliminates even that difference.

GEICO believes that its provisions for loss and loss adjustment expenses at December 31, 1976 are reasonable and adequate to cover the ultimate net cost of losses on reported and unreported claims arising from accidents which had occurred by that date, but such provisions are necessarily based on estimates and the ultimate net cost may vary from such estimates.

In September 1975 GEICO retained a major independent consulting actuarial firm to conduct quarterly evaluations of the adequacy of GEICO's reserves. The firm has prepared written quarterly reports of its evaluation of reserves for loss and allocated loss adjustment expenses before consideration of reinsurance for GEICO's major lines of business at September 30, 1975, and each subsequent calendar quarter (which, at December 31, 1976, covered approximately 91.3% of GEICO's total net loss and loss adjustment expense reserves). In its study of GEICO's reserves, the firm relied upon information supplied by GEICO's Office of the Actuary.

The consulting actuarial firm's letter dated February 1, 1977, with respect to GEICO's December 31, 1976 reserves, advised that, in view of the variability inherent in the process of estimating reserves, the firm believes GEICO's loss and allocated loss adjustment expense reserves as of December 31, 1976, are well within a range of adequacy which these consultants deem reasonable and acceptable.

The firm's letter further stated that its estimates for GEICO's major lines totaled \$398.5 million. GEICO's reserves for those same lines totaled \$393.2 million. The consultant's estimate does not take into account the recoverability available through GEICO's excess reinsurance treaties; as previously noted, taking such into consideration would essentially eliminate any difference.

The consultant's letter emphasized the importance of understanding the degree of variability inherent in its estimates and, indeed, in any loss reserve estimate. As a result of the effect of inflation on the cost of settling claims and a number of other uncertainties, the consultants advised GEICO that a considerable degree of variation from the estimates contained in its February 1, 1977 letter was not only possible but probable. They also stated that although the degree of this variation cannot be determined, it could be substantial and could be in either direction from their reserve estimate.

Loss reserves are further discussed in the Notes to Consolidated Financial Statements (Exhibit 1, pp. 26 and 27).

At the Annual Meeting held on March 31, 1976, GEICO's shareholders approved an amendment to GEICO's Certificate of Incorporation which reduced the par value of GEICO's authorized Common Stock from \$4 per share to \$1 per share. At the Special Meeting held on July 23, 1976, GEICO's shareholders approved a further amendment to GEICO's Certificate of Incorporation which resulted in the authorization of the Cumulative Convertible Preferred Stock, \$1 par value (the "Preferred Stock") and a further decrease in the par value of the Common Stock to \$.10 per share. The first such reduction was designed to increase GEICO's surplus account to a level in excess of the statutory minimum prescribed by District of Columbia law and an associated regulatory order issued by the Superintendent of Insurance of the District of Columbia. The second reduction was intended to reduce the possibility of GEICO's surplus again becoming so impaired. The sale of the Preferred Stock, the implementation of the quota share reinsurance treaty (both described below) and recent more favorable operating results increased GEICO's statutory surplus to \$126,642,094 and its surplus for the protection of policyholders to \$136,665,426, both as of December 31, 1976.

On January 12, 1977, the Company's Board of Directors approved, subject to shareholder approval at the Annual Meeting scheduled for March 30, 1977, an increase in the par value of GEICO's common stock from \$.10 to \$1.00 per share, which will result, as of December 31, 1976, in a transfer of \$15,963,084 from the paid-in surplus account to the capital account. GEICO's Board of Directors has proposed this change in order to remove any disability to GEICO's writing insurance because of the \$.10 par value of the Common Stock. Although approval of the proposed amendment to GEICO's Certificate of Incorporation will eliminate the above-described technical problem under the applicable insurance laws and regulations, it should be borne in mind that the resumption of the writing of new business is subject to the approval of local regulatory authorities and will only be commenced if and when GEICO's Management concludes that such an expansion of GEICO's business can be profitably and prudently undertaken.

As a result of GEICO's financial problems at the end of 1975, a Company program was implemented to reduce its voluntarily written automobile policies in force; additionally, restrictions were imposed on the Company in 1976 prohibiting the writing of new, and in some instances all, business in certain jurisdictions. With the net profit recorded in the third and fourth quarters of 1976, completion of the Preferred Stock offering and implementation of the quota share reinsurance treaty, most of those restrictions have been removed. The Company, however, is not authorized to write new business in Hawaii, Iowa and New Hampshire. In Kansas its Certificate of Authority remains suspended because the par value of its common stock is less than $1 per share.

GEICO has voluntarily withdrawn from doing business in New Jersey and Guam and in accordance with an agreement has discontinued writing business in Alaska and does not intend to renew its Certificate of Authority to do business in that State. New Jersey accounted for 9.7% of GEICO's 1975 written premiums while Alaska and Guam accounted for less than 1%.

The Company's effort to reduce voluntary automobile policies in 1976 was on a country-wide basis and was to be continued until underwriting profitability and a proper relationship of premiums written to policyholders' surplus could be restored. As part of this effort, all marketing programs were suspended and most sales offices were closed. Stringent underwriting standards were implemented, which combined with withdrawal from New Jersey and other jurisdictions and the impact of higher rate levels, caused GEICO's voluntary automobile policies in force to decrease by 28.7% from December 31, 1975.

The primary thrust of GEICO's marketing strategy in 1977 is being directed toward improving the quality of the Company's book of business. This is being accomplished by marketing GEICO's insurance services only in those jurisdictions identified as providing a reasonable expectation of profitability; further reducing the number of automobile policies in force by non-renewing those current policyholders whose driving records fail to meet the Company's preferred risk requirements; and application of stringent underwriting standards in all states where legally permissible.

Having 94% of the Company's premium volume generated by automobile insurance with the bulk of the automobile volume in six states was not to the Company's advantage during the past two years. With the continuing uncertainty surrounding the adequacy of automobile insurance rates, increasing regulatory pressures on underwriting prerogatives in the automobile line and persistent residual market problems, it will be to GEICO's advantage to increase the concentrations of business in the homeowners and other miscellaneous lines. These lines have traditionally been profitable for GEICO and are logical directions for the Company to move in at this time. Therefore, an important part of GEICO's marketing strategy is to reduce the proportion of the Company's total business in the automobile line, as well as to achieve a more balanced geographaical distribution of automobile insurance business.

On December 2, 1976, GEICO successfully completed a subscription offering of 8,249,656 shares of Preferred Stock. Holders of

GEICO Common Stock purchased 6,766,356 shares of the Preferred Stock and nine participants in the quota share reinsurance treaty (described below) purchased the remaining 1,483,300 preferred shares. The gross proceeds to the Company from this offering amounted to approximately $75.9 million.

Also on December 2, 1976, pursuant to a program carried out under the supervision of the District of Columbia Superintendent of Insurance, GEICO completed a quota share reinsurance arrangement (treaty) with 27 property and casualty insurance companies. Under this arrangement the reinsurers assumed 25.36% of GEICO's June 30, 1976 liability for unearned premiums of $434 million; GEICO transferred $110.2 million to the reinsurers and GEICO received from the reinsurers a 15% ceding commission of $16.5 million. With respect to business written after June 30, 1976, the reinsurers assumed 25.36% of the monthly written premiums and paid to GEICO a 15% commission.

At the time these reinsurance arrangements were implemented, GEICO's statutory policyholders' surplus was increased by the amount of the ceding commission paid by the reinsurers to GEICO. However, this reinsurance will adversely affect GEICO's statutory operating results in any period in which GEICO is operating close to or at an underwriting profit. The ceding commission will gradually reduce to a point well below GEICO's projected costs of writing and servicing the business, and, since GEICO cannot cancel the reinsurance arrangments until the reinsurers have been put in a profitable position on an inception-to-date basis, the reinsurance arrangements will become increasingly expensive to GEICO in future years. See Notes to Consolidated Financial States, (Exhibit 1 pp. 28 and 29) for a further discussion of the quota share reinsurance agreements.

The A. M. Best Company, an insurance industry rating service, in 1976 assigned the Company a "deferred" policyholders' rating. This change caused a number of mortgage lending institutions to advise their mortgagors that GEICO fire and homeowner's policies are unacceptable; the premiums written decreased from $39,174,436 in 1975 to $33,539,720 in 1976. This decline was attributable to GEICO's financial difficulties, substantially higher premium rates and the "deferred" policyholders rating. Subsequent to GEICO's successful capital financing and the implementation of the quota share reinsurance program, the A. M. Best Company advised GEICO that it would qualify for the Class XV financial category, which far exceeds the minimum requirement of mortgage lending institutions that utilize this A. M. Best category as a standard of acceptability. The Company is currently pursuing with the A. M. Best Company the obtainment of a policyholder rating which GEICO believes to be commensurate with its current financial condition.

GEICO is the largest and oldest of the Government Employees Companies, which presently consist of GEICO and the following three corporations (the "Companies"):

> Government Employees Life Insurance Company (GELICO), which writes life, accident and health insurance and annuities;
>
> Criterion Insurance Company (CRICO), which writes liability and physical damage insurance on private passenger automobiles, primarily for standard and substandard risks; and

Government Employees Financial Corporation (GEFCO), which is engaged with its subsidiaries in the consumer finance business, the brokerage of overseas automobile insurance and industrial banking.

The Government Employees Companies have certain directors and executive officers in common. No company owns any stock in any of the other companies.

The insurance industry is highly competitive. GEICO currently competes most directly with the other companies, including mutual companies, that concentrate on preferred risk insurance. Although most insurance companies are stock companies like GEICO, in 1976 mutual companies wrote an estimated 23.5% of all property and liability insurance in the United States. Mutual companies may have a competitive advantage in that certain earnings inure to the benefit of policyholders rather than to shareholders.

The price advantage historically held by GEICO over major competitors was diminished in 1976 because of the very substantial rate increases implemented by the Company in a large number of states. To assure that GEICO is able to maintain a reasonably favorable competitive pricing position, the Company introduced in late 1976 a new safe driver rating plan intended to provide a premium advantage to customers with good driving records. By year-end the plan had been approved in 12 jurisdictions comprising approximately 77% of the Company's current voluntary automobile premiums. The plan has significantly improved GEICO's ability to retain current preferred risk policyholders as well as to attract and select new clientele of exceptionally low risk potential.

The lastest available statistics published in the National Underwriter reveal that GEICO was, based on 1975 earned premiums, the third largest stock company insurer of private passenger automobiles and the fifth largest insurer of autos considering stock, mutual and reciprocal companies, in the United States. It is anticipated that GEICO's position in these rankings has been and will be diminished in view of substantial rate increases, more stringent underwriting, termination of direct advertising, and the plan to reduce the number of voluntary automobile policies in force during 1976 and 1977. The number of active voluntary automobile policies in force decreased by 28.7% to 1,482,474 as of December 31, 1976. During the latter part of 1976 the rate at which active auto policies in force declined exceeded that which was planned due to the Company's withdrawal from New Jersey, the implementation of substantial premium rate increases in most jurisdictions and the unfavorable publicity the Company received at the height of its financial difficulties. Toward the end of the fourth quarter the rate of attrition was moderating.

Taking into account certain revisions in the way GEICO's active work force is calculated, the Company's active staff totaled 6,073 employees at year-end 1976, a 17.2% reduction from the 7,336 active employees at December 31, 1975 and a 24.4% reduction since December 31, 1974. The staff reductions in 1976 were made in conjunction with the projected and actual reduction in policies in force.

A number of benefits are provided or made available for full-time employees, including a savings plan, pension plan and various insurance programs. Effective February 1, 1976, GEICO temporarily suspended its contributions to the savings plan.

Item 2. (a) Summary of Operations

The summary required in response to this Item is included on page 6 of the Annual Report to Shareholders for the year ended December 31, 1976, filed as Exhibit 1 hereto. Such summary is incorporated herein by reference and should be read in conjunction with the consolidated financial statements and notes thereto.

(b) Management's Discussion and Analysis of the Summary of Operations

The discussion required in response to this Item is included on pages 7 through 10 of the Annual Report to Shareholders for the year ended December 31, 1976, filed as Exhibit 1 hereto. Such discussion is incorporated herein by reference.

Item 3. Properties

GEICO's total real estate investment, which was on a consolidated basis $34,992,481 (depreciated cost) as of December 31, 1976, is represented principally by (a) its Operations Office Building in Chevy Chase, Maryland, which was carried at $12,171,668; (b) $12,167,248 in its Northeastern Regional Office Building in Woodbury, Long Island, New York; and (c) $8,285,548 in its Southeastern Regional Office Building in Macon, Georgia.

GEICO's Operations Office Building is a modern multilevel structure. The greater part of the four-story portion was completed in 1959 and an additional four-story portion and an eight-story tower were completed in 1964. Of a total of approximately 428,398 square feet, GEICO occupies approximately 382,482 square feet, and certain of the Companies occupy the remainder under agreements with GEICO.

In December 1973, GEICO's Northeastern Regional Office Building and one of its Fairfax County, Virginia claims facilities were acquired by GEICO Properties, Inc. ("GPI"), a wholly-owned subsidiary of GEICO (see Item 4 below). The purchase was financed by 8-1/4% notes due June 15, 2004 sold to institutional investors. The notes were secured by a Deed of Trust and Indenture of Mortgage on the properties, by the assignment to the trustees of a 30-year lease, coincident with the term of the notes, between GEICO and GPI, and by the undertaking of GEICO to make sufficient funds available to GPI to meet its obligations under the Indenture.

GEICO's Southeastern Regional Office Building was purchased by GPI in May 1974 and occupied by GEICO in August 1974. This purchase was financed by an 8-1/2% note due May 1, 2004 which was sold to an institutional investor and secured by an assignment to the trustee of a 30-year lease and the undertaking between GEICO and GPI, which documents were similar in terms to those used in financing GEICO's Northeastern Regional Office Building. Both buildings are similar in design and capacity, each being a modern four-story structure containing approximately 250,000 square feet. With respect to both financings, the outstanding balance of the long-term debt of GPI on December 31, 1976 was $23,005,659.

On July 24, 1975, the Company transferred its Operations Building and certain adjacent property as well as its Fairfax County, Virginia and

Clinton, Maryland and GPI sold its Smithtown, New York, sales/drive-in facilities to GEICO Washington Properties, Inc. ("GWPI"), a wholly-owned subsidiary of GEICO (see Item 4 below). This transfer was financed by a 9-3/8% note due July 1, 2010 which was sold to an institutional investor and secured by an Indenture of Mortgage and Deed of Trust on the properties and by the assignment to the noteholder of a 7-year lease for the Operations Building property, automatically renewable for 4 successive 7-year terms, between GEICO and GWPI. The outstanding balance of the long-term debt of GWPI on December 31, 1976 was $24,858,553.

In November 1973, GEICO entered into a lease agreement effective February 1, 1974 for four floors in a high-rise office building in downtown San Francisco, California, to be used as its Western Regional Office. This lease will expire on January 31, 1979. In September 1976 the Western Regional Office was closed and GEICO is currently negotiating the sublease of this property. GEICO also leases office space and "drive-in" claims facilities in various cities in the United States. These leases expire at various times between 1976 and 1992 with renewal options in a number of cases.

In addition, GEICO maintains electronic data processing equipment with a depreciated cost as of December 31, 1976 of $8,603,518 located principally at its Chevy Chase, Maryland Operations Building.

Item 4. Parents and Subsidaries

GEICO Properties, Inc. ("GPI") and GEICO Washington Properties, Inc. ("GWPI"), wholly-owned subsidiaries of GEICO, were incorporated in Delaware. Both such subsidiaries are included in the consolidated financial statements of GEICO.

Item 5. Legal Proceedings

In August 1975 an action alleging various violations of the federal anti-trust laws and California law and naming as defendants twelve major insurance companies, including GEICO, was filed in the United States District Court for the Northern District of California (Workman, et al. v. Government Employees Insurance Company, et al.). The complaint, brought by five independent auto body shops, charges the insurance companies have combined and conspired to restrict interstate commerce in auto body repairs and forced them to perform auto body repairs at prices less than those they would have been able to charge in a freely competitive market. Treble damages in an unspecified amount are sought. The defendants' joint motion for summary judgment has been granted; the plaintiffs have filed notice of appeal. Management believes this suit is without merit but is unable to predict the outcome.

In January and February 1976 two purported class actions, alleging violations of the Securities Act of 1933, the Securities Exchange Act of 1934 and the common law, and naming as defendants GEICO, certain of its Directors and officers, certain former Directors and its independent accountants and the partners thereof, were filed, one in the United States District Court for the Southern District of New York (Scheiber against Government Employees Insurance Company, et al.) and the other in the United States District Court for the District of Columbia (Kulchock against Government Employees Insurance Company, et al.). The cases have been consolidated, for pretrial purposes, in the District of Columbia. Certain of the original Director defendants have been dismissed and only one member of GEICO's current Board of Directors is now named. Both complaints allege various disclosure violations involving, among other things, failure to establish sufficient reserves for losses, and breaches of common law duties. These actions seek judgment declaring defendants' actions illegal, awarding plaintiffs and class members damages for the wrongs alleged and the injuries sustained and awarding plaintiffs the expenses of the litigation. It is not possible to evaluate the likelihood of an unfavorable outcome of these actions or estimate the amount or range of liability, should liability be found. GEICO will contest these cases vigorously and will continue to assert that plaintiffs have no valid cause of action.

Item 6. Increases and Decreases in Outstanding Securities

On December 2, 1976, GEICO issued 8,249,656 shares of Preferred Stock. Of these shares, 6,766,356 were purchased by GEICO shareholders through the exercise of non-transferable Subscription Rights distributed to the holders of the Company's outstanding Common Stock at the rate of one Right for each 2.15 shares of Common Stock outstanding on October 15, 1976, each Right entitled the registered holder to purchase (subject to certain conditions) at $9.20 one share of Preferred Stock (the "Subscription Offering"); and 1,483,300 shares were purchased by industry participants in the quota share reinsurance agreement. The reconciliation required in response to this Item between the amounts outstanding at December 31, 1976 and December 31, 1975 is set forth on page 24 of the Annual Report to Shareholders for the year ended December 31, 1976, filed as Exhibit 1 hereto. Such reconciliation is incorporated hereby reference.

Item 7. Approximate Number of Equity Securities Holders

Title of Class	Number of Record Holders as of December 31, 1976
Common Stock - $.10 par value	10,121
Cumulative Convertible Preferred Stock - $1.00 par value	3,133
Warrant - to purchase 2.08 shares of Common Stock at $31.22 per share, exercisable from August 1, 1971 until August 1, 1978	1,953

Item 8. Executive Officers of the Registrant

John J. Byrne, 44, was elected Chairman of the Board, President and Chief Executive Officer of GEICO on May 5, 1976. Prior to his employment by GEICO, he served with The Travelers Insurance Companies, from 1968 to 1970 as Vice President; from 1970 to 1973 as Senior Vice President; and from 1973 to 1976 as Executive Vice President, responsible for casualty-property personal lines and individual life, health and financial services.

Edward S. Ring, 50, was elected Senior Vice President and Acting Chief Operating Officer in April 1976. He had served as Senior Vice President, Marketing, since July 1974, as Senior Vice President, Administration, since March 1974, as Vice President, Middle Atlantic Region, since 1973 and as Vice President, Claims, since 1964.

Arthur T. Y. Loh, 53, was elected Senior Vice President and Chief Financial Officer in April 1976. He had served as Vice President, Finance, since 1975 and Assistant Vice President, Investments, since 1974. Prior to his employment by GEICO, he served as Vice President, New York Securities Company, Inc. from 1971 to 1974.

Martin Adler, 42, has been Vice President and Actuary since 1975, having served as Assistant Vice President and Associate Actuary since 1974. Prior to his employment by GEICO, he served as Assistant Vice President and Associate Actuary, Crum & Forster Insurance Companies from 1969 to 1974.

Ralph L. Belford, 43, has been Vice President, Policyholder Service, since 1974, had served as Assistant Vice President, Policyholder Service, since 1973, and has been an employee since 1961.

