SEC FILE NO 2-63138 --00 | SIC | G 11 02 88 000

GEICO CORP | | **10-K**

OTHER

CARD 1 | DISCLOSURE INC WASHINGTON D. C. 20014 | FOR 12/31/78

GEICO CORP. [DEL.] CO: G110288000
GEICO PLAZA
WASHINGTON, D.C., 20076
SEC File No: 2-63138 eXCH: OTHER
IRS No: NOT GIVEN
Fiscal Year Ends: 12/31 sic nO: NOT GIVEN
PRSPCT EFF: 12/28/78
REGST S14 FILED: 11/29/78
8-K FOR: 01/31/79

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SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 1978 Commission File No. 2-63138

GEICO CORPORATION

'78

Delaware	52-1135801
(Jurisdiction of Incorporation)	(IRS Employer Identification No.)

GEICO Plaza, Washington, D. C. 20076

Registrant's telephone number (301) 986-3000

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

None(1)

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

None(1)

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 (2) 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, 1978
Capital shares outstanding -	
Common Stock, $1.00 par value	18,567,574 (3)

(1) Common Stock of GEICO Corporation, Warrants of Government Employees Insurance Company to purchase Common Stock of GEICO Corporation and Cumulative Convertible Preferred Stock of GEICO Corporation registered pursuant to the Securities Act of 1933.
(2) As successor to the filing obligations of Government Employees Insurance Company.
(3) At December 31, 1978, these were shares of common stock of Government Employees Insurance Company (GEICO). As a result of its reorganization effective January 31, 1979, GEICO became a subsidiary of GEICO Corporation and the shares of GEICO common stock then outstanding were converted on a share-for-share basis into shares of common stock of GEICO Corporation.

GEICO Corporation

Form 10-K Annual Report

PART I

Item 1. Description of Business

GEICO Corporation and Subsidiaries

GEICO Corporation (or the Corporation) is an insurance and financial services organization whose principal subsidiary, Government Employees Insurance Company (GEICO or the Company), is a multiple line property and casualty insurer engaged in writing private passenger automobile, homeowners, fire and extended coverage, comprehensive personal liability and boatowners insurance. During 1978 GEICO acquired majority interests in its two insurance subsidiaries, Government Employees Life Insurance Company (GELICO) and Criterion Insurance Company (CRICO), whose operations are included in the consolidated results for 1978. CRICO writes standard and substandard private passenger automobile insurance and GELICO offers life, accident and health insurance. The Corporation is affiliated with Government Employees Financial Corporation (GEFCO) which became a majority owned subsidiary in March of 1979. GEFCO is a provider of diversified financial services. GEICO Corporation, GEICO, GELICO, CRICO and GEFCO are collectively referred to hereinafter as the "Government Employees Companies", except that for periods prior to January 31, 1979, that term does not include GEICO Corporation. The Corporation also has two real estate subsidiaries, GEICO Properties, Inc. and GEICO Washington Properties, Inc., which are wholly-owned by GEICO. GEICO Corporation became the parent company of GEICO pursuant to an Agreement and Plan of Reorganization approved by the shareholders of GEICO at a special shareholders meeting on January 31, 1979. While GEICO Corporation's consolidated financial statements which appear elsewhere in this report are presented as if the reorganization had been accomplished on December 31, 1978, the operations for the year then ended were those of GEICO.

In 1977 and all years prior, GEICO's principal business segment was providing private passenger automobile insurance which accounted for 90% or more of revenue and operating income.

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. In mid-1975, GEICO terminated all advertising expenditures and, in January 1976, undertook a program to reduce significantly the number of voluntary automobile policies 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 involved 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 had closed all but 21 such offices and terminated 81 agents as of December 31, 1976. GEICO's Western Regional Office in San Francisco was closed in September 1976. In 1977 GEICO began increasing its marketing efforts and making increased use of a limited number of General Field Representatives. In 1978 GEICO concentrated on promoting its homeowners and boatowners lines while seeking better geographical distribution of policyholders in all lines. The marketing program generated substantial numbers of inquiries during the year, but new business sales, while up substantially from 1977, were well below the 1978 sales plan.