Harry I. Bond, Jr., 52, was elected Vice President, Underwriting and Policyholder Service Departments, in May 1976. He had served as Assistant Vice President, Administration, and has been an employee since 1949.

Theodore R. Branthover, 55, has been Vice President, Claims, since 1974. He had served as Assistant Vice President, Middle Atlantic Region, since 1952 and has been an employee since 1950.

Theodore F. Culp, 55, has been Vice President, Central Region, since 1973. He had served as Assistant Vice President, Claims, since 1962.

Thomas N. Exarhakis, 54, has been Vice President, Market Planning and Services, since 1974. He had served as Assistant Vice President, Marketing, since 1964.

Frank J. Gillen, 49, has been Vice President, Employee Relations, since 1973. Prior to his employment by GEICO, he served as Vice President, Employee Relations, for Itek Corporation from 1971 to 1973.

Merrill D. Knight, III, 46, has been Vice President, Middle Atlantic Region, since 1974. He had served as Vice President, Claims Research & Control, since 1973 and in 1970 was elected Assistant Vice President, Claims Staff Services.

Ernest M. Lucas, 51, has been Vice President and Legislative Counsel since 1972. He had served as Vice President and General Counsel from 1969 to 1972.

Ross D. Pierce, 53, has been Vice President, Southeastern Region, since 1973. He was elected Vice President, Operations, in 1970.

James E. Reagan, 52, has been Vice President, Northeastern Region, since 1974. He had served as Assistant Vice President, New York Regional Office, since 1972 and Assistant Vice President, Office Services, since 1964.

Donald K. Smith, 44, has been Vice President and General Counsel since 1972. He had served as Assistant Vice President and Assistant General Counsel of GEICO since 1969.

Walter R. Tinsley, 58, has been Vice President, Office Services, since 1959.

Edward H. Utley, 47, has been Vice President, Systems Development, since 1974. He had served as Assistant Vice President, Data Processing, since 1973. Prior to his employment by GEICO, he was Data Processing Manager for Group Hospitalization, Inc. from 1971 to 1973.

Henry J. Collins, 49, has been Treasurer and Comptroller since 1972. He was elected Treasurer of GEICO in 1965.

John M. O'Connor, 47, has been Secretary of GEICO since 1970.

All executive officers hold office at the pleasure of the Board of Directors. There is no family relationship between the above-named executive officers of the registrant.

Item 9. Indemnification of Directors and Officers

In accordance with the provisions of General Instruction H, information regarding indemnification is not included for this item, as it is unchanged from the information reported in Item 9 of GEICO's Form 10-K Report for the fiscal year ended December 31, 1974.

Item 10. Financial Statements and Exhibits

(a) Financial Statements.

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

(b) Exhibits.

Exhibit 1	Annual Report to Shareholders for the year ended December 31, 1976. *
Exhibit 2-a	GEICO's Certificate of Incorporation, as amended, is hereby incorporated by reference to Exhibit 3-a of Registration Statement No. 2-39709 on Form S-1, Exhibit 3-b of Registration Statement No. 2-43455 on Form S-1, Exhibit 1 of GEICO's Current Report on Form 8-K for March, 1976, as amended, and Exhibit 2 of GEICO's Current Report on Form 8-K for July, 1976.

Exhibit 2-b	GEICO's By-laws, as amended, are hereby incorporated by reference to Exhibit 3-b of Registration Statement No. 2-57242 on Form S-1.
Exhibit 3-a	Specimen certificate representing the Common Stock, $.10 par value, of GEICO, is hereby incorporated by reference to Exhibit 4-a of Registration Statement No. 2-57242 on Form S-1.
Exhibit 3-b	Specimen certificate representing the Cumulative Convertible Preferred Stock, $1.00 par value, of GEICO, is hereby incorporated by reference to Exhibit 4-b of Registration Statement No. 2-57242 on Form S-1.
Exhibit 4-a	Specimen Warrant certificate evidencing right to purchase shares of GEICO's Common Stock is hereby incorporated by reference to Exhibit 5-c of Registration Statement No. 2-57242 on Form S-1.
Exhibit 4-b	Warrant Agreement dated May 5, 1971, between GEICO and American Security and Trust Company is hereby incorporated by reference to Exhibit 5-c of Registration Statement No. 2-39709 of Form S-1.
Exhibit 4-c	GEICO's 1963 Stock Option Plan, as amended, is hereby incorporated by reference to Exhibit 5-d of Registration Statement No. 2-39709 on Form S-1.
Exhibit 4-d	Form of Option Agreement under GEICO's 1963 Stock Option Plan, as amended, together with form of Notice of Intent to Exercise, are hereby incorporated by reference to Exhibit 5-e of Registration Statement No. 2-39709 on Form S-1.
Exhibit 4-e	GEICO's 1973 Stock Option Plan, as amended, is hereby incorporated by reference to Exhibit 5-g of Registration Statement No. 2-57242 on Form S-1.
Exhibit 4-f	Form of Option Agreement under GEICO's 1973 Stock Option Plan, as amended, together with form of Notice of Intent to Exercise, are hereby incorporated by reference to Exhibit 9-b and 9-d of GEICO's Annual Report Form 10-K for the fiscal year ended December 31, 1973.

Exhibit 5-a	GEICO's Pension Plan, as amended, together with booklet summarizing the terms thereof, is hereby incorporated by reference to Exhibit 11-a of Registration Statement No. 2-57242 on Form S-1.
Exhibit 5-b	GEICO's Profit Sharing Plan, as amended, together with booklet summarizing the terms thereof, is hereby incorporated by reference to Exhibit 11-b of Registration Statement No. 2-57242 on Form S-1.
Exhibit 5-c	Statement of Incentive Bonus Program for the Chief Executive Officer and President is hereby incorporated by reference to Exhibit 13-b of Registration Statement No. 2-43455 on Form S-1.
Exhibit 5-d	State of Incentive Bonus Program for Executive Staff Group and Junior and Senior Officers is hereby incorporated by reference to Exhibit 13-c of Registration Statement No. 2-43455 on Form S-1.
Exhibit 5-e	Statement of Cash Profit-Sharing Bonus Program is hereby incorporated by reference to Exhibit 13 of GEICO's Annual Report on Form 10-K for the fiscal year ended December 31, 1974.
Exhibit 5-f	Employment Agreement effective May 5, 1976, between GEICO and John J. Byrne, together with Nonqualified Stock Option Agreement executed in connection therewith, is hereby incorporated by reference to Exhibit 13-f of Registration Statement No. 2-57242 on Form S-1.
Exhibit 5-g	Consultant Contract effective April 1, 1976, between GEICO and Alvin E. Kraus, is hereby incorporated by reference to Exhibit 13-g of Registration Statement No. 2-57242 on Form S-1.
Exhibit 6	Form of Reinsurance Agreement is hereby incorporated by reference to Exhibit 13-b of Registration Statement No. 2-57242 on Form S-1.
Exhibit 7	Proxy Agreement between Berkshire Hathaway Inc. and Suburban Trust Company.*

* Filed herewith.

PART II

Item 11. Principal Security Holders and Security Holdings of Management

(a) Owners of More than 10% of Any Class -

Name and Address	Title of Class	Type of Ownership	Amount Owned	Percent of Class
Berkshire Hathaway Inc. 97 Cove Street New Bedford, Mass.	Common Stock	Beneficial	1,294,308	7.29
	Cumulative Convertible Preferred Stock	Beneficial	1,986,953	24.09

On February 24, 1977, pursuant to an Order of the Superintendent of Insurance for the District of Columbia exempting Berkshire Hathaway Inc. ("Berkshire") from certain requirements of the District of Columbia Holding Company System Regulatory Act, Berkshire authorized the Suburban Trust Company ("Suburban"), 2601 University Boulevard West, Wheaton, Maryland 20902 to vote all of the Common and Preferred Stock of GEICO held by Berkshire. The agreement calls for Suburban to vote the shares according to Suburban's ". . . best judgment as to which decision will be in the best interest of Berkshire as an investor." The agreement remains in effect from the date of inception " . . . up to but not including the second annual meeting of GEICO shareholders to take place after such date."

(b) Directors and officers as a group -

Title of Class	Amount Beneficially Owned	Percent of Class
Common Stock	1,400,551 (1) (2)	7.3
Warrants	29,503 (2)	4.6
Preferred Stock	198,417 (2)	2.4

(1) Adjusted to reflect the effect of 22,208 exercisable stock options, 29,503 Warrants and conversion of 198,417 shares of Preferred Stock to Common Stock.

(2) In certain cases, these securities are owned jointly with another person, are owned in the name of a corporation, or are held in an estate or trust in which a director or officer has an interest and/or of which he is a trustee. The figures are exclusive of 45,673 shares of Common Stock, 21,466 shares of Preferred Stock, and 1,345 Warrants owned by spouses (individually or as trustee), minor children or relatives sharing homes of directors or officers or held by "associates" of directors or officers, or in estates or trusts of which the directors or officers are trustees or co-trustees with respect to which securities the concerned directors or officers disclaim beneficial ownership.

Item 12. Directors of the Registrant

(a) The present term of office of all directors expires on March 30, 1977.

(b) There is no family relationship between any of the directors or between any of the directors and the executive officers of the registrant.

Name, Committee Memberships, and Year He First Became a Director	Age	Offices and Positions Presently Held With GEICO and Business Experience
Thomas E. Bolger (3) 1973	49	Executive Vice President, American Telephone & Telegraph Company, Basking Ridge, New Jersey.
Samuel C. Butler (3)(8) 1972	47	Chairman of the Executive Committee. Partner, Cravath, Swaine & Moore, attorneys, New York, N. Y.
John J. Byrne (1)(2)(4)(5)(8) 1976	44	Chairman of the Board, President and Chief Executive Officer. Employed by The Travelers Insurance Companies as Vice President from 1968 to 1970, as Senior Vice President from 1970 to 1973 and as Executive Vice President from 1973 to 1976.
John M. Christie (2)(7) 1967	66	Chairman of the Executive Committee and a Director of The Riggs National Bank of Washington, D. C.
Lorimer A. Davidson (1)(2)(3)(5)(6)(8) 1952	74	Consultant. Retired Chairman of the Board and Chief Executive Officer of GEICO.
Shelby Cullom Davis (8) 1973	67	Chairman of the Investment Committee. Chairman, Shelby Cullom Davis & Co., investment bankers, New York, N.Y.
Paul J. Hanna (3)(7) 1967	61	Chairman of the Special and Compensation Committees. Executive Vice President, Manufacturers Hanover Corporation, New York, N.Y., a bank holding company
William K. Jacobs, Jr. (1)(2)(6) 1948	68	Chairman of the Audit Committee. Private financial consultant.
Alvin E. Kraus (4) 1976	64	Consultant to GEICO. Chairman of the Board of Criterion Insurance Company; President of Criterion, 1966 to 1974. Head of GEICO Underwriting Department, 1950 to 1970.

Name, Committee Memberships, and Year He First Became a Director	Age	Offices and Positions Presently Held With GEICO and Business Experience
David Lloyd Kreeger (1)(2)(5)(6)(8) 1948	68	Retired Chairman of the Board and Chief Executive Officer of GEICO.
Melvin M. Payne (5) 1971	65	Chairman of the Stock Option Plan Administrative Committee. Chairman of the Board, National Geographic Society, a scientific and educational organization, Washington, D. C.
Joseph J. Sisco 1977	57	President, American University, Washington, D. C. U. S. Assistant Secretary of State for Near Eastern and South Asian Affairs, 1969 to 1974 and Under Secretary of State for Political Affairs, 1974 to 1976.

(1) Member of the Executive Committee

(2) Member of the Investment Committee

(3) Member of the Stock Option Plan Administrative Committee

(4) Member of the Pension Plan Administrative Committee

(5) Member of the Profit Sharing Plan Administrative Committee

(6) Member of the Compensation Committee

(7) Member of the Audit Committee

(8) Member of the Special Committee

Item 13. Remuneration of Officers and Directors

During 1976, the aggregate remuneration paid by GEICO directly or indirectly to (a) each Director and each of the three highest paid officers of GEICO whose aggregate direct remuneration exceeded $40,000 and (b) all directors and officers as a group, was as follows:

Name and Capacity in Which Remuneration Was Received	Aggregate Direct Remuneration (1)	Profit Sharing Plan: Company Contributions During 1976 (2)	Profit Sharing Plan: Vested Interest in Plan at December 31, 1976 (3)	Estimated Annual Benefits Upon Retirement Under Pension Plan (4)
John J. Byrne Chairman of the Board, President and Chief Executive Officer	$ 115,591	$ 0	$ 0	$ 39,123

Name and Capacity in Which Remuneration Was Received	Aggregate Direct Remuneration (1)	Profit Sharing Plan: Company Contributions During 1976 (2)	Profit Sharing Plan: Vested Interest in Plan at December 31, 1976 (3)	Estimated Annual Benefits Upon Retirement Under Pension Plan (4)
Edward S. Ring Senior Vice President and Acting Chief Operating Officer	$ 58,575	$ 0	$ 46,032	$ 28,452
Arthur T. Y. Loh Senior Vice President and Chief Financial Officer	48,000	0	0	12,743
Lorimer A. Davidson Consultant, Vice Chairman of Investment Committee, Member of Executive Committee and Director	42,806	--	--	--
Directors and Officers as a Group (77 in number)	2,030,797	3,957	1,127,151	666,482

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(1) Includes salaries, fees and other taxable income other than retirement benefits and moving and related expenses. In accordance with its established policies, GEICO reimbursed Mr. Byrne for $46,430 in moving and related expenses incurred in 1976. The figures exclude $195,500 received by Cravath, Swaine & Moore, a law firm of which Mr. Samuel C. Butler, a Director of GEICO, is a partner, for legal services performed during 1976 for GEICO; and $52,258 (including expenses of $2,258) received in 1976 by Manufacturers Hanover Trust Company, a wholly owned subsidiary of Manufacturers Hanover Corporation of which Mr. Paul J. Hanna, a Director of GEICO, is an Executive Vice President, for serving as Subscription Agent in the Subscription Offering.

(2) Figures reflect payments by GEICO through January 31, 1976, at which time GEICO suspended its contributions to the Plan. Under the Plan, an employee may contribute, on a voluntary basis, from 1% to 10% of his base salary. Pursuant to a prescribed formula, based on length of time in the Plan, GEICO may match from 50% to 100% of the employee's contribution, up to a maximum of 6% of base salary. GEICO's contributions may be invested in securities of GEICO and the other Government Employees Companies. A participant's contribution may be invested, at his option, in a portfolio of common stocks, an income fund of corporate bonds or a combination of both. A participant may also direct at any time after his 60th birthday (or after his 50th and before his 60th birthday if he intends to retire within one year) that the value of his account and all future contributions be transferred to fully insured savings accounts in Federally insured savings institutions of his own selection. The benefits accrued to participants at the time of retirement depend on the value of the securities or savings accounts at that time. No contributions are made on behalf of retired employees, and no vested interest is shown for retired employees who have withdrawn their benefits as indicated above.

(3) Includes amounts contributed by the employee and accruals thereon.

(4) Estimated annual benefits from the Pension Plan are the annual amounts which it is estimated will become payable when the respective employees reach the retirement age of 65. The Plan provides that normal retirement benefits must be a specified percentage of final average earnings less 50% of the employee's primary Social Security benefits. For employees under 65, such amounts are based on the assumption that each individual will continue to receive salaried compensation until age 65 at the respective rates in effect on December 31, 1976, and that the Pension Plan will continue in its present form. The cost of accrued pension benefits is computed by the Pension Plan actuary on an actuarial basis.

Mr. Byrne has served since May 5, 1976, as Chairman of the Board, President and Chief Executive Officer of GEICO pursuant to an Employment Agreement with GEICO (the "Agreement") at a base salary of $150,000 per year. The Agreement covers the period to January 31, 1986, but may be terminated, on six months' notice, by GEICO on January 31, 1980, and by Mr. Byrne on January 31, 1982, and in each case on any January 31 thereafter. The Agreement provides that for each calendar year from 1976 through 1981 GEICO will pay Mr. Byrne a bonus in an amount equal to 1% of the first $12.5 million, and 2% of any excess, of GEICO's after-tax consolidated net income, as such income is defined in the Agreement. The Agreement specifies the amount of bonus payable in the event of termination of the Agreement or the merger or consolidation of GEICO and establishes limits on the bonus payable in any year which range from $200,000 in 1977 to $600,000 in 1979 through 1981. No bonus was paid to Mr. Byrne for the year 1976.

Item 14. Options Granted to Management to Purchase Securities

The following table sets forth information concerning options (as adjusted) to purchase GEICO Common Stock granted to the following persons since January 1, 1976, and as to all options held by such persons as of December 31, 1976:

Options Granted:	John J. Byrne (1)	Edward S. Ring	Arthur T. Y. Loh	Lorimer A. Davidson	All Directors and Officers as a Group
Number of shares	209,741	None	None	None	None
Average option price per share	$4.589	--	--	--	--
Options Exercised:	None	None	None	None	None
Unexercised Options Held at December 31, 1976:					
Number of shares	209,741	2,182	973	None	248,595
Average option price per share	$4.589	$26.886	$19.100	--	$8.109

(1) In May, 1976, pursuant to his Employment Agreement with GEICO, Mr. Byrne was granted a nonqualified ten-year option under GEICO's Stock Option Plan.

Item 15. Interest of Management and Others in Certain Transactions

CRICO and National Indemnity Company (National), a 99.95% owned subsidiary of Berkshire, together with 25 other members of the property and casualty insurance industry, participated in the quota share reinsurance program described elsewhere herein. CRICO and National each assumed the reinsurance of .8% of GEICO's business. In addition, CRICO and National each purchased 107,800 of the 1,483,300 shares of Preferred Stock purchased in the offering to industry participants effected in connection with the Subscription Offering. On December 10, 1976, CRICO sold in the "when issued" market the shares so purchased. A net pretax profit of $212,366 was realized by CRICO in connection with such purchase and sale.

GEICO subleases space in some of its facilities to certain of the other Companies and also provides or provided corporate, accounting, personnel, medical, actuarial, data processing, statistical, advertising, sales, claims, investment and other services for certain of the Companies. GEICO is reimbursed for such services monthly at an agreed charge on the basis of actual units processed or time involved, computed periodically in accordance with generally accepted accounting principles based upon a fair allocation of time and expenses. In 1976, GEICO received $3,374,836 from the Companies for such space and services. In 1976, GEICO paid a total of $63,412 (including $32,650 paid to GEFCO for inspection and sales services) for administrative, clerical and other services provided to it by the Companies.

Companies writing automobile liability insurance are required to participate in Automobile Insurance (formerly, "assigned risk") Plans in each state in which a Plan is in effect. The provisions of such Plans generally allow the auto business of GEICO and CRICO to be grouped for purposes of such participation. Consequently, in every state having such a Plan in which both GEICO and CRICO do business, GEICO and CRICO use these grouping provisions and GEICO bears the policywriting and claims responsibilities for both companies for assigned risk purposes. Excess credits available to CRICO under such Plans are used by GEICO to reduce its required participation in the Plans.

When GEICO writes casualty insurance in connection with GEFCO finance contracts, GEFCO or one of its subsidiaries undertakes the inspection of risks. GEICO compensates GEFCO for expenses incurred in providing this service by paying a fee equal to a percentage of the premiums on such policies. GEICO policies are also sold through GEFCO field offices. The cost of such sales service is reimbursed to GEFCO in a fixed dollar amount per policy written and is recomputed periodically in accordance with generally accepted accounting principles based on a fair allocation of time and expenses involved. The amount received by GEFCO and its subsidiaries from GEICO for the foregoing services in 1976 was $32,650.

For the year 1976 GELICO and its subsidiary received $1,848,705 in premiums, $1,023,305 of which was contributed by GEICO and the balance by its employees, for providing group insurance pursuant to GEICO's employee benefit plans. In addition, GELICO administers the Companies' Pension Plan accounts for fees based in part on the amount of funds in such accounts. For the year 1976 GEICO paid to GELICO $2,259,000 in the form of Pension Plan contributions pursuant to this arrangment.