In 1977 GEICO concentrated on refining its rate structure to assure underwriting profitability while attempting to keep its rates competitive in each market and, as a result, premium rates in some areas went up while they went down in others. During 1978 GEICO continued to refine its rating structure on all lines to ensure adequate but competitive pricing. Overall, voluntary auto premium rates were down approximately 1% in 1978 from 1977 while involuntary auto rates were raised approximately 9%. Homeowners rates decreased about 5%.

In 1979 the Company expects strong price competition in all lines. Following profitable years in 1977 and 1978, property and casualty insurers are expected to be marketing aggressively. Nevertheless, GEICO plans to increase its market share in 1979 in areas where it will be profitable to do so.

In 1975 and 1976 the cost of claims settlements rose rapidly in response to increased costs of automobile repair and medical services and the social inflation of unprecedented jury awards. Voluntary automobile policy premiums were raised the equivalent of 18% in 1975, 38% in 1976, approximately 5% in 1977 and were decreased approximately 1% in 1978 as mentioned above. Involuntary automobile rates were increased the equivalent of 24% in 1975, 21% in 1976, approximately 20% in 1977 and approximately 9% in 1978. Homeowners policy rates went up 6% in 1975 and 21% in 1976 and decreased about 11% in 1977 and approximately 5% in 1978. The 1975 and 1976 premium rate increases were essential to the improved financial results achieved in 1977 and 1978. The decreases in 1977 and 1978 also enabled GEICO to maintain its competitive position.

Active policies in force on all lines of insurance were 1,468,071 at December 31, 1978. This represents a decline of 4.4% from the 1,535,562 policies in force at year-end 1977. Policyholders attrition slowed markedly, declining to 2% and 1% in the first and second quarters of 1978 and moderating to .5% and .7% in the third and fourth quarters of that year. Active automobile policies in force decreased by 4.4% to 1,209,115 in 1978 as compared to a decrease of 21.5% to 1,265,240 at year-end 1977. Voluntary policies decreased by 23.4% from the end of 1976 to December 31, 1977 and by 4.7% from year end 1977 to December 31, 1978. Involuntary policies decreased by less than 1% during 1977 and decreased by 2.5% during 1978. Involuntary policies accounted for 10.4% of GEICO's total at December 31, 1978 as compared to 10.2% on December 31, 1977, and to 8.1% on December 31, 1976.

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. From 1976 to 1978 claim settlement costs continued to rise but at a more moderate pace than previously. 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 (millions)	Ratio of Reserves to Last 12 Months Earned Premiums
1974	263.0	49.4%
1975	368.4	61.9%
1976	430.5	66.7%
1977	444.3	76.9%
1978	448.9	84.5%

During 1978 GEICO continued to refine its estimating procedures employed in arriving at its reserves which resulted in increases in reserve components.

GEICO believes that its provisions for loss and loss adjustment expenses at December 31, 1978 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 of 1975 GEICO retained a major independent consulting actuarial firm to conduct evaluations of the adequacy of GEICO's reserves. Quarterly evaluations were made until 1978 when the firm began semiannual evaluations. The firm has prepared written reports of its evaluation of reserves for loss and allocated loss adjustment expenses before consideration of reinsurance for GEICO's major lines of business. In its study of GEICO's reserves, the firm relied upon information supplied by GEICO's Office of the Actuary. The analysis by the firm of GEICO's loss reserves remains essentially in agreement with GEICO's own estimate.

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

Having over 90% of GEICO's premium volume generated by automobile insurance with the bulk of the automobile volume in six states was not to GEICO's advantage during the past five 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 is felt to be to GEICO's advantage to increase its concentrations of business in the homeowners and other miscellaneous lines. These products have traditionally been profitable for GEICO and are logical directions in which to move at this time. To a more limited degree, GEICO also intends to market accident and health and professional liability insurance in 1979, the latter of which will be marketed through agents. Therefore, an important part of GEICO's marketing strategy continues to be to reduce the proportion of its total business in the automobile line, as well as to achieve a more balanced geographical distribution of automobile insurance business.

On December 2, 1976 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. The reinsurance agreements did not discharge GEICO from its primary legal liability on the covered policies but, under industry practice as permitted by existing regulations, GEICO accounted for the business covered by these agreements as if it were no longer liable with respect thereto.