At the request of GEICO, Mr. David L. Kreeger, a Director of GEICO, purchased and simultaneously sold in the "when issued" market 213,831 shares of Preferred Stock to which he was entitled as a GEICO shareholder pursuant to the terms of the Subscription Offering. In accordance with the agreement between Mr. Kreeger and GEICO with respect to such purchase and sale, the net profit thereon of approximately $140,479 was paid over by Mr. Kreeger to GEICO.

In addition to the foregoing arrangements, in the normal course of business GEICO enters into various transactions with the other Government Employees Companies, all of which Companies have some shareholders and more than a majority of Directors in common with GEICO. In the opinion of GEICO's Management, each of such transactions, as well as those detailed above, was on terms as favorable to GEICO as could have been obtained from other persons.

As was indicated in GELICO's original rights offering to the shareholders of GEICO, one source of GELICO's life insurance business would be the clientele of GEICO; as was indicated in GEFCO's original rights offering to the shareholders of the then existing Government Employees Companies, the predominant source of GEFCO's loan business would be the clientele of those Companies. In 1976 GEICO provided its lists of policyholders and inquirers to GELICO and GEFCO without charge other than processing costs.

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 /s/ H. J. Collins
H. J. Collins, Treasurer/Comptroller

Dated: March 28, 1977

FORM 10-K

Item 10 (a)

Financial Statements and Schedules

Government Employees Insurance Company and Subsidiaries

December 31, 1976 and December 31, 1975

The following financial statements of the Company, included in the annual report of the Company to its shareholders for the year ended December 31, 1976, filed as Exhibit 1 hereto, are incorporated herein by reference:

Consolidated Balance Sheet - December 31, 1976 and December 31, 1975

Consolidated Statement of Operations - Years ended December 31,1976 and December 31, 1975

Consolidated Statement of Shareholders' Equity - Years ended December 31, 1976 and December 31, 1975

Consolidated Statement of Changes in Financial Position - Years Ended December 31, 1976 and December 31, 1975

Notes to Consolidated Financial Statements

The following financial information for the years 1976 and 1975 is submitted herewith:

Report of Independent Accountants

Additional Notes to Consolidated Financial Statements

Schedule I - Summary of Investments - Other than Investments in Affiliates

Schedule V - Valuation and Qualifying Accounts and Reserves

Schedule VII - Premiums, Losses, and Claim and Policy Acquisition Costs

All other Schedules pursuant to Rule 7-06 (Nos. II, III, IV, VI, VIII, IX, X and XI) 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. With respect to Schedule VIII (Rule 7-06), the information applicable to the consolidated subsidiaries has been omitted as they are wholly-owned and the answer to Column G would be "none".

Individual financial statements of the registrant have been omitted as the registrant's total assets, exclusive of investments in and advances to its consolidated subsidiaries, as would be shown by its most recent year-end balance sheet if it were filed, constitute 75 per cent or more of the total assets as shown by the most recent year-end consolidated balance sheet; and the registrant's total sales and revenues, exclusive of interest and dividends received from or its equity in the income of the consolidated subsidiaries, as would be shown by its income statement, for the most recent fiscal year if it were filed, constitute 75 per cent or more of the total sales and revenues shown by the most recent annual consolidated income statements.

Report of Ernst & Ernst, Independent Auditors

To the Shareholders
Government Employees Insurance Company

We have examined the consolidated balance sheet of Government Employees Insurance Company and subsidiaries as of December 31, 1976 and December 31, 1975, and the related consolidated statements of operations, shareholders' equity and changes in financial position for the years then ended included in the annual report to shareholders of Government Employees Insurance Company for the year ended December 31, 1976, and the additional notes to consolidated financial statements and the schedules listed in the index on the preceding page. 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.

As explained under the caption "Litigation" in the notes to financial statements, there is certain litigation pending and at this time management is unable to give any appraisal as to the eventual outcome.

In our opinion, subject to the effect on the financial statements of the ultimate resolution of the litigation referred to in the preceding paragraph, the financial statements referred to above present fairly the financial position of Government Employees Insurance Company and subsidiaries at December 31, 1976 and December 31, 1975, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. Further, it is our opinion that the additional notes to consolidated financial statements and schedules referred to above present fairly the information set forth therein in compliance with the applicable accounting regulations of the Securities and Exchange Commission.

Ernst & Ernst

Washington, D. C.
March 2, 1977

Additional Notes to Consolidated Financial Statements

Years Ended December 31, 1976 and December 31, 1975

INVESTMENT OPERATIONS

Realized gains (losses) on investments, as determined on a specific identification basis, and unrealized appreciation (depreciation) on investments are summarized below:

Year Ended December 31, 1975	Realized	Unrealized	Combined
Bonds and notes	$ 388,289	$ 6,369,275	$ 6,757,564
Preferred stocks	(933,289)	6,585,037	5,651,748
Common stocks	(1,738,441)	19,131,926	17,393,485
	(2,283,441)	32,086,238	29,802,797
Applicable income taxes (credit)	-	2,780,129	2,780,129
Net Gains (Losses) on Investments	$(2,283,441)	$29,306,109	$27,022,668
Year Ended December 31, 1976			
Bonds and notes	$10,807,696	$41,255,017	$52,062,713
Preferred stocks	(6,262,446)	11,440,460	5,178,014
Common stocks	(4,485,143)	9,116,053	4,630,910
	60,107	61,811,530	61,871,637
Applicable income taxes (credit)	-	1,459,858	1,459,858
Net Gains (Losses) on Investments	$ 60,107	$60,351,672	$60,411,779

There were no bonds and notes nor preferred stocks which where non-income producing for the year ended December 31, 1976.

No investments in any person or its affiliates (other than bonds of the United States government) exceeded two percent of total investments at December 31, 1976, except for foreign government bonds as noted on Schedule I.

ADDITIONAL POLICY ACQUISITION COSTS INFORMATION

Policy acquisition costs deferred and amortized are summarized as follows:

	Year Ended December 31, 1976	1975
Policy acquisition costs incurred:		
Commission and brokerage	$ 5,378,934	$ 6,221,733
Premium taxes	19,507,477	20,222,564
Direct mail selling	52,620,307	58,283,863
	$77,506,718	$ 84,728,160
Policy acquisition costs expensed	$77,506,718	$130,395,384
(Increase) decrease in deferred policy acquisition costs	$ -	$ 45,667,224

ADDITIONAL LONG-TERM DEBT INFORMATION

The long-term debt maturities for the succeeding five years are summarized as follows:

	8-1/4% Notes of GEICO Properties, Inc.	8-1/2% Note of GEICO Properties, Inc.	9-3/8% Note of GEICO Washington Properties, Inc.	Total
1977	$ 147,869	$ 80,248	$ 111,731	$ 339,848
1978	160,450	87,289	122,667	370,406
1979	174,103	94,949	134,675	403,727
1980	188,917	103,280	147,857	440,054
1981	204,991	112,343	162,330	479,664
	876,330	478,109	679,260	2,033,699
1982 to 2010	13,802,758	7,848,462	24,179,293	45,830,513
	$14,679,088	$8,326,571	$24,858,553	$47,864,212

OTHER

The essential provisions of executive bonus arrangements are set forth in response to item 13 included in Part II of this Form 10-K.

REINSURANCE

Amounts deducted from liability, income and expense accounts in connection with reinsurance placed with other companies excluding the effects of the Quota Share Reinsurance are as follows:

	1976	1975
Reserve for losses and loss expenses	$ 7,227,727	$3,817,329
Reserve for unearned premiums	5,714,165	5,422,119
Premiums written	13,335,930	9,936,500
Losses incurred	7,919,646	5,434,067
Loss adjustment expenses incurred	666,971	632,420

REINSURANCE (Con't.)

Amounts deducted from liability and expense accounts in connections with the Quota Share Reinsurance Treaty are as follows:

	1976	1975
Reserve for unearned premiums	$92,271,019	$ -
Losses incurred	64,014,713	-
Loss adjustment expenses incurred	10,190,713	-

ADDITIONAL STOCK OPTION INFORMATION

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, 1976; and the shares under option at December 31, 1975 and 1976.

OPTIONS GRANTED

	Number of Shares	Per Share	Total
Year Ended December 31:			
1976	209,741	$ 4.59	$962,501
1975	34,640	16.90	585,243

OPTIONS WHICH HAVE BECOME EXERCISABLE

	Number Of Shares	Option Price		Market Price on Date Options Became Exercisable	
		Per Share	Total	Per Share	Total
Year Ended December 31:					
1976	40,876	$16.90 to $46.33	$1,333,171	$2.97 to $10.01	$176,935
1975	41,344	20.76 to 46.33	1,267,474	7.82 to 22.53	780,086

OPTIONS EXERCISED

	Number Of Shares	Option Price		Market Price On Date Options Were Exercised	
		Per Share	Total	Per Share	Total
Year Ended December 31:					
1976	-0-	-0-	-0-	-0-	-0-
1975	19,539	$16.05 to $17.45	$313,873	$17.10 to $23.15	$430,937

SHARES UNDER OPTION

Period During Which Options Were Granted	Under Option	Option Price	
		Per Share	Total
December 31, 1976			
1972	10,948	$46.33	$ 507,232
1973	36,050	36.06	1,299,963
1974	36,759	20.75	762,896
1975	29,026	16.90	490,394
1976	209,741	4.59	962,502
	322,524		$4,022,987
December 31, 1975			
1971	36,656	$29.14 to $31.49	$1,076,682
1972	13,787	46.33	638,750
1973	42,251	36.06	1,523,635
1974	43,660	20.75	906,147
1975	34,290	16.90	579,353
	170,644		$4,724,567

Upon sale of shares of capital stock under the option plan (the full amount therefore 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: 1975 figures have been restated to give effect to issuance of preferred stock.

SCHEDULE I - SUMMARY OF INVESTMENTS - OTHER THAN INVESTMENTS IN AFFILIATES

Government Employees Insurance Company and Subsidiaries

December 31, 1976

Type of Investments	Cost (1)	Value (2)	Amount at Which Shown in the Balance Sheet
Bonds and Notes:			
United States government and governmental agencies and authorities	$218,666,930	$224,042,680	$218,666,930
State, municipalities and political subdivisions	238,951,986	235,472,312	238,951,986
Foreign governments	30,415,657	31,359,375	30,415,657
Public utilities	68,267,123	72,636,951	68,267,123
Industrial & miscellaneous	5,755,582	6,070,000	5,755,582
Total bonds and notes	562,057,278	569,581,318	562,057,278
Preferred Stocks	20,669,095	20,308,327	20,288,943 (3)
Total bonds and stocks	582,726,373	589,889,645	582,346,221
Certificates of Deposit	239,013	239,013	239,013
Total investments	$582,965,386	$590,128,658	$582,585,234

1 - On the basis of original cost for stocks, cost for bonds adjusted for amortization of premiums and accrual of discounts.

2 - Quoted market value at December 31, 1976.

3 - Market value as prescribed by the National Association of Insurance Commissioners.

SCHEDULE V - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

Government Employees Insurance Company and Subsidiaires

December 31, 1976 and December 31, 1975

Description	Balance at Beginning of Period	ADDITIONS Charged to Costs and Expenses	Charged to Other Amounts-Describe	Deductions - Describe Note 1	Balance at End of Period
Year Ended December 31, 1975:					
Allowance for amounts uncollectible on cancelled policies	$5,000,000	$2,490,335	-	$4,490,335	$3,000,000
Year Ended December 31, 1976:					
Allowance for amounts uncollectible on cancelled policies	$3,000,000	$1,519,518	-	$1,519,518	$3,000,000

Note 1: The duductions to the allowance for each of the two years ended December 31, 1976 represent the net write-off of amounts not collected on cancelled policies.

SCHEDULE VII - PREMIUMS, LOSSES, AND CLAIMS AND POLICY ACQUISITION COSTS

Government Employees Insurance Company and Subsidiaries

Two Years Ended December 31, 1976

	PART 1 - PREMIUMS					PART 2 - LOSSES		PART 3 - POLICY ACQUISITION COSTS				
Line of Business	Unearned Premiums Beginning of Period	Premiums Written	Reinsurance Ceded	Unearned Premiums End of Period	Premiums Earned During Period	Loss & Claims Incurred During Period	Adjustment Expense Incurred During Period	Deferred at Beginning of Period	Additions During Period	Deferred At End Of Period	Amortization Charged to Costs & Expenses	Costs Incurred and Charged to Costs and Expenses During Period
Year Ended December 31, 1975:												
Homeowners multiple peril	$ 27,517,384	$ 38,421,398	$ -	$ 31,420,852	$ 34,517,930	$ 25,614,744	$ 3,955,779					
Auto liability	186,510,300	395,803,595	-	226,392,891	355,921,004	344,338,440	57,713,299					
Auto physical damage	101,254,153	221,157,281	-	122,762,738	199,648,696	189,157,627	27,639,181	$45,667,224	$84,728,160	$ -0-	$130,395,384	$8,584,798
All other	3,890,820	5,439,903	-	4,287,188	5,043,535	3,184,220	793,098					
Service charges	-	8,189,446	-	-	8,189,446	-	-					
	$319,172,657	$669,011,623	$ -	$384,863,669	$603,320,611	$562,295,031	$ 90,101,357	$45,667,224	$84,728,160	$ -0-	$130,395,384	$8,584,798
Year Ended December 31, 1976:												
Homeowners multiple peril	$ 31,420,852	$ 32,889,890	$ 11,428,107	$ 21,272,181	$ 31,610,454	$ 19,713,173	$ 4,486,965					
Auto liability	226,392,891	380,009,677	104,113,375	163,459,184	338,830,009	284,412,957	56,855,702					
Auto physical damage	122,762,738	207,570,509	55,757,117	85,040,210	189,535,920	159,954,337	29,030,155					
All other	4,287,188	5,049,403	1,611,780	3,100,308	4,624,503	2,334,137	906,822					
Service charges	-	10,801,375	-	-	10,801,375	-	-					
	$384,863,669	$636,320,854	$172,910,379	$272,871,883	$575,402,261	$466,414,604	$ 91,279,644					

EXHIBIT 7

PROXY AGREEMENT

BERKSHIRE HATHAWAY, INC. ("Berkshire") hereby appoints SUBURBAN TRUST COMPANY ("the Bank") as its proxy with respect to all matters for which Berkshire or its subsidiary corporations, National Indemnity Company, National Fire and Marine Insurance Company, Cornhusker Casualty Company and Kerkling Reinsurance Corporation ("the subsidiaries"), have the right to vote shares of the Convertible Preferred and Common stock of Government Employees Insurance Company ("GEICO") now or hereafter held by Berkshire or the subsidiaries ("the shares"), with such proxy being applicable to each such share of GEICO stock held by Berkshire or the subsidiaries as long as, but only as long as, such share is held by Berkshire or the subsidiaries, subject to the following terms and conditions:

1. Determination of Shares

The number of the shares subject to this proxy at the time of its execution is 1,986,953 shares of Convertible Preferred Stock and 1,294,308 shares of Common Stock. Berkshire shall give the Bank notice of any change in the number of the shares subject hereto as promptly as practicable and, in any event, within 10 days of such a change.

2. <u>Method of Voting</u>

(a) In voting the shares on any matter presented to it, the Bank shall be guided solely by its best judgment as to which decision will be in the best interests of Berkshire as an investor and without regard to the status of Berkshire or the subsidiaries as actual or potential competitors of GEICO.

(b) In reaching its determination on any vote, the Bank shall not discuss that determination with the employees, management, or members of the Board of Directors of Berkshire or the subsidiaries, or with any other proxy for GEICO stock designated by any other insurance company pursuant to any agreement similar to this agrement; <u>provided</u>, that:

(i) This prohibition shall not prevent Berkshire, through its investment or legal counsel, from communicating in writing to the Bank such information as may be necessary or desirable to inform the Bank from time-to-time as to Berkshire's general investment policies and practices with respect to holdings in preferred and common stock, or Berkshire's general policies and practices with respect to proposals presented by outside shareholders of companies in which it owns voting stock; <u>provided further</u>, however, that except for willful default or bad faith, the Bank shall incur no liability to Berkshire or to any other party in the event a vote it casts hereunder is deemed not consistent with such policies and practices;

(ii) Berkshire shall retain the right to instruct the Bank in writing not to vote the shares on a specific matter or to vote the shares on a matter in the same proportion as the vote ultimately cast by all other voting shareholders; provided further, however, that the Bank shall in any event vote the shares whenever a failure to vote would result in the absence of a quorum for the conduct of GEICO corporate business.

(c) Berkshire shall give prompt notice of delivery of any written communication under Paragraph 2(b) to the Superintendent of Insurance of the District of Columbia and to the United States Department of Justice.

(d) Promptly following the date on which all votes of shareholders on a given matter are talied by GEICO, the Bank shall inform Berkshire of all action taken by the Bank under this proxy by providing written notice thereof to Berkshire.

3. Compensation

(a) As full and total compensation of the Bank for its services hereunder, Berkshire shall pay to the Bank a fee of $2500, payable $1250 upon the execution of this agreement and $1250 by April 1, 1977; provided, however, that in the event this proxy is terminated pursuant to Paragraph 8 hereof prior to the 1977 annual meeting of GEICO shareholders, the inital payment shall be refunded to Berkshire upon termination; and provided further, that in the event GEICO shareholders are requested during the duration of this proxy to vote upon matters at a special meeting other than the annual meeting of shareholders, Berkshire shall pay the Bank an additional fee of $1000 for voting the stock at each such special meeting.

(b) In the event that during the duration of this proxy the Bank shall be required to appear before any court or federal, state or local commission, department or agency to testify or give evidence in its capacity as proxy hereunder, Berkshire shall pay the Bank, in addition to the compensation otherwise payable pursuant to Subparagraph 3(a), $50 for each hour each officer, director or employee of the Bank is required to be engaged in such activity, together with actual out-of-pocket expenses incurred in connection therewith.

4. <u>Application to Consents</u>

This proxy shall operate with equal force and effect with respect to all matters for which GEICO solicits the written consent of its shareholders (including any consents required under its Certificate of Incorporation with respect to its Convertible Preferred stock); <u>provided</u>, that in addition to the written communication permitted under Paragraph 2(b), Berkshire may instruct the Bank in writing as to the customary procedures of Berkshire to be followed in deciding whether or not to grant such consent, subject to satisfaction of the notification requirement of Paragraph 2(c).

5. <u>Notices and Material Correspondence</u>

(a) Immediately upon the execution of this proxy, Berkshire shall cause an executed copy thereof, certified by its Secretary or Assistant Secretary, to be sent to the

Secretary of GEICO, the Superintendent of Insurance of the District of Columbia, and to the United States Department of Justice. Berkshire shall request the Secretary of GEICO to send to the Bank copies of all material relating to any GEICO meeting of shareholders or to any request for written consent of shareholders. Berkshire shall, from time-to-time, execute such other documents and perform such other acts as shall be necessary to effect the purposes of this proxy. In recognizing any vote, proxy, or written consent effected or executed by the Bank on behalf of Berkshire, GEICO may assume full compliance with the terms and conditions hereof unless its Secretary has received, reasonably in advance of such recognition, written notice to the contrary from an officer of Berkshire.

(b) All material correspondence between Berkshire or the subsidiaries and the Bank shall be in writing. Such correspondence, together with the communications provided for in Paragraphs 2(b) and 4, shall be retained for a period of three years and shall be made available for inspection by the Superintendent of Insurance of the District of Columbia and the Department of Justice upon notice and request.

6. <u>Indemnification</u>

Berkshire shall indemnify, defend and hold harmless the Bank from and against any and all claims, losses, liabilities, damages or deficiencies (including, without limitation, reasonable attorneys' fees) arising out of actions of the Bank hereunder. Promptly after receipt by the Bank of any claim or notice of the commencement of any action or proceeding subject to this indemnification, the Bank shall provide written notice thereof to Berkshire.