Quota share reinsurance was reduced by one-fourth at the end of the second quarter of 1977 by mutual agreement with the reinsurers. Based on the terms of the quota share reinsurance treaty, GEICO and its reinsurers had the right to terminate the agreement when the reinsurers' combined ratio reached 98% or less on an inception-to-date basis. In the fourth quarter of 1977 the cumulative combined ratio for the reinsured book of business reached 98% and GEICO notified the reinsurers of its intention to terminate the treaty during 1978. The remaining participants in the treaty consented to amendments reducing it by 39% of the original amount at the end of the first quarter of 1978 and terminating the remaining 36% on June 30, 1978.

Covering a two year period from June 30, 1976 to June 30, 1978, the quota share reinsurance treaty was an integral part of a recovery program that provided temporary risk and capital relief for GEICO. During the life of the treaty earned premiums ceded amounted to $243.6 million. The cumulative cost to GEICO was 2% of such earned premiums, $2.5 million of interest credit, plus the loss of investment income of varying amounts during the period.

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 1977 mutual companies wrote an estimated 23.9% 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 latest available statistics as published in the National Underwriter reveal that GEICO was, based upon 1977 earned premiums, the 28th largest property and casualty insurer, the 21st largest stock property and casualty insurer and the 10th largest auto insurer in the United States. However, based upon the decrease in GEICO's earned premiums in 1978, it is expected that GEICO's position in these rankings will be diminished.

The price advantage historically held by GEICO over major competitors was diminished in 1976 because of the very subtantial 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 1978 the plan or a variation thereof was in operation in all but three states in which GEICO writes such insurance. The plan has improved GEICO's ability to retain current preferred risk policyholders as well as to attract and select new clientele of low risk potential.

GEICO is presently authorized to write comprehensive liability insurance in the District of Columbia and all states except Massachusetts, where it is not authorized to write automobile insurance and New Jersey where it is not licensed.

As of December 31, 1978, GEICO had approximately 4,680 full-time and 614 part-time employees. A number of benefits are provided or made available for full-time employees including a savings plan, pension plan and various insurance programs.

CERTAIN SEGMENT INFORMATION

Criterion Insurance Company

In addition to GEICO's private passenger automobile insurance, CRICO offers liability and physical damage automobile insurance to military personnel, young drivers, senior citizens and others who have difficulty obtaining insurance in the voluntary market. The majority of CRICO's policyholders are in one of these categories and consequently, CRICO does not compete with GEICO. CRICO is licensed to do business in the District of Columbia and all states except Massachusetts and New Jersey.

CRICO recorded income before extraordinary item of $5.8 million in 1978 or $3.96 per share compared to $5.7 million or $3.91 per share in 1977. Net income in 1978 totaled $7.1 million or $4.86 per share compared to $8.6 million or $5.87 per share in 1977.

LIFE AND HEALTH INSURANCE

Government Employees Life Insurance Company

GELICO's insurance operations are broadly diversified. Products include life insurance, health insurance and annuities, available on both an individual and group basis. Individual life insurance accounts for the majority of its business.

Sales of individual life insurance during 1978 totaled $173.4 million, an increase of 12.3% over sales of $154.4 million in 1977. Approximately 96% of GELICO's individual life sales is produced through a staff of field representatives. The remaining 4% is produced by a direct mail follow-up program.

Life insurance in force totaled $2,325.3 million on December 31, 1978 representing an increase of 1% over the $2,306.4 million in force at year-end 1977. Of this amount, individual life totaled $1,370.4 million, up 3.0% from the same date last year. Group life totaled $954.9 million, down 2.3%. Individual life insurance accounted for 58.9% of the total in force and group life accounted for the remaining 41.1%.

Premium income and annuity considerations totaled $29.1 million in 1978, representing an increase of 2% over last year's 28.6 million. Individual life insurance premium income totaled $20.9 million, an increase of 3.0% over the $20.3 million in 1977. Group life premiums increased 1.4% to a total of $4.7 million compared with $4.6 million in 1977. Health premiums were $3.5 million in 1978 and 1977.