7. <u>Duration</u>

This proxy shall take effect as of the date of its execution and, unless earlier terminated in the manner indicated in Paragraph 8, shall be applicable to all matters presented to GEICO shareholders from such date up to but not including the second annual meeting of GEICO shareholders to take place after such date. During the period of its duration, the proxy shall apply to all of the shares held by Berkshire or by the subsidiaries, but shall not apply to the shares after they have been sold by Berkshire or by the subsidiaries.

8. <u>Termination</u>

(a) Berkshire and the Bank recognize that, as between them, this proxy is revocable at the pleasure of Berkshire, but Berkshire will exercise such right of revocation only upon the occurrence of one or more of the following events:

(i) Berkshire determines, in its sole discretion, that the Bank is no longer acting in accordance with the procedures set forth in Paragraph 2 above; or

(ii) Any officer or director of the Bank holds a position of director or officer of GEICO; or

(iii) The Superintendent of Insurance of the District of Columbia determines that the Bank, or any person authorized to act on its behalf for the purpose of this proxy:

(A) Owns, controls, or holds with power to vote, whether directly or indirectly, five percent or more of the outstanding voting securities of Berkshire;

(B) Has outstanding voting securities five percent or more of which are directly or indirectly owned, controlled, or held with power to vote by Berkshire;

(C) Is directly or indirectly in control of, controlled by, or under common control with Berkshire;

(D) Is an officer, director, partner, co-partner, or employee of Berkshire;

(E) Is a member of the immediate family of any natural person who comes within any of the categories set forth in clauses (A) through (D) above;

(F) Is a person, or a partner or employee of any person, who at any time since the beginning of the last two fiscal years of Berkshire has acted as legal counsel for Berkshire; or

(G) Has had, at any time since the beginning of the last two fiscal years of Berkshire, such a material business or professional relationship with Berkshire or its principal executive officer as to make it reasonably unlikely that the Bank will be able to act in accordance with the procedures set forth under Paragraph 2.

For the purpose of enabling the Superintendent to make the determinations referred to in this Subparagraph (iii), Berkshire and the Bank agree to provide such information as to their respective managements, stock ownership, and business affilliates as the Superintendent may reasonably request. No determination shall be made by the Superintendent under Clause (G) until Berkshire and the Bank have been given reasonable notice of the pendency of that determination and an opportunity to respond in writing within a reasonable period of time.

(iv) Any governmental agency or department determines that this proxy or its exercise is not permitted, either by any law over which that agency or department has jurisdiction and to which Berkshire or the subsidiaries are subject, or by any regulation, rule or order thereunder; or

(v) The Superintendent of Insurance of the District of Columbia, upon application of Berkshire, determines the proxy is to be revoked.

(b) No termination pursuant to Subparagraphs (i), (ii) and (iv) above shall become effective without the prior approval of the Superintendent of Insurance of the District of Columbia and the United States Department of Justice.

(c) The Bank shall have the right to terminate this proxy at any time upon the giving of not less than 30 days notice in writing to Berkshire, the Superintendent of Insurance of the District of Columbia, and the United States Department of Justice.

9. <u>Addresses</u>

All notices or other communications hereunder to be addressed to Berkshire shall be sent to:

Berkshire Hathaway, Inc.
1440 Kiewit Plaza
Omaha, Nebraska 68131
Attention: Warren E. Buffett

All notices and other communications hereunder to be addressed to the Bank shall be sent to:

Suburban Trust Company
2601 University Blvd. West
Wheaton, Maryland 20902
Attention: Thomas F. Lawson

All notices and other communications hereunder to be addressed to the Department of Justice shall be sent to:

United States Department of Justice
Antitrust Division
Washington, D. C. 20530
Attention: Assistant Attorney General, Antitrust Division

AGREED TO this 24th day of February, 1977.

Berkshire Hathaway, Inc.

Attest:

Secretary

By: Its Chairman

Surburban Trust Company

Attest:

Assistant Secretary

By: J E White
Its Senior Trust Officer

EXHIBIT 1

1976 Annual Report

GEICO

Government Employees Insurance Company

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GOVERNMENT EMPLOYEES INSURANCE COMPANY AND SUBSIDIARIES

Government Employees Insurance Company (GEICO) is a multiple line property and casualty insurer engaged primarily in the writing of all lines of private passenger automobile insurance. The Company also writes homeowners, fire and extended coverage, comprehensive personal liability and boatowners insurance.

The Company has two wholly-owned real estate subsidiaries, GEICO Properties, Inc. (GPI) and GEICO Washington Properties, Inc. (GWPI).

In accordance with accounting changes made in 1974, the financial data set forth in this Report, unless otherwise noted, have been prepared on the basis of Generally Accepted Accounting Principles (GAAP).

Quarterly Highlights of Operating Results

(unaudited)

(thousands)	1976 1Q	2Q	3Q	4Q	Year
Premiums written and service charges	$176,789	$204,568	$137,208	$117,756	$636,321
Less quota share reinsurance	—	—	—	172,910	172,910
Net premiums written	176,789	204,568	137,208	(55,154)	463,411
Increase (decrease) in unearned premium reserve	12,560	37,002	(28,217)	(133,336)	(111,991)
Net premiums earned	164,229	167,566	165,425	78,182	575,402
Reinsurance commissions earned (quota share)	—	—	—	9,583	9,583
Losses and loss expenses	168,869	166,591	152,709	69,525	557,694
Underwriting and other expenses	23,202	22,385	19,969	21,967	87,523
Underwriting loss	(27,842)	(21,410)	(7,253)	(3,727)	(60,232)
Net investment income less interest expense	7,760	8,302	8,993	8,807	33,862
Operating income (loss) before taxes	(20,082)	(13,108)	1,740	5,080	(26,370)
Federal income taxes (credit)	36	36	36	(108)	—
Operating income (loss)	(20,118)	(13,144)	1,704	5,188	(26,370)
Realized gains (losses)	(6,324)	(550)	4,140	2,794	60
Net income (loss)	$ (26,442)	$ (13,694)	$ 5,844	$ 7,982	$ (26,310)
Shareholders' equity	$ 25,863	$ 13,745	$ 20,799	$103,823	$103,823
Common shares outstanding (000)	17,737	17,737	17,737	17,737	17,737
Preferred shares outstanding (000)	—	—	—	8,250	8,250
Statutory information:					
Surplus for protection of policyholders	$ 39,274	$ 27,644	$ 35,166	$136,665	$136,665
Loss ratio (to premiums earned)	104.7%	101.2%	94.2%	92.5%(1)	99.0%(1)
Expense ratio (to premiums written)	13.6%	11.2%	15.1%	N/A	14.0%(1)
Combined loss and expense ratio	118.3%	112.4%	109.3%	N/A	113.0%(1)
Ratio of written premiums to surplus	17/1	26/1	19/1	3/1	3/1
Active policies in force (000)	2,616	2,497	2,217	1,967	1,967

N/A — The expense ratio for the fourth quarter was 17.6% before giving effect to the quota share reinsurance agreements. The expense ratio after such effect is not meaningful.

(1) After giving effect to quota share reinsurance agreements.

GEICO

GOVERNMENT EMPLOYEES INSURANCE COMPANY
Washington, D.C.

A Capital Stock Company Not Affiliated With The U.S. Government

John J. Byrne
Chairman

To Our Shareholders

It is my privilege to submit to you, on behalf of the Directors, the 41st Annual Report of Government Employees Insurance Company.

1976 was not a routine year for our Company.

GEICO entered 1976 with continuing losses and with a slender $49 million in surplus for the protection of policyholders. During the first portion of the year our Company was under financial tension.

In May we announced a recovery plan with three elements:

- **Operation Bootstrap:** a vigorous program by the management team, portions of which were already in place, to improve immediately the financial results from internal operations.
- **Reinsurance:** a plan to obtain temporary risk and capital relief from other insurance companies through a GEICO/Industry Quota Share Reinsurance Treaty.
- **Increase of Capital and Surplus:** a proposal to strengthen the Company's capital base and add to policyholders' surplus by the sale of approximately $75 million of preferred stock.

We executed the plan. The objectives of each of the three elements were met. Our Company ended 1976 with approximately $137 million of surplus for the protection of policyholders and we managed to achieve a net income in the fourth quarter of approximately $8 million.

GEICO

We received strong support from many quarters: the management team which rallied to the struggle behind new and unfamiliar leadership—I am particularly proud of them; my colleagues in the insurance industry who extended assistance at the critical juncture; the distinguished investment banking firm of Salomon Brothers, who agreed to underwrite the capital offering when the situation was still under tension; and you our shareholders who subscribed for over 80% of the new capital offering.

Of critical importance, a number of state insurance regulators aided us with responsible and timely actions, acting always in the public interest. Chief among them was The Honorable Maximilian Wallach, Superintendent of Insurance of the District of Columbia—his courage in granting the time necessary and his skill in supervising the implementation of the reinsurance treaty were of tremendous importance.

Our Directors played a significant role, notably the Special Committee, which supported and guided the management of the recovery plan.

GEICO, indeed the American business system, owes much to all of these men and their efforts during 1976. We thank you.

We continue to suffer losses from our automobile insurance underwriting—a completely unacceptable situation. The solving of this problem is receiving our full attention. We are cautiously optimistic that it can be solved during 1977.

The significant corporate events and financial results of the year are detailed elsewhere in this report. As you review the report, I will call your attention to three items in particular:

- We enter 1977 with a $137 million tax loss carryforward, not reflected on the balance sheet. We intend to manage the Company's affairs so as to realize that benefit.
- During 1975 the Company charged off to expense the asset of $45.7 million in deferred acquisition costs. No such asset was re-established in 1976. Management intends to re-establish such an asset on a conservative basis when it is clearly prudent to do so. This could occur in early 1977.
- The reinsurance treaty is complex and will affect many of the accounts of the Company. We shall attempt to keep you informed of the financial impact that the treaty is having on significant accounts.

Each of these matters is discussed in detail either in the discussion portion of this report or in the Notes to the Financial Statements.

A closing personal note — thank you for your confidence in me. I am proud to be the manager of your distinguished Company.

Respectfully submitted,

John J. Byrne

Chairman

March 4, 1977
Washington, D.C.

Significant Corporate Events of 1976

January 14 — The Company announced an increase in reserves for losses and loss expenses for claims arising prior to the fourth quarter of 1975, and substantial underwriting losses and net losses for the full year 1975 were noted.

March 1 — The Company reported an underwriting loss of $190.9 million and a net operating loss of $124.2 million for the full year.

March 31 — At the Annual Meeting of Shareholders the then Chairman and Chief Executive Officer announced his intention to retire from these positions on or before March 31, 1977, and he appointed a Special Committee of Directors to consider and recommend management changes. Shareholders approved amendments to the Company's Certificate of Incorporation increasing the number of shares of common stock authorized and decreasing their par value. The Company had a net loss of $26.4 million in the First Quarter.

April 10 — Significant management changes were made at a Special Meeting of the Board:

- Ralph C. Peck resigned as a Director.
- Chairman of the Board Norman L. Gidden was elected President and Acting Chief Executive Officer.
- Edward S. Ring was elected Senior Vice President and Acting Chief Operating Officer.
- Dr. Arthur T. Y. Loh was elected Senior Vice President and Chief Financial Officer.
- Alvin E. Kraus, who has been with GEICO or its associated companies since 1939, was appointed Special Consultant to the Chairman of the Board in the area of underwriting.

May 5 — The Board of Directors elected John J. Byrne, formerly Executive Vice President of The Travelers Insurance Companies, to the positions of Chairman of the Board, President and Chief Executive Officer, to succeed Mr. Gidden.

May 13 — GEICO surrendered its Certificate of Authority to do future business in New Jersey.

May 26 — The Board of Directors approved the Chairman's capital financing program to increase the Company's capital and surplus by approximately $75 million and called for a Special Meeting of Shareholders.

June 2 — The Honorable Maximilian Wallach, Superintendent of Insurance of the District of Columbia,held a meeting with representatives of sixteen casualty insurance companies to discuss programs proposed by GEICO to provide temporary assistance to help stabilize its policyholders' surplus, including a quota share treaty among GEICO and industry members and participation by those members in the Company's announced capital financing program.

June 11 — Mr. Byrne announced a Three-Phase Recovery Plan: Operation Bootstrap, Quota Share Reinsurance and a Capital Financing Program.

June 30 — The Company had a net loss of $13.7 million in the Second Quarter.

July 23 — Shareholders approved, by a significant margin, Management's proposed amendment to the Company's Certificate of Incorporation at the Special Meeting of Shareholders, thus placing GEICO in a position to raise additional capital and surplus.

July 30 — Superintendent Wallach received the final binder agreements which had been signed by 27 casualty insurers with regard to the reinsurance arrangement.

August 17 — The distinguished banking firm of Salomon Brothers offered to underwrite GEICO's capital offering.

September 2 — GEICO filed with the SEC a Registration Statement relating to the issuance to holders of its Common Stock of non-transferrable Rights to subscribe for shares of GEICO Cumulative Convertible Preferred Stock.

September 30 — The Company had a net income of $5.8 million in the Third Quarter, its first net profit since the Third Quarter of 1974.

October 27 — GEICO consented to the entry of an administrative order issued by the SEC in settlement of an investigation commenced in February 1976 by the Washington Regional Office of the SEC of the then recent trading in GEICO Common Stock and reports filed by GEICO with the SEC.

November 12 — GEICO's Registration Statement became effective and the Preferred Stock Offering began.

December 2 — The entire issue of the Company's Preferred Stock was purchased by GEICO shareholders and the industry participants so that none was available for purchase by Salomon Brothers for redistribution to the general public. As a result the reinsurance program was implemented.

December 31 — GEICO's statutory surplus for the protection of policyholders was approximately $137 million and the Fourth Quarter results indicated a net income of approximately $8 million, the second consecutive quarter of profitability.

Summary of Operations

(In Thousands, Except Per Share Data)

	1976	1975	1974	1973	1972
Premiums written and service charges	$ 636,321	$ 669,012	$565,226	$534,220	$479,652
Less quota share reinsurance	172,910	—	—	—	—
Net premiums written	463,411	669,012	565,226	534,220	479,652
Increase (decrease) in unearned premium reserve	(111,991)	65,691	28,536	34,683	27,774
Net premiums earned	575,402	603,321	536,690	499,537	451,878
Reinsurance commissions earned (quota share)	9,583	—	—	—	—
Losses and loss expenses	557,894	652,397	453,991	410,432	360,027
Underwriting and other expenses	67,523	96,153	94,924	84,194	72,495
(Increase) decrease in deferred acquisition costs	—0—	45,667	(6,335)	(6,715)	(3,336)
Underwriting income (loss)	(60,232)	(190,896)	(5,890)	11,626	22,692
Net investment income	38,126	33,560	32,328	27,868	23,836
Interest expense	4,264	2,973	1,717	35	—
Federal income taxes (credit)	—	(36,136)	(1,403)	7,664	13,110
Realized gains (losses), net of taxes	60	(2,284)	(1,035)	7	(854)
Net income (loss)	(26,310)	(126,457)	25,089	31,802	32,564
Earnings (losses) applicable to common stock(1)	(26,799)	(126,457)	25,089	31,802	32,564
Earnings (losses) per common share(2)	$ (1.51)	$ (7.13)	$ 1.42	$ 1.80	$ 1.84
Unrealized appreciation (depreciation) on stocks(3)	19,097	22,937	(33,012)	(18,275)	6,801
Weighted average shares outstanding	17,737	17,732	17,719	17,705	17,670
Common stock dividends per share(4)	$ —	$ .20	$ .80	$ .71	$ .63
Stock dividends and distributions paid	—	—	—	4%	100%
Statutory ratios:					
Loss	99.0%(5)	109.8%	85.4%	82.8%	80.2%
Expense	14.0%(5)	14.4%	15.8%	14.8%	14.1%
Combined loss and expense	113.0%(5)	124.2%	101.2%	97.6%	94.3%
Active policies in force (000)	1,967	2,664	2,484	2,316	2,135

(1) Net loss plus preferred dividends of $489,205 in 1976.

(2) Based on the weighted average shares outstanding during each year, adjusted for all subsequent stock dividends and stock distributions.

(3) This is net of tax effects and has been added to (deducted from) shareholders' equity.

(4) Based on shares outstanding at the dates paid, adjusted for all subsequent stock dividends and stock distributions.

(5) After the effect of quota share reinsurance.

PREMIUM VOLUME

Premiums Written

Before giving effect to the quota share reinsurance ceded, the 1976 Premiums Written were $636,320,854 which compares with Premiums Written of $669,011,623 in 1975 or a decrease of 4.9%.

On December 2, 1976 the Company completed a quota share reinsurance arrangement with 27 property and casualty insurance companies. Under this arrangement the reinsurers assumed 25.36% of GEICO's June 30, 1976 liability for unearned premiums of $434 million; GEICO transferred $110.2 million to the reinsurers and GEICO received from the reinsurers a 15% ceding commission of $16.5 million. With respect to business written after June 30, 1976, the reinsurers assumed 25.36% of the monthly written premiums and paid to GEICO a 15% commission.

Net Premiums Written

After the quota share reinsurance, net premiums written in 1976 were $463,410,475, a decrease of 30.7%.

In 1975 the net written premiums increased $103,785,434 or 18.4% over the 1974 net written premiums of $565,226,189.

Although active policies in force declined significantly, to 1,967,395 in 1976 from 2,663,945 in 1975, premium rate increases during 1975 and 1976 had an offsetting effect of approximately $155 million in 1976.

The apportionment and percent of change in Net Premiums Written for 1976 (before quota share reinsurance) and 1975 are shown in the following table:

	1976 Net Premiums Written	Increase (Decrease) from 1975	Distribution by Line
AUTOMOBILE:			
Voluntary	$534,632,325	(7.1)%	84.0%
Involuntary	63,527,011	29.0	10.0
Total Auto	598,159,336	(4.3)	94.0
Homeowners	33,539,720	(14.4)	5.3
Fire & Extended Coverage	3,272,767	1.7	0.5
Comprehensive Personal Liability	90,538	(14.5)	—
Boatowners	1,258,493	(18.5)	0.2
	636,320,854	(4.9)	100.0
Less quota share reinsurance	172,910,379		
TOTALS	$463,410,475		

	1975 Net Premiums Written	Increase (Decrease) from 1974	Distribution by Line
AUTOMOBILE:			
Voluntary	$575,710,189	17.2%	86.0%
Involuntary	49,257,162	39.1	7.4
Total Auto	624,967,351	18.7	93.4
Homeowners	39,174,436	14.6	5.9
Fire & Extended Coverage	3,218,863	10.6	0.5
Comprehensive Personal Liability	105,880	8.1	—
Boatowners	1,545,093	7.4	0.2
TOTALS	$669,011,623	18.4	100.0

Net Premiums Earned

Net premiums earned on all lines including service charges for installment premium payments totaled $656,041,621 in 1976, an increase of $52,721,010 or 8.7% from 1975's earned premiums of $603,320,611. After the effect of the quota share reinsurance agreement, the earned premiums decreased $27,918,350 or 4.6% from 1975.

The 1975 net earned premiums increased by $66,630,935 or 12.4% over the 1974 earned premiums of $536,689,676. The percent of change from the prior year and the percentage distribution of premiums earned by line for 1976 (before quota share reinsurance) and 1975 are shown in the table below:

	Net 1976 Earned Premiums	Increase (Decrease) from 1975	Distribution by Line
AUTOMOBILE:			
Voluntary	$555,407,886	6.3%	84.7%
Involuntary	59,206,868	44.9	9.0
Total Auto	614,614,754	9.1	93.7
Homeowners	36,699,765	4.3	5.6
Fire & Extended Coverage	3,195,487	6.8	0.5
Comprehensive Personal Liability	97,196	(13.1)	—
Boatowners	1,434,419	(0.2)	0.2
	656,041,621	8.7	100.0
Less quota share reinsurance	80,639,360		
TOTALS	$575,402,261		

	Net 1975 Earned Premiums	Increase (Decrease) from 1974	Distribution by Line
AUTOMOBILE:			
Voluntary	$522,728,836	11.5%	86.6%
Involuntary	40,847,340	21.1	6.8
Total Auto	563,576,176	12.1	93.4
Homeowners	35,202,509	17.8	5.8
Fire & Extended Coverage	2,993,359	10.9	0.5
Comprehensive Personal Liability	111,842	(12.8)	—
Boatowners	1,436,725	9.0	0.3
TOTALS	$603,320,611	12.4	100.0

REINSURANCE COMMISSIONS

Reinsurance commissions earned on the quota share reinsurance agreement amounted to $12,095,904 less a one-time interest adjustment of $2,512,625. The commission rate for 1976 was 15% of the premiums ceded and is being earned over the life of the related policies.

LOSSES AND EXPENSES INCURRED

Losses and Loss Adjustment Expenses

Losses and loss adjustment expenses incurred in 1976 totaled $631,899,675, a decrease of $20,496,713 or 3.1% from 1975. After giving effect to the quota share reinsurance such losses totaled $557,694,248, a decrease of $94,702,140 or 14.5% from the $652,396,388 incurred in 1975. In comparison, the losses and loss adjustment expenses incurred in 1975 reflected an increase of $198,405,359 or 43.7% over the $453,991,029 incurred in 1974. The sizeable increase in 1975 was due to the combined effects of double digit inflation and the strengthening of loss reserves which occurred that year. Losses and loss adjustment expenses incurred in 1976 reflect the continuing effect of inflation on claim settlement costs.

The ratio of losses incurred to premiums earned on GEICO's total book of business declined in 1976 for the first time since 1972. The loss ratio of 99.0% in 1976 after quota share reinsurance compares with 109.8% in 1975, 85.4% in 1974, 82.8% in 1973 and 80.2% in 1972. This ratio is clearly unacceptable when compared with the loss ratios of previously profitable years. GEICO's loss ratio improved in each successive quarter during 1976.

Underwriting and Other Expenses

These expenses are primarily the costs incurred in obtaining and processing new and renewal insurance business during the year. In 1976 they decreased by $8,629,962 or 9.0% from the prior year. By comparison, these expenses increased in 1975 by $1,229,080 or 1.3% over the 1974 underwriting and other expenses.

The reduction in the expenses reflects Management's implementation of more stringent expense controls, more efficient methods of policy processing and a decrease in the number of policies being processed.

The underwriting expense ratio is the ratio of underwriting expenses to written premiums excluding service charges. In 1976 this ratio was 14.0% (after quota share reinsurance) compared with 14.4% in 1975 and 15.8% in 1974.

Underwriting expenses for the entire property and casualty insurance industry also showed improvement in 1976 as the industry's expense ratio decreased from 27.6% in 1975 to an estimated 25.9% in 1976. GEICO's ratio is substantially lower than the industry's ratio because of the Company's more economical methods of marketing and servicing policies.

The underwriting expense ratio increased for the Third and Fourth Quarters of 1976 primarily as a result of the decrease in the amount of premiums written.

Deferred Policy Acquisition Costs
GAAP accounting provides for the matching of revenues with expenses over the term of an insurance policy. This results in a deferral of expenses to the extent recoverable to the period over which the premium is earned, instead of charging them against current income as is required by statutory accounting practices. Therefore, the amount of policy acquisition costs to be deferred cannot exceed the excess of premiums written over the anticipated loss and loss adjustment expenses after making prudent provision for possible adverse deviation.

In times of adverse underwriting experience, losses absorb a greater proportion of the unearned premium reserve, resulting in a diminished residual available to cover deferred acquisition costs. This occurred during 1975 and it became necessary to write off deferred policy acquisition costs totaling $45,667,224. This was a significant contributor to the underwriting loss sustained by GEICO in 1975.

During the first three quarters of 1976, Management determined that it was inappropriate to defer acquisition costs because their recoverability could not be appropriately demonstrated. In the fourth quarter, giving due consideration to the loss ratio of 99% for the full year 1976, acquisition costs totaling $1.2 million applicable to the fourth quarter written premiums, before provision for adverse deviation, could have been considered recoverable. In view of the desirability of providing for possible adverse deviation Management determined that it would not be prudent to defer these costs at this time. It is the Company's intention to resume the establishment of deferred acquisition costs on a conservative basis when it is clearly prudent to do so.

The American Institute of Certified Public Accountants (AICPA) is currently studying the various methods used within the insurance industry in determining which underwriting costs can be considered as relating to policy acquisition. When this study is completed, the Company will review its position in determining these costs to ensure that it is in compliance therewith.

	Loss Ratio	Underwriting Expense Ratio	Combined Ratio	Underwriting Loss to Earned Premium
1st Quarter 1975	96.2%	15.5%	111.7%	13.0%
2nd Quarter 1975	103.6	13.8	117.4	20.3
3rd Quarter 1975	101.3	13.9	115.2	16.4
4th Quarter 1975	135.7	14.5	150.2	49.2
1st Quarter 1976	104.7	13.6	118.3	18.0
2nd Quarter 1976	101.2	11.2	112.4	13.7
3rd Quarter 1976	94.2	15.1	109.3	5.2
4th Quarter 1976	92.2	17.6	109.8	3.7

Note: The above ratios are on a statutory basis.

COMBINED LOSS AND EXPENSE RATIO
GEICO's combined loss and expense ratio of losses incurred to premiums earned and underwriting expenses to premiums written on all lines of insurance for 1976 after the effect of quota share reinsurance was 113.0% which compares with 124.2% for 1975 and 101.2% for 1974.

The loss and underwriting expense ratios, the combined ratios and the ratios of underwriting loss to earned premium for each quarter of 1976 and 1975 before the effect of quota share reinsurance are shown above.

UNDERWRITING INCOME (LOSS)

GEICO's 1976 underwriting operations produced a pretax loss of $60,231,767 compared with $190,896,022 in 1975 and a $5,889,860 loss in 1974. The underwriting losses experienced during the past three years are primarily attributable to the rapid increases in the cost of auto repair and hospital and medical services. These increases and the social inflation of jury awards caused a serious dislocation between premium rates in effect and losses incurred. The rate increases implemented in 1975 and 1976 impacted earned premiums at a much less rapid rate. Recent indications suggest that although inflationary pressures are still pushing claim costs upward at a rate that exceeds the pace of national inflation, the rate of increase has moderated somewhat and our premium increases appear to be adequate for these conditions.

NET INVESTMENT INCOME

Net investment income totaled $38,125,335 in 1976 representing an increase of $4,565,584 or 13.6% over the 1975 investment income of $33,559,751. By comparison, investment income in 1975 was $1,231,404 or 3.8% higher than the prior year. The improvement in investment income that occurred in 1976 is due to higher return on short term investments—primarily U.S. Treasury securities—and income from higher-yielding corporate bonds that the Company purchased during the year.

Investment income in 1977 and subsequent years will be adversely affected by the quota share reinsurance agreement.

INTEREST EXPENSE

Total interest expense in 1976 was $4,264,060 compared with $2,973,118 in 1975 and $1,717,575 in 1974. Increased interest expense in 1976 resulted primarily from the payment of one full year's interest on the 9⅜% 35-year mortgage loan that was secured on July 24, 1975.

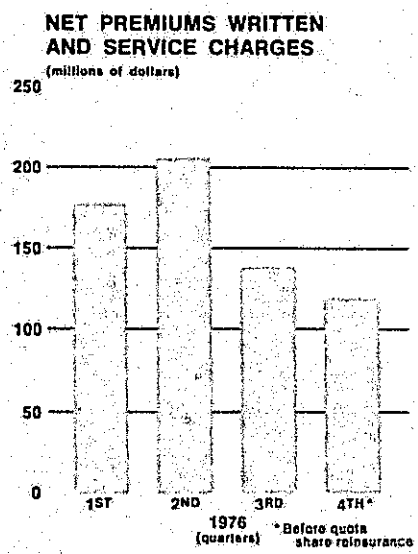
FEDERAL INCOME TAXES

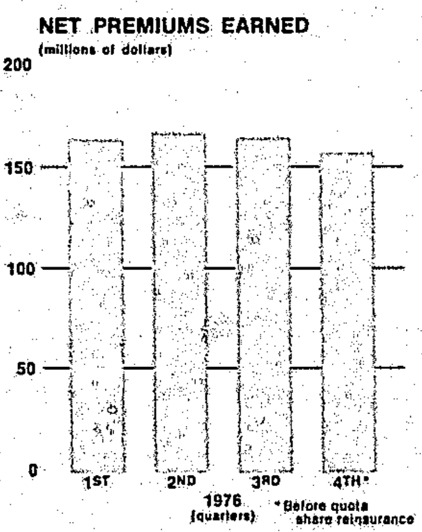
All income tax credits, which were applicable to net operating loss carrybacks and previously provided deferred income taxes on policy acquisition costs and other timing differences, were exhausted in 1975 as a result of losses sustained by the Company for that year. The net operating loss carryforward at December 31, 1976 is $137 million. Additional data concerning Federal income taxes are provided in the Notes to Financial Statements.

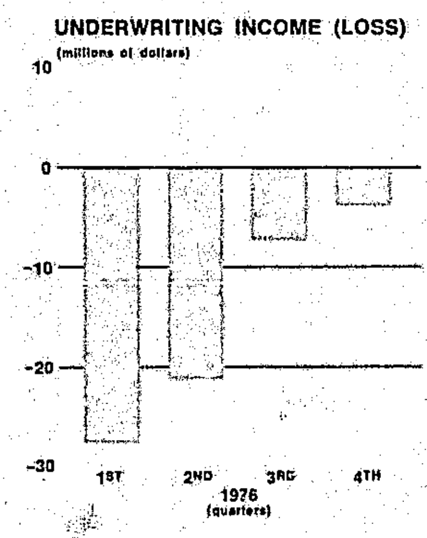
UNREALIZED LOSSES

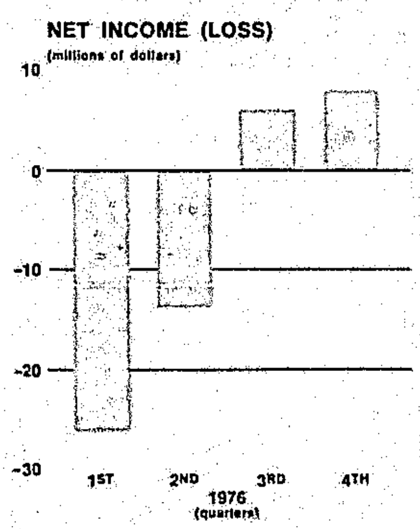
In 1974 GEICO reported a cumulative unrealized loss on equity securities, net of tax benefits, of $42,299,596. This cumulative unrealized loss was reduced to $19,362,762 in 1975, and at year-end 1976 was further reduced to $266,106 due to improvement in the stock market conditions and changes in the investment portfolio.

Record of GEICO









	1976 Active Policies In Force	(Decrease) From 1975	Distribution
Automobile:			
Voluntary	1,482,474	(28.7)%	75.4%
Involuntary	130,272	(2.5)	6.6
Total Automobile	1,612,746	(27.1)	82.0
Homeowners	300,284	(22.4)	15.3
Fire & Extended Coverage	33,542	(17.5)	1.7
Comprehensive Personal Liability	5,155	(7.7)	0.2
Boatowners	15,668	(18.5)	0.8
TOTAL ALL LINES	1,967,395	(26.1)	100.0

POLICIES IN FORCE

The number of active policies in force on the Company's five lines of insurance declined to 1,967,395, down 26.1% from the 2,663,945 active policies in force at year-end 1975. The major portion of the reduction occurred in the automobile line and we plan to further reduce voluntarily written automobile policies during 1977 through continuing stringent underwriting guidelines. During the latter part of 1976 the rate at which active auto policies in force declined exceeded that which was planned due to the Company's withdrawal from New Jersey, the implementation of substantial premium rate increases in most jurisdictions and the unfavorable publicity the Company received at the height of its financial difficulties. Toward the end of the fourth quarter the rate of attrition was moderating.

In previous years the figures provided for policies in force included not only the policies actually in effect, but also those policies which had been written but would not be effective until some future date (usually the next month). Beginning with this report, all policies in force figures will include only those policies which are actually in effect or "active."

Of growing concern to GEICO and the automobile insurance industry is the increasing volume of business insurers are being required to write in the involuntary or assigned risk and other residual market mechanisms. The stronger the belief that prevailing voluntary rates are inadequate, the fewer risks insurers will write and the larger the residual market will become. During 1976 the involuntary automobile policies on GEICO's books decreased 2.5% from the 1975 volume which, in turn, was 22.0% higher than the prior year. New Jersey assigned risk policies, which had accounted for 25.7% of GEICO's total involuntary policies in force at year-end 1975, were reduced to 14.8% of the Company's total involuntary policies in force at year-end 1976 as a result of GEICO's gradual withdrawal from the state.

The fire and homeowners lines were also impacted by GEICO's higher premium rates and financial difficulties as fire and homeowners policies decreased 17.5% and 22.4% respectively. During the year a number of mortgage lending institutions advised mortgagors that GEICO fire and homeowners policies were no longer acceptable because the Company had received a "deferred" policyholders' rating from A.M. Best Company, an insurance-company rating organization.

On December 2, 1976 GEICO, after the quota share reinsurance and the capital financing, estimated its surplus for the protection of policyholders to be in excess of $130 million. Subsequently the Company was advised by A. M. Best that GEICO would qualify for the Class XV financial category, far exceeding the minimum requirement of mortgage lending institutions that utilize this A. M. Best category as a standard of acceptability.

Active policies in force by line of insurance along with the percent change from 1975 and percent distribution are shown in the above table.

LOSS RESERVES

Loss reserves are estimates of the eventual costs of claims incurred but not finally settled. They are based not only on historical experience but also on a judgment of the effect on such claim costs of future economic and social forces, as well as on GEICO's experience with the type of risk involved, knowledge of the circumstances surrounding individual claims and experience with respect to the probable number and nature of claims arising from losses not yet reported. Consequently, they are inherently subject to a number of highly variable circumstances. In 1974 and 1975, escalating inflation of double-digit magnitude on the costs

Year-end	Reserves	Increase over Previous Period	Ratio of Reserves to Last 12 Months Earned Premiums
1973	$247,784,516	9.6%	49.9%
1974	262,981,553	6.1	49.4
1975	368,438,778	40.1	61.9
1976	430,500,000	16.8	66.7

for hospital and medical care and auto crash parts combined with "social" inflation of jury awards, changes in tort law and the widespread introduction of "no-fault" automobile insurance made accurate assessment of loss reserve estimates particularly difficult. GEICO substantially underestimated the impact of such factors on its loss reserves during 1974 and in 1975 prior to year-end adjustments. As shown in GEICO's annual statutory statement for the year ended December 31, 1975, payments in 1975 for accidents occurring during 1974 and prior years plus the reserves for those accidents at December 31, 1975, exceeded by approximately $67.9 million the reserves at December 31, 1974. In 1976 claim settlement costs continued to rise at a rate that exceeded the national rate of inflation, but at a more manageable pace than in 1975. Automobile repair and hospital and medical costs are among the most rapidly increasing costs in the country; unfortunately for automobile insurers, these costs account for the greatest portion of claim settlement costs and loss reserves. GEICO is continuously monitoring its actual losses as compared with past reserve estimates and makes revisions of the reserves as indicated.

GEICO currently sets loss reserves from case evaluations, average claim costs and other estimated components. GEICO's Office of the Actuary tests the aggregate reserves derived from these components against other statistical indicators of ultimate claim losses. GEICO's reserves for losses and loss adjustment expenses, before the effect of quota share reinsurance, have been as shown above.

During 1976 GEICO continued to refine its estimating procedures employed in arriving at its reserves which resulted in increases in reserve components. The net results of such refinements closed the gap between GEICO's loss reserves at December 31, 1976, and such reserves as estimated by its consulting actuaries, to $5.3 million. Recoverability available through GEICO's excess reinsurance treaties essentially eliminates even that difference.

GEICO believes that its provisions for loss and loss adjustment expenses at December 31, 1976 are reasonable and adequate to cover the ultimate net cost of losses on reported and unreported claims arising from accidents which had occurred by that date, but such provisions are necessarily based on estimates and the ultimate net cost may vary from such estimates.

In September 1975 GEICO retained a major independent consulting actuarial firm to conduct quarterly evaluations of the adequacy of GEICO's reserves. The firm has prepared written quarterly reports of its evaluation of reserves for loss and allocated loss adjustment expenses before consideration of reinsurance for GEICO's major lines of business at September 30, 1975, and each subsequent calendar quarter (which, at December 31, 1976, covered approximately 91.3% of GEICO's total net loss and loss adjustment expense reserves). In its study of GEICO's reserves, the firm relied upon information supplied by GEICO's Office of the Actuary.

Our consulting actuarial firm's letter dated February 1, 1977, with respect to GEICO's December 31, 1976 reserves, advised that, in view of the variability inherent in the process of estimating reserves, the firm believes GEICO's loss and allocated loss adjustment expense reserves as of December 31, 1976, are well within a range of adequacy which these consultants deem reasonable and acceptable.

The firm's letter further stated that its estimates for GEICO's major lines totaled $398.5 million. GEICO's reserves for those same lines totaled $393.2 million. The consultant's estimate does not take into account the recoverability available through GEICO's excess reinsurance treaties; as previously noted, taking such into consideration would essentially eliminate any difference.

The consultant's letter emphasized the importance of understanding the degree of variability inherent in its estimates and, indeed, in any loss reserve estimate. As a result of the effect of inflation on the cost of settling claims and a number of other uncertainties, the consultants advised GEICO that a considerable degree of variation from the estimates contained in its February 1, 1977 letter was not only possible but probable. They also stated that, although the degree of this variation cannot be determined, it could be substantial and could be in either direction from their reserve estimate.

Loss reserves are further discussed in the Notes to the Financial Statements.

INVESTMENT PORTFOLIO SUMMARY

	DECEMBER 31, 1976	% OF PORTFOLIO	DECEMBER 31, 1975	% OF PORTFOLIO	INCREASE (DECREASE)
U.S. Government Bonds	$218,666,930	37.5	$ 83,334,445	14.4	$135,332,485
Certificates of Deposit	239,013	.1	223,591	—	15,422
Corporate Bonds	104,438,363	17.9	1,199,407	.2	103,238,956
Tax-Exempt Bonds	238,951,985	41.0	396,260,477	68.5	(157,308,492)
	562,296,291	96.5	481,017,920	83.1	81,278,371
Guaranteed Railroad Stocks	—	—	358,980	—	(358,980)
Preferred Stocks	20,288,943	3.5	38,784,489	6.7	(18,495,546)
Convertible Preferred Stocks	—	—	3,813,035	.7	(3,813,035)
Railroad Common Stocks	—	—	800,000	.1	(800,000)
Public Utility Common Stocks	—	—	27,628,307	4.8	(27,628,307)
Industrial Common Stocks	—	—	26,374,045	4.6	(26,374,045)
	20,288,943	3.5	97,758,856	16.9	(77,469,913)
TOTALS	$582,585,234	100.0	$578,776,776	100.0	$ 3,808,458

UNEARNED PREMIUM RESERVE

This reserve is established to cover the unexpired portion of premiums written on all policies in force and not yet taken into underwriting income. The unearned premium reserve is calculated by mathematical formula and does not require estimates or assumptions of future events.

GEICO's reserve for unearned premiums totaled $272,871,883 on December 31, 1976, a decrease of 29.1% from the year-end 1975 reserve of $384,863,669. This decrease is due primarily to the impact of the quota share reinsurance agreements ($92,271,019) and the decline in active policies in force.

INVESTMENTS

The value of GEICO's investment portfolio on December 31, 1976 was $582,585,234 compared with $578,776,776 at year-end 1975.

On January 28, 1976, the Board of Directors approved a program to sell all common stocks held by the Company and substantially reduce the portfolio of preferred stocks. These actions were completed during the year and the proceeds of these sales were invested in short and intermediate term United States Treasury securities and corporate bonds. The purpose of this shift in GEICO's investment portfolio was to eliminate the risk of erosion in the market value of these equities thereby protecting policyholders' surplus.