OTHER LINES OF INSURANCE OFFERED BY GEICO

Homeowners Insurance

New sales on the homeowners line increased 140.8% in 1978 over those in 1977. However, new sales and new business inquiries were below GEICO's expectations for the year. New sales were not sufficient to fully offset terminations, even though terminations decreased over 41.4% from 1977.

In 1978 GEICO continued to refine its premium rates to ensure a competitive and profitable position in the marketplace. Consistently a profitable line for GEICO, competition for new homeowners business was intense in 1978 and is expected to continue that way through 1979.

GEICO intends to expand its homeowners business and is emphasizing that line in advertising campaigns. A recent development that should help sales in 1979 is a 1978 A. M. Best Company's Policyholder Rating of "Very Good."

Written premiums increased in 1978 to $29.1 million from $23.8 million in 1977. Active policies in force totaled 217,182 on December 31, 1978 compared with 226,271 at year-end 1977, a decrease of approximately 4%. The homeowners loss ratio was 70.4% in 1978 compared with 64.8% last year.

Boatowners Insurance

Following extensive revisions in late 1977, GEICO introduced a customized and innovative boatowners policy that was actively marketed in 1978. Initial response to the policy was good and new boatowner policy sales increased 126% in 1978 over 1977.

Written premiums on the boatowners line increased to $1.5 million in 1978 from $1.0 million in 1977. Active policies in force increased approximately 4% to 12,400 on December 31, 1978 from 11,936 last year.

Fire Insurance

Fire premiums amounted to $3.3 million in 1978 compared with $3.0 million in 1977. Active policies in force declined to 25,532 compared with 27,460 in 1977. This line is written primarily for rental properties and is not aggressively marketed.

Comprehensive Personal Liability Insurance

In 1978 the comprehensive personal liability line (CPL) produced $110,288 in written premiums compared with $85,980 in 1977. Active policies in force declined from 4,655 at year-end 1977 to 3,842 this year. This line is written for specialized situations and, like the fire line, not marketed aggressively.

Government Employees Financial Corporation
(an unconsolidated affiliate)

Based in Denver, Colorado, GEFCO and its wholly-owned subsidiaries provide a varied and broad range of consumer finance, industrial banking and insurance brokerage services to residents of the United States and to U.S. nationals residing in foreign countries.

SUMMARY OF SEGMENT DATA

A summary of segment data in conformity with Financial Accounting Standards Board Statement No. 14 for 1978 is as follows (as previously described, operations in prior years were concentrated in one dominant segment, private passenger automobile insurance):

In Thousands	Private Passenger Automobile Insurance	Life And Health Insurance	Other	Consolidated
Revenues	$ 597,644	$ 39,830	$32,394	$ 669,868
Intersegment revenues		(1,432)		(1,432)
Equity in unconsolidated affiliate				1,727
	$ 597,644	$ 38,398	$32,394	$ 670,163
Operating income before taxes	$ 96,428	$ 10,131	$ 3,418	$ 109,977
Equity in unconsolidated affiliate				1,727
Interest expense				(4,205)
Minority interest				(6,254)
				$ 101,245
Identifiable assets	$1,099,517	$205,011	$28,080	$1,332,608
Investment in unconsolidated affiliate				12,033
				$1,344,641

Intersegment revenues represent group insurance coverage provided by GELICO. Investment income included in revenues, operating income before taxes and identifiable assets have been allocated to segments based upon assumptions and estimates.

Item 2 Summary of Operations

The summary required in response to this Item is included on Page 23 of the Annual Report to Shareholders for the year ended December 31, 1978, filed as Exhibit 1 hereto. Such summary is incorporated herein by reference and should be read in conjunction with the financial statements and notes thereto on pages 28-40 and Management's Discussion and Analysis of the Summary of Operations on pages 24-26 of such Annual Report.

Item 3. Properties

GEICO's total real estate investment, which was on a consolidated basis $33,078,792 (depreciated cost) as of December 31, 1978, is represented principally by (a) $11,405,437 in its Operations Office Building in Chevy Chase, Maryland; (b) $11,730,441 in its Northeastern Regional Office Building in Woodbury, Long Island, New York; and (c) $7,842,591 in its Southeastern Regional Office Building in Macon, Georgia.