GEICO's tax status due to prior-year losses made it advisable for the Company to shift a substantial portion of its tax-exempt bonds to higher-yielding United States Government securities and corporate bonds.

These changes have substantially increased the liquidity of the Company's investment portfolio which at the end of 1976 consisted almost entirely of high-grade marketable fixed income securities, with a significant portion in short and intermediate term securities.

Bond and stock values listed in the Investment Portfolio Summary shown above are those prescribed by the Committee on Valuation of Securities of the National Association of Insurance Commissioners, which for Balance Sheet purposes requires the use of amortized values for bonds and the approximate market values for stocks. A detailed schedule of GEICO's investment portfolio showing the market value for all stocks and bonds as of December 31, 1976 is listed in the Investment Portfolio Report which, upon request to the Office of the Secretary, is available to shareholders as a Supplement to this Annual Report.

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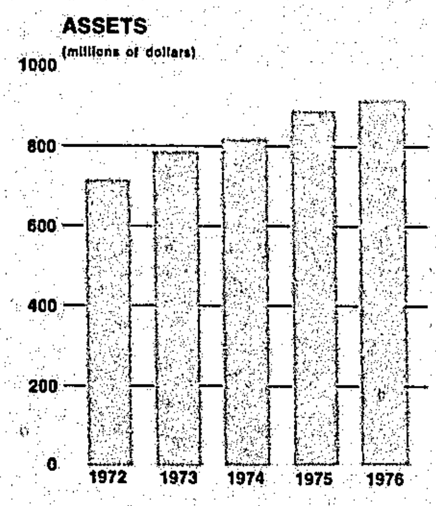


ASSETS

On December 31, 1976 GEICO's assets totaled $911,828,606, an increase of $26,178,996 or 3.0% over the $885,649,610 in assets recorded at year-end 1975. The accompanying graph illustrates the development of assets over the past five years.

CASH DIVIDENDS

A regular quarterly cash dividend was last paid to shareholders of Common Stock on March 28, 1975. This dividend of twenty cents per share was declared in January of 1975 and totaled $3,544,454. The Board of Directors omitted cash dividends on the Common Stock since that time because of the substantial losses which have occurred since the fourth quarter of 1974.

On December 7, 1976, the Board of Directors declared an initial dividend of $.0593 per share on the Cumulative Convertible Preferred Stock payable January 1, 1977. This dividend represented a pro rata payment for the 29 day period ending December 31, 1976.

On February 23, 1977, the Board of Directors declared the Regular Quarterly Dividend of $.184 per share on the Cumulative Convertible Preferred Stock, payable April 1, 1977.

STOCK OPTION PLAN

Under the provisions of a Stock Option Plan which was approved by the shareholders in 1963 and which terminated as to the granting of further options in 1973, a total of 170,101 shares of common stock of the Company was purchased by 184 officers and key executives.

Under the provisions of a Stock Option Plan approved by the Shareholders at the 1973 Annual Meeting, options for a total of 335,704 shares of common stock of the Company have been granted to 421 officers and key executives.

Pursuant to his Employment Agreement with GEICO, Mr. Byrne has been awarded a nonqualified ten-year option under GEICO's Stock Option Plan to purchase 209,741 shares of Common Stock at an option price of $4.589 per share (as adjusted). No other stock options were granted and no options were exercised by GEICO officers and executive personnel during 1976.

PRICES OF COMMON AND PREFERRED STOCKS

The securities of Government Employees Insurance Company are traded in the Over-the-Counter market.

The following table shows the high and low bid and asked prices for the Company's common and convertible preferred stock by quarter for 1975 and 1976:

TWO-YEAR SUMMARY OF STOCK PRICES

COMMON STOCK

	High		Low	
1975	Bid	Asked	Bid	Asked
1st Quarter	27¼	27¾	20¼	20¾
2nd Quarter	27½	28	19¼	19¾
3rd Quarter	24⅛	24⅝	10⅝	11⅛
4th Quarter	14⅝	15⅛	9⅛	9⅝
	High		**Low**	
1976	Bid	Asked	Bid	Asked
1st Quarter	11⅞	12⅜	3¾	4¼
2nd Quarter	5⅛	5½	3⅜	3¾
3rd Quarter	5¼	5⅝	2⅛	2⅝
4th Quarter	7⅛	7½	3⅞	4¼

CONVERTIBLE PREFERRED STOCK

	High		Low	
	Bid	Asked	Bid	Asked
4th Quarter 1976	14¾	15⅛	9⅝	10⅛

Alvin E. Kraus

Joseph J. Sisco

BOARD OF DIRECTORS

John J. Byrne was elected a Director on May 5, 1976. Ralph C. Peck, who had been President of the Company, resigned as a Director at a Special Meeting of the Board on April 10, 1976. Leo Goodwin, Jr., who had served as a Director of the Company since March 1948, resigned as a member of the Board effective May 17, 1976. And, Norman L. Gidden, who had formerly been Chairman of the Board, resigned as a Director of the Company, effective September 7, 1976.

On May 26, 1976, the Board elected Alvin E. Kraus a Director. Mr. Kraus is the Chairman of the Board of Criterion Insurance Company. He has been with GEICO or its associated Companies since 1939, and is currently serving as an underwriting consultant to the Chairman of the Board of GEICO.

Dr. Joseph J. Sisco, President of The American University, was elected a Director of GEICO on January 12, 1977. Prior to becoming President of The American University in July 1976, Dr. Sisco served as Under Secretary of State for Political Affairs, the number three post in the State Department and the top post for career officers. A Principal Advisor and Deputy Negotiator on Middle Eastern Issues, he served as the Assistant Secretary of State for near Eastern and South Asian Affairs and was U. S. Negotiator on the Arab-Israeli Settlement.

THE STAFF

Taking into account certain revisions in the way GEICO's active work force is calculated, the Company's active staff totaled 6,073 employees at year-end 1976, a 17.2% reduction from the 7,336 active employees at December 31, 1975 and a 24.4% reduction since December 31, 1974. The staff reductions in 1976 were made in conjunction with the projected and actual reduction in policies in force. In addition, twenty-three Company sales offices, including the Western Regional headquarters in San Francisco, were closed as part of the retrenchment program.

In spite of these reductions, the Staff worked diligently and faithfully through some very trying times in 1976. The Board of Directors is aware of the sacrifices that were made and is most appreciative of the Staff's dedication to maintaining GEICO's traditionally high standards of service to policyholders and claimants.

ADDITIONAL INFORMATION FOR SHAREHOLDERS

Government Employees Insurance Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, is available without charge to Shareholders upon written request directed to:

Mr. John M. O'Connor, Secretary
Government Employees Insurance Company
5260 Western Avenue
Chevy Chase, Maryland 20076

The Company has prepared a Statistical Supplement containing details of the statistical data which are summarized in this Annual Report. A copy of this Supplement will be mailed to the holders of the Company's securities and other interested parties upon request directed to the Office of the Secretary.

The financial statements contained in this report have been examined by Ernst & Ernst, the Company's independent auditors, who have been appointed by the Board of Directors to examine the 1977 financial statements. A representative of Ernst & Ernst is expected to be present at the Annual Meeting to respond to appropriate questions.

AUTOMOBILE INSURANCE
GEICO has specialized in writing private passenger automobile insurance since the Company's founding in 1936. Consequently, this line has traditionally accounted for over 90% of written premium volume. In 1976 automobile written premiums totaled \$598,159,336 down 4.3% or \$26,808,015 from the \$624,967,351 written in 1975. Voluntarily selected and underwritten automobile insurance business decreased in volume by \$41,077,864 or 7.1% during the year while involuntary business increased by \$14,269,849 or 29.0% over the prior year. Active automobile insurance policies in force at year-end 1976 totaled 1,612,746, down 27.1% from the 2,211,362 active policies in force at December 31, 1975.

In 1976 GEICO sustained an underwriting loss of \$65.6 million on the automobile line compared with a loss of \$150.4 million in 1975. Of the 1976 loss, 50.4% or \$38.4 million resulted from involuntary automobile policies, which in contrast accounted for only 10.6% of the Company's total automobile written premium volume. This growing and invariably unprofitable portion of the Company's business accounted for 7.9% and 6.7% of total automobile insurance premiums in 1975 and 1974 respectively. Underwriting losses from involuntary business totaled \$29.9 million in 1975 and \$11.7 million in 1974.

Involuntary risks were written under Automobile Insurance Plans in all jurisdictions prior to 1973. Because of increasing dissatisfaction with these plans, a number of states enacted alternative residual market mechanisms. These new statutory concepts for affording coverage to the residual market have taken three forms to include joint underwriting associations, reinsurance facilities, and in Maryland, a state-managed automobile insurance fund.

HOMEOWNERS INSURANCE
Because of GEICO's financial difficulties during the past two years, substantially higher premium rates and the "deferred" policyholders' rating assigned GEICO by the A.M. Best Company, the Company's homeowners line of insurance suffered a reversal in 1976. Premiums written decreased from \$39,174,436 in 1975 to \$33,539,720 in 1976.

The Homeowners line remained profitable in 1976 in spite of these difficulties. Homeowners policies generated a loss ratio of 75.7% for the year compared with 85.4% in 1975 and 74.4% in 1974. However, by increasing the amount of coverage in force on renewal policies by an increment generally commensurate with the increased value of housing, we have managed to maintain a reasonably balanced relationship between earned premium and loss exposure.

FIRE INSURANCE
Fire and extended coverage written premiums increased slightly in 1976. Premiums written for this line amounted to \$3,272,767 in 1976 compared with \$3,218,863 in 1975 and \$2,910,939 in 1974. Active policies in force totaled 33,542, as compared to 1975 and 1974 in which there were 40,661 and 40,616 policies respectively. Consumer preference for the homeowners policy, which includes the insurance protection afforded by the separate fire and extended coverage policy and the comprehensive personal liability (CPL) policy, is reflected in this profitable but small portion of GEICO's total book of business.

COMPREHENSIVE PERSONAL LIABILITY INSURANCE
The comprehensive personal liability line produced \$90,538 in written premiums compared with \$105,880 in the prior year. Active policies in force decreased to 5,155 from 5,583 at year-end 1975 as current policyholders continued to replace their personal liability policies with broad homeowners, condominium, renters and boatowners package policies which include this coverage.

BOATOWNERS INSURANCE
Written premiums on the boatowners insurance line decreased to \$1,258,493 in 1976 from \$1,545,093 in 1975. Since most boatowners policies are written by GEICO in conjunction with automobile policies, the attrition which occurred in the automobile line also impacted the boatowners line. Active policies in force decreased from 19,224 at year-end 1975 to 15,668 at December 31, 1976.

PREMIUM RATES

During the past three years the cost of settling claims has risen rapidly due to increased automobile repair costs, the high cost of hospital and medical services as well as the social inflation of jury awards. In order to offset these costs, GEICO substantially increased its premium rates in all lines. Voluntary automobile policy premium rates increased the equivalent of 18% in 1975 and 38% in 1976 on a country-wide basis. Involuntary automobile rates increased the equivalent of 24% and 20% in 1975 and 1976 respectively.

Homeowners policy rates were increased the equivalent of 6% in 1975 and 21% in 1976 while fire and extended coverage rates were raised the equivalent of 7% in 1975 and 38% in 1976. As a result of these increases, GEICO's premium rate structure has improved and, at current levels, is expected to eventually produce a moderate underwriting profit in most jurisdictions and lines of voluntary business.

In 1976 voluntary automobile coverage premium rates have been adjusted at least once in each jurisdiction where GEICO is continuing to write automobile coverage, except North Carolina (where the industry is locked in a continuing battle with the regulator over adequate rates). There were 63 major rate increases in 1976 and a comparable number of minor increases which resulted from changes in the rating rules. These increases combined with those implemented in 1975 have raised the rate level of voluntary automobile policies the equivalent of 63% over the last two years.

Since it is virtually impossible to predict inflation on claim settlement costs and operating expenses with any precise degree of accuracy, premium rates will continue to be closely monitored in each jurisdiction to assure their adequacy. If this monitoring process reveals potential or existing rate inadequacies, rate relief will be promptly sought.

Due to continued increases in servicing costs, GEICO's service charge on installment payments has been increased to $2.00 per payment. Approximately $10.8 million was generated in 1976 by these service charges.

MARKETING

As a result of GEICO's financial problems at the end of 1975, a Company program was implemented to reduce its voluntary written automobile policies in force; additionally, restrictions were imposed on the Company in 1976 prohibiting the writing of new, and in some instances all, business in certain jurisdictions. With the net profit recorded in the third and fourth quarters of 1976, completion of the preferred stock offering and implementation of the quota share reinsurance treaty, most of those restrictions have been removed. The Company, however, is not authorized to write new business in Hawaii, Iowa and New Hampshire. In Kansas its Certificate of Authority remains suspended because the par value of its common stock is less than $1 per share.

GEICO has voluntarily withdrawn from doing business in New Jersey and Guam and in accordance with an agreement has discontinued writing business in Alaska. New Jersey accounted for 9.7% of GEICO's 1975 written premiums while Alaska and Guam accounted for less than 1%.

The Company's effort to reduce voluntary automobile policies in 1976 was on a country-wide basis and was to be continued until underwriting profitability and a proper relationship of premiums written to policyholders' surplus could be restored. As part of this effort, all marketing programs were suspended and most sales offices were closed. Stringent underwriting standards were implemented, which combined with our withdrawal from New Jersey and other jurisdictions and the impact of our higher rate levels, caused GEICO's voluntary automobile policies in force to decrease by 28.7% from December 31, 1975.

The primary thrust of GEICO's marketing strategy in 1977 is being directed toward improving the quality of the Company's book of business. This is being accomplished by marketing GEICO's insurance services only in those jurisdictions identified as providing a reasonable expectation of profitability; further reducing the number of automobile policies in force by non-renewing those current policyholders whose driving records fail to meet the Company's preferred risk requirements; and application of stringent underwriting standards in all states where legally permissible.

To reinforce the Company's ability to retain current preferred risk policyholders as well as to attract and select new clientele of exceptionally low risk potential, GEICO introduced in late 1976 a new safe driver rating plan intended to provide a premium advantage to customers with good driving records. By year-end it had been approved in 12 jurisdictions covering approximately 77% of the Company's current voluntary automobile premiums. Promotion of the safe driver plan is a major component of GEICO's 1977 marketing strategy.

Having 94% of the Company's premium volume generated by automobile insurance with the bulk of the automobile volume in six states was not to the Company's advantage during the past two years. With the continuing uncertainty surrounding the adequacy of automobile insurance rates, increasing regulatory pressures on underwriting prerogatives in the automobile line and persistent residual market problems, it will be to GEICO's advantage to increase the concentrations of business in the homeowners and other miscellaneous lines. These lines have traditionally been profitable for GEICO and are logical directions for the Company to move in at this time. Therefore, an important part of GEICO's marketing strategy is to reduce the proportion of the Company's total business in the automobile line, as well as to achieve a more balanced geographical distribution of our automobile insurance business.

Your Management firmly believes that the quickest way for GEICO to return to underwriting profitability is to do what the Company has traditionally done best. Therefore, GEICO is concentrating heavily on attracting and selectively underwriting high quality insurance risks primarily through direct marketing methods. All applications for coverage are being carefully screened, especially on the automobile lines, to ensure that these more stringent standards are being adhered to.

While there are admittedly a number of adverse factors that will have to be dealt with to successfully carry through our marketing plan, increased premium rates being a significant factor, every effort is being made to restore and enhance GEICO's reputation as a quality insurance company that features outstanding value and policyholder service.

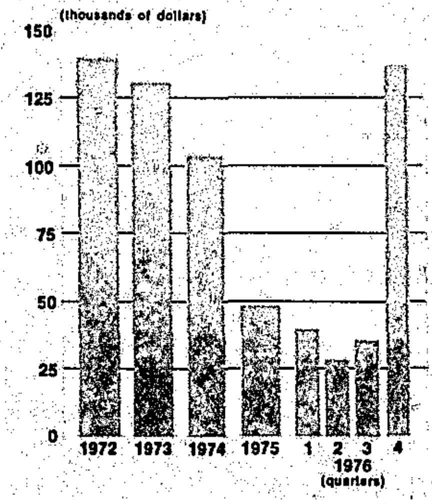
CLAIMS

A total of 896,876 claims was reported to the Company in 1976 representing an 11.5% decrease from the 1,013,690 claims reported in 1975. In contrast, the claims reported to GEICO in 1975 increased 15.2% over those reported in 1974. The decrease in claim volume is partially attributable to the reduced number of policies in force on GEICO's books. However, accident frequency—the average number of claims reported per thousand car units insured—was also reduced, so that total claims decreased at a more rapid pace than the decline in policies in force, an indication that our underwriting program mentioned earlier seems to be improving the quality of our book of business.

In the Third and Fourth Quarters of 1976, the Company received 17.6% and 32.4% fewer claims respectively than in the comparable 1975 periods.

The number of bodily injury suits increased 13.1% in 1976 over 1975 reflecting in part the general inadequacy of tort thresholds imposed by no-fault laws that are currently in effect in the 16 jurisdictions accounting for 47.6% of current premium

SURPLUS FOR THE PROTECTION OF POLICYHOLDERS
(thousands of dollars)



volume. In almost all cases, these thresholds were inadequate to start with, or have not been increased to keep pace with the rapidly rising costs of hospital and ~ edical care. For example, in New York State the tort threshold for bodily injury law suits remains at $500. The average fee for a hospital room is $218 per day, and combined with fees for X-rays and physician's fees the threshold may be exceeded with one day's hospital stay.

The spiraling costs of hospital medical care have in large part been responsible for the increase in the average loss payments of 17-20% in Bodily Injury and Personal Injury Protection Coverages during 1976. More recent experience indicates that the average payments for these coverages are still on the rise. Reflecting the tremendous increase in the price of auto crash parts, the average payment for Collision Coverage has increased about 9% over 1975.

The increase in total thefts of automobiles, particularly in New York, has contributed greatly to the increase in the average Comprehensive payments which were about 20% higher during 1976 than they were in 1975.

GEICO's claim policy is to promptly and equitably dispose of all meritorious claims while strongly defending against unwarranted or excessive demands. Operating from 24 claim offices strategically located in areas of greatest policyholder concentration, GEICO employees handled directly 63% of all claims reported in 1976 compared with 62% the prior year. The remaining claims that were reported to the Company were handled by the more than 3,500 independent claims attorneys and adjusters that represent GEICO in areas not readily accessible to the Company's claim offices. Auditing procedures are rigorously applied on a regular basis to assure that the Company's claim policy is consistently followed by these independent adjusters as well as by Company personnel.

All claim offices have drive-in claim facilities as do many of the facilities operated by the independent adjusters. The Company's facilities are staffed by material damage adjusters and appraisers who have received intensive training at GEICO's Material Damage Training facility in McLean, Virginia, which was opened in 1974. This facility and the training provided therein rank with the best the industry has to offer.

SURPLUS FOR THE PROTECTION OF POLICYHOLDERS

Surplus for the protection of policyholders (under statutory accounting practices) is the difference between admitted assets and liabilities as determined pursuant to statutory accounting practices. The dollar amount of a company's statutory policyholders' surplus in relation to the dollar amount of its premium writings is a significant indicator to insurance regulatory authorities of a company's financial stability.

When GEICO strengthened its reserves at the end of 1975 and in early 1976 for losses that had occurred prior thereto, surplus was adversely impacted to the extent of such strengthening.

At year-end 1974 our surplus was $103.0 million. By year-end 1975 this figure had declined to $49.3 million. In 1976, surplus was $39.3 million at March 31; $27.6 million at June 30; $35.2 million at September 30; and $136.7 million at December 31, 1976.

On December 2, 1976, the Company had announced the successful completion of GEICO's capital offering and the implementation of the quota share reinsurance program, which together increased surplus by approximately $91.5 million.

Report of Ernst & Ernst, Independent Auditors

To the Shareholders
Government Employees Insurance Company

We have examined the consolidated balance sheet of Government Employees Insurance Company and subsidiaries as of December 31, 1976 and December 31, 1975, and the related consolidated statements of operations, shareholders' equity, and changes in financial position for the years then ended. 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.

As explained under the caption "Litigation" in the notes to financial statements, there is certain litigation pending and at this time management is unable to give any appraisal as to the eventual outcome.

In our opinion, subject to the effect on the financial statements of the ultimate resolution of the litigation referred to in the preceding paragraph, the financial statements referred to above present fairly the consolidated financial position of Government Employees Insurance Company and subsidiaries at December 31, 1976 and December 31, 1975, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Ernst

E&E

Washington, D.C.
March 2, 1977

Consolidated Balance Sheet

ASSETS	December 31, 1976	December 31, 1975
Cash	$ 18,644,393	$ 18,625,438
Investments		
Certificates of deposit	239,013	223,591
United States Government bonds	218,666,930	83,334,445
State, municipal and corporate bonds and notes	343,390,348	397,459,884
Preferred stocks	20,288,943	42,810,524
Common stocks	—	54,948,332
	582,585,234	578,776,776
Premiums in course of collection, less allowance of $3,000,000 for loss on cancellations	202,839,644	208,347,759
Real estate—at cost, less accumulated depreciation of $7,084,058 and $6,210,683	34,992,481	36,317,583
Furniture and equipment—at cost, less accumulated depreciation of $10,560,736 and $11,136,514	14,028,070	17,821,599
Federal income taxes recoverable	3,500	12,658,477
Accrued investment income	9,138,018	7,335,633
Unpaid losses due from reinsurers	42,332,941	—
Other assets	7,264,325	5,766,345
Total Assets	$911,828,606	$885,649,610
LIABILITIES AND SHAREHOLDERS' EQUITY		
Reserve for losses	$376,991,204	$325,901,585
Reserve for loss adjustment expenses	53,508,796	42,537,193
Reserve for unearned premiums	272,871,883	384,863,669
Reserve for unearned reinsurance commissions	15,052,671	—
Deferred Federal income taxes, including current taxes of $1,425 in 1975	1,827,765	369,332
Accounts payable and accrued expenses	11,528,554	6,995,983
Licenses, fees and other taxes	6,806,025	9,043,209
Claim drafts outstanding	16,007,789	20,668,478
Other liabilities	5,057,447	10,179,447
Preferred stock dividends declared	489,205	—
Long-term debt	47,864,212	48,176,029
Total Liabilities	808,005,551	848,734,925
Shareholders' equity:		
Cumulative Senior Preferred Stock, par value $10 per share Authorized 300,000 shares, none outstanding	—	—
Cumulative Convertible Preferred Stock, par value $1 per share and redemption value of $9.20 per share (Aggregate liquidation preference value $82,496,560) Authorized 10,000,000 shares		
Issued and outstanding 8,249,656 shares	8,249,656	—
Excess of redemption value over par value	67,647,179	—
	75,896,835	—
Common Stock, par value $.10 per share ($4.00—1975) Authorized 45,000,000 shares (24,000,000 shares—1975) Issued and outstanding 17,736,760 shares	1,773,676	70,947,040
Paid-in surplus	113,038,352	43,725,049
Unrealized depreciation on investment in stocks, net of $114,046 and $1,573,905 tax effect	(266,106)	(19,362,762)
Retained earnings (deficit)	(86,620,202)	(58,394,642)
Total Shareholders' Equity	103,823,055	36,914,685
Total Liabilities and Shareholders' Equity	$911,828,606	$885,649,610

See notes to consolidated financial statements.

Consolidated Statement of Operations

	Year Ended December 31, 1976	1975
Premiums written and service charges	$636,320,854	$669,011,623
Reinsurance ceded	172,910,379	—
Net premiums written	463,410,475	669,011,623
Increase (decrease) in reserve for unearned premiums	(111,991,786)	65,691,012
Net earned premiums	575,402,261	603,320,611
Reinsurance commissions earned	9,583,279	—
	584,985,540	603,320,611
Losses incurred	466,414,604	562,295,031
Loss adjustment expenses incurred	91,279,644	90,101,357
Underwriting expenses	86,110,915	93,312,958
Policyholders' dividends	(107,374)	349,728
Provision for amounts uncollectible on cancelled policies, net of miscellaneous income	1,519,518	2,490,335
Decrease in deferred policy acquisition costs	—	45,667,224
	645,217,307	794,216,633
Underwriting Loss	(60,231,767)	(190,896,022)
Investment income, net of expenses of $662,437 and $739,000	38,125,335	33,559,751
Interest expense	(4,264,060)	(2,973,118)
	33,861,275	30,586,633
Loss Before Federal Income Taxes and Realized Investment Gains or Losses	(26,370,492)	(160,309,389)
Federal income tax credits		
Current	—	(12,719,614)
Deferred	—	(23,416,222)
	—	(36,135,836)
Loss Before Realized Investment Gains or Losses	(26,370,492)	(124,173,553)
Realized gains (losses) on sales of investments (Net unrealized appreciation on investments in stocks credited directly to shareholders' equity was $19,096, 656 in 1976 and $22,936,834 in 1975)	60,107	(2,283,441)
Net Loss	$(26,310,385)	$(126,456,994)
Per share data		
Loss before realized investment gains or losses	$(1.52)	$(7.00)
Realized gains (losses) on sales of investments	.01	(.13)
Net Loss	$(1.51)	$(7.13)

See notes to consolidated financial statements.

Consolidated Statement of Shareholders' Equity

Two Years Ended December 31, 1976

	Cumulative Convertible Preferred Stock						
	Par Value	Excess of Redemption Value over Par Value	Common Stock	Paid-in Surplus	Unrealized Depreciation on Investments in Stocks	Retained Earnings (Deficit)	Total
Balance at January 1, 1975	—	—	$ 70,881,828	$ 43,476,388	$(42,299,596)	$ 71,606,806	$ 143,665,426
Exercise of stock options —16,303 shares			65,212	248,661			313,873
Net loss for 1975						(126,456,994)	(126,456,994)
Cash dividend on common stock— $.20 a share						(3,544,454)	(3,544,454)
Unrealized appreciation on investments in stocks					22,936,834		22,936,834
Balance at December 31, 1975	—	—	70,947,040	43,725,049	(19,362,762)	(58,394,642)	36,914,685
Reduction in par value of common stock To $1.00 per share			(53,210,280)	53,210,280			—
To $ .10 per share			(15,963,084)	15,963,084			—
Sale of preferred stock— 8,249,656 shares	$8,249,656	$67,647,179				(1,425,970)	74,470,865
Net loss for 1976						(26,310,385)	(26,310,385)
Dividend on preferred stock— $ .0593 a share						(489,205)	(489,205)
Unrealized appreciation on investments in stocks					19,096,656		19,096,656
Capital contribution by shareholder				140,439			140,439
Balance at December 31, 1976	$8,249,656	$67,647,179	$ 1,773,676	$113,038,852	$ (266,106)	$(86,620,202)	$ 103,823,055

See notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

	Year Ended December 31,	
	1976	1975
SOURCE OF FUNDS		
From operations:		
Net loss	$(26,310,385)	$(126,456,994)
Operation statement items not affecting cash:		
Increase in reserves for losses and loss adjustment expenses	62,061,222	105,457,225
Increase (decrease) in reserve for unearned premiums, net of quota share reinsurance of $92,271,019 in 1976	(111,991,786)	65,691,012
Increase in unpaid losses due from reinsurers	(42,332,941)	—
Decrease (increase) in premiums in course of collection	5,508,116	(34,759,112)
Increase in reserve for unearned reinsurance commissions	15,052,071	—
Increase (decrease) in general liabilities	(8,925,697)	115,356
Decrease (increase) in recoverable Federal incomes taxes	12,654,977	(6,410,267)
Decrease in deferred policy acquisition costs	—	45,667,224
Accrual of discount and amortization of premiums on bonds	(3,224,435)	(4,665,144)
Provisions for depreciation	3,410,723	3,996,761
Increase in accrued investment income	(1,802,385)	(989,101)
Deferred Federal income taxes	—	(20,636,093)
Total from Operations	(95,899,920)	27,010,867
Proceeds from sale of preferred stock	74,470,865	—
Increase in amounts payable on purchase of securities	1,436,970	—
Sales of furniture and equipment, net of purchases	1,707,908	—
Proceeds from sale of common stock through exercise of stock options	—	313,873
Capital contribution by shareholder	140,439	—
Increase (decrease) in long-term debt	(311,817)	24,766,911
Sales of investments, net of purchases	19,972,490	—
Total Funds Provided	1,516,935	52,091,651
APPLICATION OF FUNDS		
Purchases of investments, net of sales	—	32,798,981
Decrease in amounts payable on purchase of securities	—	2,544,135
Purchases of furniture and equipment, net of sales	—	8,051,895
Cash dividends to common stock shareholders	—	3,544,454
Other	1,497,980	(1,165,462)
Total Funds Applied	1,497,980	45,774,003
INCREASE IN CASH	18,955	6,317,648
Cash at beginning of year	18,625,438	12,307,790
CASH AT END OF YEAR	$ 18,644,393	$ 18,625,438

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1976

SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION
The financial statements include the accounts of the Company and its wholly-owned subsidiaries, GEICO Properties, Inc. and GEICO Washington Properties, Inc., which were formed principally to own property and real estate for the Company's use. All intercompany accounts and transactions have been eliminated in consolidation.

BASIS OF REPORTING
The accompanying financial statements are presented in conformity with Generally Accepted Accounting Principles (GAAP). These principles differ from statutory accounting practices prescribed or permitted by the Department of Insurance of the District of Columbia in several material respects.The more significant variances between GAAP and statutory accounting practices are: in GAAP accounting, costs attributable to obtaining business are deferred and charged to income in proportion to the recognition of premium revenues rather than being charged to operations as incurred; deferred income taxes are provided on the timing differences between pretax accounting income and taxable income; certain assets, principally premiums receivable over 90 days past due and furniture and equipment, are reported as assets rather than being charged directly to statutory surplus; unpaid losses due from reinsurance transactions are set forth as an asset rather than being netted against the reserve for losses; stock dividends are charged to retained earnings at market value rather than par value; and reinsurance commissions are earned over the term of the business ceded rather than when received. In addition, intercompany gains on real estate transfers, which are eliminated in consolidation for GAAP purposes, are generally permitted in the calculation of statutory net income and surplus.

INVESTMENTS
Investments in bonds are reported at amortized cost and investments in stocks are reported at market value. Such market values are as prescribed by the National Association of Insurance Commissioners and vary less than 1% from values determined by market quotations for stocks. Realized gains and losses on sales of investment securities, as determined on a specific identification basis, are included in the statement of operations. Unrealized appreciation (depreciation) on common and preferred stocks, after deferred income tax effects, is reported directly in shareholders' equity.

RESERVES FOR LOSSES, LOSS ADJUSTMENT EXPENSES AND UNEARNED PREMIUMS
The reserve for losses and allocated loss adjustment expenses are provided based upon averages for auto claims reported within the most recent six months, case basis estimates for older claims and calculated estimates of unreported losses. The reserve for unallocated loss adjustment expenses is provided based upon estimates of future expenses to be incurred in settlement of the claims provided in the reserve for losses. The reserve for losses further includes additional amounts which are presently anticipated to compensate for possible deficiencies caused by future changes in economic and social conditions. In 1975 and 1976 the determination of these additional amounts was based upon Company studies of its reserve levels using various projection techniques and included consideration of studies performed by a firm of independent consulting actuaries. In their report on the Company's reserves the independent consulting actuaries emphasized the importance of understanding the degree of variability inherent in their estimate and, indeed, in any loss reserve estimate. As a result of the effect of inflation on the cost of settling claims and a number of other uncertainties, they advised the Company that a considerable

degree of variation from their estimates was not only possible but probable. They advised the Company that, although the degree of this variation cannot be determined, it could be substantial and could be in either direction from their reserve estimates. They further advised the Company that, in view of the variability inherent in the process of estimating reserves, they believe the Company's reserves for losses and allocated loss adjustment expenses as of December 31, 1976, are well within a range of adequacy which they deem reasonable and acceptable. The reserve estimates are continually reviewed and as adjustments to these estimates become necessary, such adjustments are reflected in current operations.

The reserve for unearned premiums is determined by prorating policy premiums over the terms of the policies. Unearned premiums are reported net of reinsurance.

RECONCILIATION TO STATUTORY ACCOUNTS

A reconciliation of net loss and shareholders' equity as determined under statutory accounting practices prescribed or permitted by the Department of Insurance of the District of Columbia for GEICO unconsolidated to that reported in the accompanying consolidated financial statements is as follows:

NET LOSS

	Year Ended December 31, 1976	1975
Statutory accounting practices	$ (9,942,162)	$ (84,978,974)
Deferred policy acquisition costs	—	(45,667,224)
Allowance for amounts uncollectible on cancelled policies	—	2,000,000
Deferred Federal income tax benefits	—	23,416,222
Effects of consolidated subsidiaries, including gain in 1975 ($21,278,092) on sale of buildings	133,776	(21,340,859)
Reserve for unearned reinsurance commissions	(15,052,671)	—
Other	(1,449,328)	113,841
In accordance with generally accepted accounting principles	$ (26,310,385)	$(126,456,994)

SHAREHOLDERS' EQUITY

	December 31, 1976	1975
Statutory accounting practices	$136,665,427	$49,302,281
Allowance for amounts uncollectible on cancelled policies	(3,000,000)	(3,000,000)
Deferred Federal incomes taxes	(1,459,858)	(367,907)
Effects of consolidated subsidiaries, including gain in 1975 ($21,278,092) on sale of buildings	(20,826,953)	(20,755,168)
Reserve for unearned reinsurance commissions	(15,052,671)	—
Non-admitted assets	9,070,870	11,536,030
Other	(1,573,760)	199,449
In accordance with generally accepted accounting principles	$103,823,055	$36,914,685

Under the Holding Company System Regulatory Act applicable to District of Columbia domestic insurers, the maximum amount of dividends and other distributions to its shareholders (including redemptions of outstanding stock) that may be paid by GEICO (without prior approval of the District of Columbia Department of Insurance) in any 12-month period is the greater of (i) investment income (as defined) for the preceding calendar year or (ii) 10% of statutory policyholders' surplus at the end of the preceding year.

PROPERTY AND EQUIPMENT

The annual provisions for depreciation and amortization have been computed in accordance with the approximate following estimated useful lives:

	Years
Buildings	45
Equipment	10
Leasehold Improvements	Lesser of life of lease or economic useful life

When properties are retired or otherwise disposed, the asset account is relieved of the cost of the particular item and the allowance for depreciation and amortization is charged with the actual or estimated accumulated depreciation which is applicable thereto. Any gain or loss resulting from disposition is credited or charged to operations. Expenditures for repairs, maintenance and minor improvements are charged to operations as incurred.

POLICY ACQUISITION COSTS

The amount of policy acquisition costs that can be deferred cannot exceed the amount recoverable from the related reserve for unearned premiums. This reserve must first be sufficient to cover expected future losses and loss adjustment expenses after which the residual is compared to the deferred policy acquisition costs asset account. In times of adverse underwriting experience, anticipated losses and loss adjustment expenses absorb a greater proportion of the reserve for unearned premiums. Accordingly, at December 31, 1975 none of the policy acquisition costs were considered recoverable. In the Fourth Quarter of 1976, giving due consideration to the loss ratio of 99% for the full year 1976, acquisition costs totaling $1.2 million applicable to the Fourth Quarter written premiums could have been considered recoverable. In view of the desirability of providing for possible adverse deviation, the Company determined that it would not be prudent to defer these costs at this time. The Company will consider resuming the deferral of acquisition costs when underwriting results so dictate.

QUOTA SHARE REINSURANCE AGREEMENTS

Pursuant to a program carried out under the supervision of the District of Columbia Superintendent of Insurance, GEICO executed reinsurance agreements with 27 property and casualty insurance companies obligating them to provide quota share reinsurance on 25.36% of GEICO's business. These agreements were signed on December 2, 1976, effective June 30, 1976. Quota share reinsurance is a form of reinsurance under which each company providing reinsurance assumes a predetermined share of the book of business being reinsured. Reinsurance agreements, like other reinsurance contracts, do not discharge GEICO from its primary legal liability on the covered policies but, under industry practice as permitted by existing regulations, GEICO will account for the business covered by these agreements as if it were no longer liable with respect thereto. When the agreements became effective, the reinsurers assumed 25.36% of GEICO's June 30, 1976 reserve for unearned premiums ($110,154,233), and GEICO received from the reinsurers a 15% ceding commission ($16,523,135). The net cash transfer was adjusted for interest at 6% per annum from June 30, 1976 to the date of transfer. Accordingly, the reinsurers assumed responsibility for paying to GEICO 25.36% of the losses and loss adjustment expenses on this business.

With respect to business written after June 30, 1976, the reinsurers will assume 25.36% of the business written, GEICO will transfer to the reinsurers 25.36% of the premiums and will receive a ceding commission thereon. The reinsurers will be responsible for paying to GEICO the losses and loss adjustment expenses relating to the business reinsured.

The minimum ceding commission to be received by GEICO is governed by a schedule as follows:

Period	Commission
June 30, 1976 through June 30, 1977	15%
July 1, 1977 through June 30, 1978	12
July 1, 1978 through June 30, 1979	8
July 1, 1979 through June 30, 1980	6
July 1, 1980 and thereafter	5

The ceding commission will be increased for any period if, at the end of the prior period, the inception-to-date loss ratio (including loss adjustment expenses) is favorable to the reinsurers. In such event, the ceding commission rate to be applied to written premiums will equal 98% minus the inception-to-date loss ratio, but will not be more than 15%.

After June 30, 1977, GEICO will receive an interest credit at the rate of 3% per year on the monthly mean net funds held by the reinsurers. Should the reinsurers ever be in a negative cash position (cumulative premiums received less the ceding commissions and losses actually paid), the reinsurers will receive an interest credit at the rate of 6% per year on the monthly mean net cash deficit.

Any reinsurer may terminate its reinsurance agreement with GEICO at any time after December 31, 1977, upon six months' prior notice. GEICO or the reinsurers may terminate the agreements at any time after January 1, 1977, if the reinsurer's combined loss and expense ratio on an inception-to-date basis is 98% or less. GEICO may, at its option after January 1, 1978, cause the ceding commission to be reduced below the scheduled rate specified above.

The direct effect of these reinsurance agreements on the operations for 1976 was as follows:

	GAAP	Statutory
Premiums ceded to reinsurers	$80,639,360	$80,639,360
Losses and loss adjustment expenses ceded	74,205,426	74,205,426
Commissions earned (net of interest expenses of $2,512,625)	9,583,279	23,423,932
Underwriting gain	$ 3,149,345	$16,989,998

In addition to the quota share reinsurance the Company maintains certain reinsurance agreements for the purpose of insuring excess risks. The Company remains liable for any amounts to the extent that the reinsuring companies are unable to meet their obligations.

FEDERAL INCOME TAXES

A reconciliation of the effective tax rates in the statement of operations and the prevailing Federal income tax rate (48%) is as follows:

	Year Ended December 31,	
	1976	1975
Income tax credit at 48% of pre-tax loss	$(12,657,836)	$(76,948,507)
Effect of:		
Tax-exempt interest income	(5,906,999)	(8,019,831)
Dividends received deduction	(1,283,659)	(3,692,136)
Amounts to be taxed as capital gains	—	1,668,077
Investment tax credit	—	1,022,632
Unused net operating loss carryforward	20,023,943	51,055,947
Other items	(175,449)	(1,222,018)
Federal income tax credit	$ —	$(36,135,836)

The deferred tax credit in 1975 resulted from the timing differences in the recognition of revenue and expense for tax and financial statement purposes as follows:

	December 31, 1975
Deferral of policy acquisition costs	$(22,507,889)
Accrued investment income	(2,780,129)
Provision for amounts uncollectible on cancelled policies	2,400,000
Accelerated depreciation	(528,204)
Deferred income tax credit	$(23,416,222)

The cumulative unrealized investment loss at December 31, 1976 of $266,106 is net of a reduction for future tax benefits of $114,046. Investment tax credits, which are not material, are accounted for by the flow-through method.