GEICO's Operations Office Building - GEICO Plaza - is a modern multi-level 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 428,400 square feet, GEICO currently occupies approximately 394,900 square feet, and CRICO occupies 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.

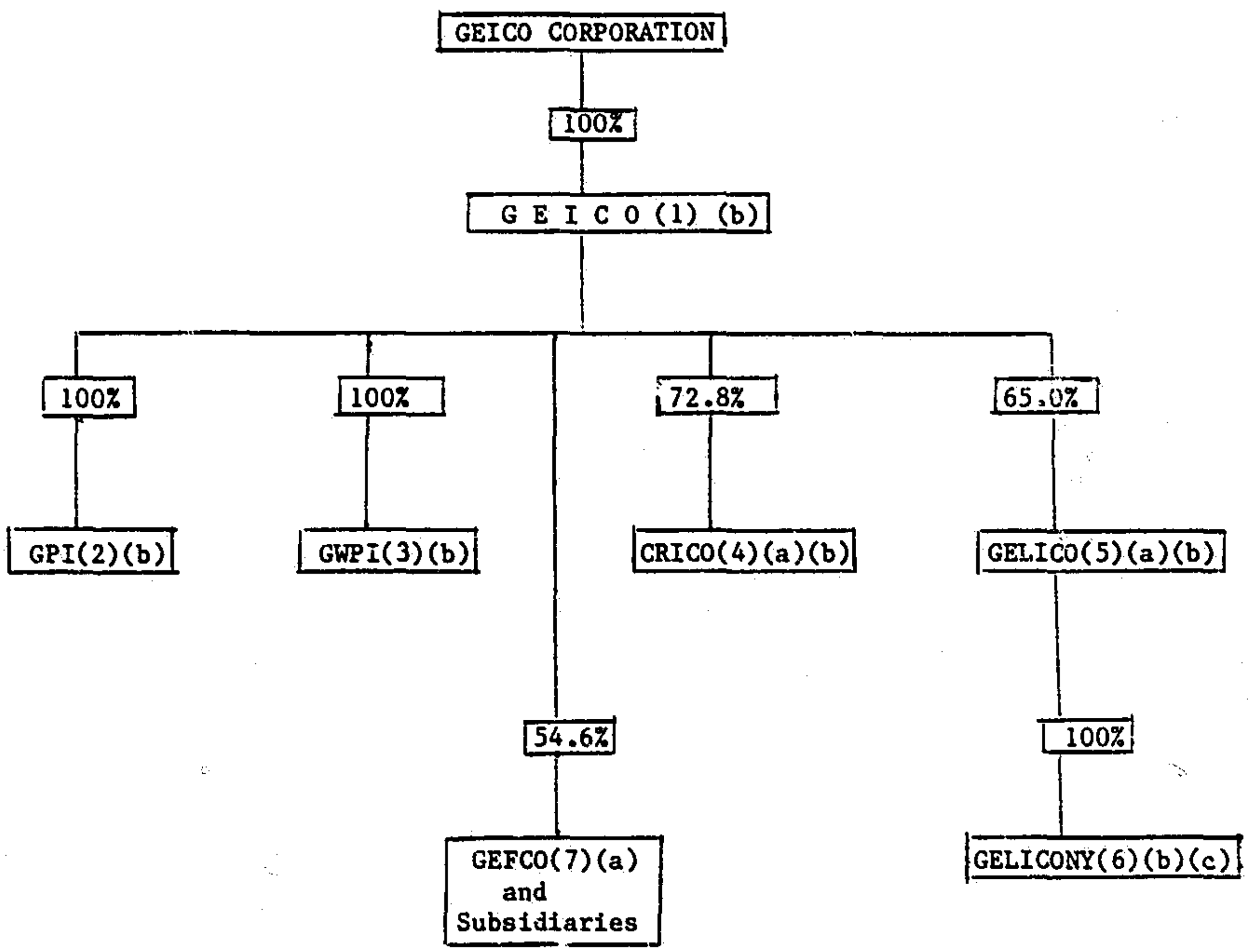
GEICO's Southeastern Regional Office Building was purchased by GPI in May 1974 and occupied by GEICO in August 1974. This purchase was financed by an 8-1/2% note due May 1, 2004 which was sold to an institutional investor and secured by an assignment to the trustee of a 30-year lease and the undertaking 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, 1978 was $22,529,803.