At December 31, 1976 the Company had net operating loss carryforwards for tax purposes of approximately $137 million, of which $117 million will expire in 1980 and $20 million will expire in 1983. The unused investment tax credit carryforwards are approximately $1.8 million. Because of timing differences, principally accrued investment income, reinsurance commissions and allowances for uncollectible premiums receivable, the net operating loss carryforward for book purposes is approximately $146 million.

LONG-TERM DEBT

The long-term debt is owed by the Company's wholly-owned subsidiaries as follows:

	December 31,	
	1976	1975
GEICO Properties, Inc.:		
8¼% notes, due in equal quarterly installments of $338,599, including interest, until June 15, 2004	$14,679,088	$14,815,361
8½% note, due in equal quarterly installments of $196,373, including interest, until May 1, 2004	8,326,571	8,400,346
	23,005,659	23,215,707
GEICO Washington Properties, Inc. 9⅜% note, due in equal monthly installments of $203,125, including interest until June 1, 2010	24,858,553	24,960,322
	$47,864,212	$48,176,029

All the real estate has been pledged as security for the notes and the Company has made assignments of long-term leases as additional collateral. All the note agreements provide that the entire unpaid principal and interest become due and payable in the event of default.

INVESTMENT OPERATIONS

Investment income is summarized as follows:

	Year Ended December 31, 1976	1975
Interest on bonds and notes	$36,202,619	$25,217,694
Dividends on preferred stocks	2,120,614	4,360,698
Dividends on common stocks	433,792	4,513,987
Other	30,747	206,372
	38,787,772	34,298,751
Investment expenses	662,437	739,000
Net investment income	$38,125,335	$33,559,751

Investments in bonds and notes are carried at amortized cost. Investments in common and preferred stocks are carried at fair market value. The gross unrealized appreciation (depreciation) pertaining to investment securities based upon values determined by market quotations were as follows:

December 31, 1976	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Market Value
Certificates of deposit	$ 239,013	$ —	$ —	$ 239,013
United States government bonds	218,666,930	6,072,125	696,375	224,042,680
State, municipal and corporate bonds	343,390,348	10,575,610	8,427,320	345,538,638
Preferred stocks	20,669,095	469,014	829,782	20,308,327
	$582,965,386	$17,116,749	$9,953,477	$590,128,658

The aggregate cost of stocks at December 31, 1975 amounted to $118,695,522 and exceeded market value by $20,973,877.

EMPLOYEE PENSION AND SAVINGS PLAN

The Company has a pension plan covering substantially all full-time employees. The Company's policy is to fund pension costs as accrued, including amortization of prior service costs over thirty years. Fund assets as of January 1, 1976 (latest actuarial valuation) exceeded vested benefits as of that date. During 1976 the Company amended this plan to give effect to the Employee Retirement Income Security Act of 1974 and to other changes recommended by the Administrative Committee of the Plan. In addition, the actuary revised several of the actuarial assumptions used in the valuation. The effect of these changes increased pension expenses for the Company and increased the unfunded prior service cost as of January 1, 1976 to $6.7 million.

The Company has an employee savings plan with matching Company contributions determined by length of service. The Company's contributions to such savings plan were suspended on January 31, 1976 and remain suspended.

The expenses of these plans were as follows:

	Pension Plan	Savings Plan
Year ended December 31:		
1975	$1,607,300	$399,094
1976	$2,259,000	$ 33,327

STOCK OPTIONS AND WARRANTS

During 1973 the Company adopted a Stock Option Plan under which both qualified and non-qualified options may be granted to officers and key employees for the purchase of capital stock at 100% or more of fair market value at date of grant. The options are exercisable in installments beginning one year from date of grant and expire not more than 10 years thereafter (five years in the case of qualified options).

Options are also outstanding under a previous Stock Option Plan, which terminated as to granting of further options. The options expire at various dates through 1977. Option and Warrant information has been restated to give effect to stock dividends, stock distributions and issuance of Preferred Stock.

	Shares Available For Grant	Options Outstanding Per Share at Date of Grant	Number of Shares
Balance at January 1, 1975	311,809	$16.05 to $46.33	176,540
Granted	(34,640)	16.90	34,640
Exercised	—	16.05 to 17.45	(19,539)
Terminated	4,134	16.05 to 46.33	(20,998)
Balance at December 31, 1975	281,303	16.90 to 46.33	170,643
Granted	(209,741)	4.59	209,741
Exercised	—	—	—
Terminated	18,360	16.90 to 46.33	(57,860)
Balance at December 31, 1976	89,922	4.59 to 46.33	322,524

At December 31, 1976 the Company had outstanding Warrants, exercisable at anytime to August 1, 1978 to purchase 1,348,999 shares of its common stock at $31.22 a share. A total of 1,761,445 shares have been reserved for stock options and Warrants.

EXECUTIVE BONUS PLAN

Although no annual incentive bonuses were paid in 1975 or 1976, the Board of Directors of GEICO has established a policy of paying such bonuses to its employees as follows: (i) the Chief Executive Officer and the President in a total amount equal to ⅜ of 1% of GEICO's pre-tax earnings (excluding realized investment gains and losses) for the 12 months ended each October 31, not to exceed in the aggregate 20% of their base salaries without special Board authorization, and (ii) all other officers and members of the Executive Staff Group in a total amount equal to 1% of such pre-tax earnings, not to exceed in the aggregate (in the case of members of the Executive Staff Group and junior officers) 5% of their base salaries or 10% of the employee's base salary and (in the case of senior officers) 10% of their base salaries or 20% of the employee's base salary.

COMMITMENTS

Rental expense for all leases was approximately $8,300,000 in 1976 and $4,560,000 in 1975.

The future minimum rental commitments as of December 31, 1976 for all non-cancellable leases are as follows:

	Total	Building Space	Equipment
1977	$ 4,787,179	$ 3,310,651	$1,476,528
1978	3,568,248	3,046,318	521,930
1979	1,932,051	1,851,549	80,502
1980	1,765,772	1,696,172	69,600
1981	1,585,708	1,568,308	17,400
1982-1986	6,461,544	6,461,544	—
1987-1991	1,130,629	1,130,629	—
1992	10,588	10,588	—
Totals	$21,241,719	$19,075,759	$2,165,960

Certain of the building space leases contain renewal options, for periods ranging from 2 to 15 years. No options extend beyond the periods indicated above. There are no material financing leases.

CUMULATIVE SENIOR PREFERRED STOCK

GEICO has authorized 300,000 shares of Cumulative Senior Preferred Stock, par value $10 per share ("Senior Preferred Stock"). The Senior Preferred Stock, when and if issued, is senior to the Cumulative Convertible Preferred Stock ("Preferred Stock") and the Common Stock with respect to both dividends and distribution of assets upon liquidation. So long as any shares of Senior Preferred Stock are outstanding, GEICO may not (i) pay any cash dividend on the Common Stock or redeem, purchase or otherwise acquire, whether by sinking fund or otherwise, any shares of Preferred Stock or Common Stock or (ii) pay any cash dividend on the Preferred Stock if the dividend and sinking fund payments on the Senior Preferred Stock have not been met. GEICO has no present plans to issue or sell any shares of Senior Preferred Stock.

CUMULATIVE CONVERTIBLE PREFERRED STOCK

GEICO has authorized 10 million shares of Cumulative Convertible Preferred Stock, par value $1 per share ("Preferred Stock"). The Preferred Stock is junior to the Senior Preferred Stock, but senior to the Common Stock, with respect to both dividends and distribution of assets upon liquidation. So long as any shares of Preferred Stock are outstanding, GEICO may not pay any cash dividend on the Common Stock or redeem, purchase or otherwise acquire any shares of Common Stock if the dividend and sinking fund payments on the Preferred Stock have not been met.

After payment in full of all accrued and unpaid dividends on the Senior Preferred Stock, holders of Preferred Stock are entitled to receive cash dividends, when and as declared by the Board of Directors, at an annual rate of $.736, before any dividends (other than dividends payable in Common Stock) are paid on the Common Stock. Dividends are cumulative from the date on which shares of Preferred Stock are first issued.

Shares of Preferred Stock are convertible at any time, at the option of the holder, into fully paid and nonassessable shares of Common Stock at the rate of two shares of Common Stock for each share of Preferred Stock surrendered for conversion.

From and after January 1, 1981 (but only if no shares of Senior Preferred Stock are then outstanding), shares of Preferred Stock may be redeemed at prices ranging downward from $9.752 during 1981, to $9.20 during 1987 and thereafter, plus in each case an amount equal to all accrued and unpaid dividends. GEICO has determined that, notwithstanding the foregoing, it will not exercise its right to redeem shares of Preferred Stock until the earlier of (i) 24 months following the termination of the Reinsurance Agreements referred to elsewhere in these Notes (but in no event earlier than January 1, 1981) and (ii) January 1, 1983.

The Preferred Stock is entitled to the benefit of a sinking fund pursuant to which on or before January 1, 1992, and on or before each January 1, thereafter to and including January 1, 2001, GEICO will pay to the transfer agent for the Preferred Stock an amount sufficient to redeem 10% of the number of shares of Preferred Stock outstanding on January 1, 1991, at $9.20 plus an amount equal to accrued and unpaid dividends. After the Senior Preferred Stock has been paid in full, holders of Preferred Stock will be entitled, upon any voluntary or involuntary dissolution, liquidation or winding up of GEICO, to receive $10 per share, plus an amount equal to accrued and unpaid dividends, before any distribution is made on the Common Stock.

EARNINGS PER SHARE

Earnings per share are based on the weighted average number of common shares outstanding during each year. Since the operations for both years resulted in losses, it would be antidilutive to assume the exercise of options and Warrants and the conversion of the cumulative convertible preferred stock. Consequently, they are excluded from the earnings per share computations. Dividends on preferred stock are added back to the net loss to arrive at net loss applicable to common stock. The weighted average number of common shares are 17,736,760 in 1976 and 17,731,891 in 1975.

RELATED PARTIES TRANSACTIONS

GEICO is the principal company of the Government Employees Companies which are comprised of four separate capital stock companies engaged in the casualty, fire, life insurance and consumer finance businesses. The other companies comprising the group are Criterion Insurance Company, Government Employees Life Insurance Company and Government Employees Financial Corporation. A majority of the members on GEICO's Board of Directors are also directors of the other three companies.

SEC ADMINISTRATIVE ORDER

On October 27, 1976, the Securities and Exchange Commission ("SEC") issued an administrative order, to which the Company consented without admitting or denying any of the SEC's findings and other statements, requiring the Company to take certain actions. The order did not challenge the audited financial statements of the Company for the year ended December 31, 1975 as reported to shareholders. The effect of the SEC's findings would be to transfer a portion of the Company's reported loss before Federal income taxes and realized investment gains or losses for the fourth quarter of 1975 to earlier quarters in that year, without changing the audited results for the full year.

STATE INSURANCE REGULATORY MATTERS

As reported in the financial statements as of December 31, 1975, the Company was ordered by the Superintendent of Insurance of the District of Columbia to remedy a then existing deficiency in the amount of its required surplus in excess of outstanding capital stock; certain other state insurance regulators suspended the Company's authority to do business in their jurisdictions; and the Company stopped writing new business in certain jurisdictions. At December 31, 1975, and subsequently, the statutory policyholders' surplus was reduced below levels which the various state regulators deemed appropriate. As a result of the reductions in the par value of the Company's Common Stock, the sale of the Cumulative Convertible Preferred Stock, and the reinsurance arrangements described elsewhere in this report, the required surplus and statutory ratio of premiums written to statutory policyholders' surplus (3:1 at December 31, 1976) are presently at acceptable levels, and, as set forth in the following paragraph, substantially all of the regulatory problems mentioned above have been resolved.

The Company writes fire, casualty and inland marine insurance in the District of Columbia and in all states of the United States, with the exception of New Jersey, Alaska and Guam, where the Company has voluntarily withdrawn from doing business, and Kansas, where its certificate of authority has been suspended because of the reduction of the par value of the Common Stock to $.10 per share. It is subject to varying legal requirements in each of the jurisdictions where it does business. The Company is not authorized to write new business in Hawaii, Iowa, and New Hampshire. The percentage of total direct written premiums in 1976 aggregated approximately 5.9% for New Jersey and 1.7% for the other jurisdictions.

GEICO is required to file detailed annual statements with the supervisory agencies of the jurisdictions in which it does business, and its business and accounts as set forth therein are subject to examination at any time by such agencies. In addition, under the rules of the National Association of Insurance Commissioners, GEICO is examined at three-year intervals by one or more of the state supervisory agencies. GEICO is currently undergoing such an examination as of December 31, 1976, under the supervision of the Superintendent of Insurance of the District of Columbia.

LITIGATION

In August 1975 an action alleging various violations of the federal anti-trust laws and California law and naming as defendants twelve major insurance companies, including GEICO, was filed in the United States District Court for the Northern District of California. The complaint, brought by five independent auto body shops, charges the insurance companies have combined and conspired to restrict interstate commerce in auto body repairs and forced them to perform auto body repairs at prices less than those they would have been able to charge in a freely competitive market. Treble damages in an unspecified amount are sought. The defendants' joint motion for summary judgment has been granted; the plaintiffs have filed notice of appeal. Management believes this suit is without merit but is unable to predict the outcome.

In January and February 1976 two purported class actions, alleging violations of the Securities Act of 1933, the Securities Exchange Act of 1934 and the common law, and naming as defendants GEICO, certain of its Directors and officers, certain former Directors and its independent accountants and the partners thereof, were filed, one in the United States District Court for the Southern District of New York and the other in the United States District Court for the District of Columbia. The cases have been consolidated, for pretrial purposes, in the District of Columbia. Certain of the original Director defendants have been dismissed and only one member of GEICO's current Board of Directors is now named. Both complaints allege various disclosure violations involving, among other things, failure to establish sufficient reserves for losses, and breaches of common law duties. These actions seek judgment declaring defendants' actions illegal, awarding plaintiffs and class members damages for the wrongs alleged and the injuries sustained and awarding plaintiffs the expenses of the litigation. It is not possible to evaluate the likelihood of an unfavorable outcome of these actions or estimate the amount or range of liability, should liability be found. GEICO will contest these cases vigorously and will continue to assert that plaintiffs have no valid cause of action.

QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Selected financial data for each of the quarters in 1976 are summarized in the table below:

	Three Months Ended			
	March 31, 1976	June 30, 1976	September 30, 1976	December 31, 1976
Premiums written and service charges	$176,789,350	$204,568,280	$137,207,862	$117,755,362
Less quota share reinsurance	—	—	—	172,910,379
Net premiums written	176,789,350	204,568,280	137,207,862	(55,155,017)
Increase (decrease) in unearned premium reserve	12,560,528	37,002,013	(28,217,336)	(133,336,991)
Premiums and service charges earned	164,228,822	167,566,267	165,425,198	78,181,974
Reinsurance commissions earned (quota share)	—	—	—	9,583,279
Losses and loss adjustment expenses incurred	(168,868,771)	(166,591,185)	(152,709,712)	(69,524,560)
Underwriting and other expenses	(23,202,421)	(22,384,799)	(19,968,935)	(21,966,904)
Underwriting loss	(27,842,370)	(21,409,717)	(7,253,449)	(3,726,231)
Net investment income	8,829,015	9,368,668	10,058,373	9,869,279
Interest expense	(1,068,524)	(1,066,875)	(1,065,191)	(1,063,470)
Federal income (taxes) credits	(36,347)	(36,348)	(36,347)	109,042
Realized gains (losses) on sales of securities	(6,323,621)	(549,846)	4,140,461	2,793,113
Net income (loss)	$(26,441,847)	$(13,694,118)	$ 5,843,847	$ 7,981,733
Per share data				
Income (loss) before realized investment gains or losses	$(1.13)	$(.74)	$ .09	$ .26
Realized gains (losses) on sales of securities	(.36)	(.03)	.24	.16
Net earnings (losses)	$(1.49)	$(.77)	$ .33	$ .42

The effect of the Reinsurance Agreements for the period from July 1, 1976 to September 30, 1976 is reflected in the quarter ended December 31, 1976. Assuming the Agreements were recorded from July 1, 1976 on a pro forma basis, the results of operations would have been as follows:

	Three Months Ended	
	September 30, 1976	December 31, 1976
Net income	$8,006,101	$5,819,479
Earnings per share:		
Income before realized investment gains	$.21	$.14
Realized gains on sales of securities	.24	.16
Net earnings	$.45	$.30
Fully diluted earnings per share: *		
Income before realized investment gains		$.13
Realized gains on sales of securities		.12
Net earnings		$.25

* Assumes exercise of all dilutive options and conversion of the Preferred Stock as of December 2, 1976.

Directors and Officers

BOARD OF DIRECTORS

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Chairman of the Executive Committee, The Riggs National Bank of Washington, D.C.

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Chairman Emeritus and Consultant, Government Employees Companies.

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Private financial consultant.

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Director, Government Employees Companies.

MELVIN M. PAYNE
Chairman of the Board, National Geographic Society, a scientific and educational organization, Washington, D.C.

JOSEPH J. SISCO *
President, The American University, Washington, D.C.

* Elected January 12, 1977

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WILLIAM K. JACOBS, JR.
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Senior Vice President and Chief Financial Officer

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Editorial

Why Did GEICO Leave New Jersey?

On May 13, 1976 I surrendered our license to do business in New Jersey. This action subsequently caused us to refuse renewal of GEICO automobile and homeowners policies to over 250,000 New Jersey policyholders, an important and treasured group of customers, developed over the twenty-six years of our business in that state. This action was widely discussed in the media and in responses to our policyholders by both the authorities of New Jersey and by us.

The action was particularly painful to me. Not only did I recognize the important portion of GEICO's history we were excising but New Jersey is my home state and my family remains active in the insurance business there.

In view of all this I believe our shareholders should know why we took this action.

First of all the insurance industry losses on automobile insurance in New Jersey have been incredibly large. Our own underwriting losses in the state, from 1974 through the last day of coverage for the last New Jersey policyholder will easily run well over $50 million. Of course not all of this was caused by the state regulatory authorities or the unusually restrictive laws, but the industry attempts to correct the situation through desperately needed increases in premium rates were repeatedly met with delays, requests for additional data and compromises which simply served to delay and make more burdensome the inevitable. In mid-1975, with the intervention of the Public Advocate, additional roadblocks and compromises were experienced.

At our meeting with the Insurance Commissioner on May 13 we asked that he approve the 19% automobile rate increase we had requested a month earlier and, further, that he grant the desperately needed rate increase which the industry had requested for the assigned risk plan. As an alternative to the latter, GEICO requested relief from assignments under that plan until industry rate relief could be granted.

THE COMMISSIONER NEITHER GRANTED OUR REQUEST NOR GAVE US MUCH ENCOURAGEMENT FOR THE FUTURE.

It was my judgment that we had no alternative but to abandon this valued family of policyholders. We agreed to an orderly withdrawal plan which is well underway. By August 27, 1977 we will no longer be insuring automobiles in New Jersey.

In December, as a result of their continued frustrations in attempts to obtain a reasonable rate, several other major companies announced material restrictions on their insuring activities in the state.

THERE IS AN INSURANCE CRISIS IN THE STATE OF NEW JERSEY. Having recently raised new capital from external sources—principally from you, our shareholders—your company will not jeopardize our improved financial position nor our position with policyholders in other states, by considering a return to New Jersey in this current environment.

John J. Byrne

JOHN J. BYRNE

The report and the financial statements contained herein have been published for the general information of the shareholders of Government Employees Insurance Company and are not intended to induce, or to be used in connection with any sale or purchase of securities.

Annual Meeting

The Annual Meeting of Shareholders will be held at 10:00 A.M. on March 30, 1977 in the Eisenhower Theater of the John F. Kennedy Center For the Performing Arts, 2700 F Street, N.W., Washington, D.C.

Transfer Agents

American Security and Trust Company, N.A., Washington, D.C.
Manufacturers Hanover Trust Company, New York, N.Y.

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