On July 24, 1975, the Company transferred its Operations Building and certain adjacent property and its Fairfax County, Virginia and Clinton, Maryland sales/drive-in facilitites, 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, 1978 was $24,624,155.

GEICO also leases office space and drive-in claims facilities in various cities in the United States. These leases expire at various times between 1979 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, 1978 of $7,433,539 located principally at its Chevy Chase, Maryland Operations Building.

Item 4. Parents and Subsidiaries

In November of 1977, GEICO purchased, in private transactions, shares of the common stock of GELICO, CRICO and GEFCO and preferred stock of GEFCO. As a result of these purchases and of tender offers completed (i) in February, 1978 for GELICO, CRICO and GEFCO common stock, and (ii) in November, 1978 for GELICO and CRICO common stock and of additional market purchases in the first three months of 1979, GEICO now owns 65.0% (2,912,275 shares) of GELICO's outstanding voting stock, 72.8% (1,064,140 shares) of CRICO's outstanding voting stock and 54.6% of GEFCO's outstanding voting stock (801,083 shares of common stock and 6,600 shares of preferred stock representing 68.0% and 2.2%, respectively, of each outstanding issue). Additionally, GEICO, CRICO, GELICO and GEFCO have substantially more than a majority of their Boards of Directors in common.



(1) GEICO is a District of Columbia property, casualty and liability insurer whose voting stock is 100% owned by GEICO Corporation.

(2) GEICO Properties, Inc. is a wholly-owned Delaware real estate holding company of GEICO.

(3) GEICO Washington Properties, Inc. is a wholly-owned Delaware real estate holding company of GEICO.

(4) CRICO is a District of Columbia property and casualty insurer.

(5) GELICO is a District of Columbia life and health insurer.

(6) Government Employees Life Insurance Company of New York is a New York life and health insurer.

(7) GEFCO is a Colorado corporation primarily engaged in the business of consumer finance. GEFCO itself has a number of subsidiaries engaged in various aspects of the finance, industrial banking and insurance brokerage businesses which are incorporated in various states and the Federal Republic of Germany.

(a) CRICO, GELICO, and GEFCO file forms 10-K with the Securities and Exchange Commission and their separate financial statements are included therein. Summarized financial information concerning GEFCO is included in Note A of the Notes to Consolidated Financial Statements filed herewith.

(b) Subsidiaries consolidated in the financial statements of GEICO Corporation.

(c) Subsidiary included in consolidated financial statements of GELICO.

Item 5. Legal Proceedings

There are no material legal proceedings to which GEICO Corporation is a party or of which the property of GEICO Corporation is the subject.

Item 6. Increases and Decreases in Outstanding Securities and Indebtedness

(a) Increases and decreases in outstanding equity securities of GEICO in 1978 were as follows:

	Cumulative Senior Preferred Stock	Cumulative Convertible Preferred Stock	Common Stock	Warrants to Purchase Common Stock
Shares or Warrants Outstanding December 31, 1977	250,000	8,246,090	17,743,892	648,552
Conversion to Common Stock (Various dates from April 1, 1978 to December 31, 1978)	-	(411,498)	822,996	-
Exercise of Stock Options (Various dates from August 1, 1978 to December 1, 1978)	-	-	686	-
Shares Or Warrants Outstanding December 31, 1978	250,000	7,834,592	18,567,574	648,552

For information regarding the issuance of options pursuant to the Company's Stock Option Plan, see the Notes to the Consolidated Financial Statements filed herewith.

Item 7. Changes in Securities and Changes in Security for Registered Securities

(a) Information regarding the change in the exercise price and the extension of the time period to exercise GEICO's warrants was reported on GEICO's Form 10-Q for the six months ended June 30, 1978.

(b) Information regarding the effect of the reincorporation and merger of GEICO and the acquisition of GEICO's shares by GEICO Corporation is incorporated herein by reference to GEICO's proxy statement which also constitutes a Prospectus contained in Registration Statement No. 2-63138, filed on Form S-14 with the Securities and Exchange Commission.

Item 8. Defaults Upon Senior Securities

GEICO Corporation has not defaulted as to payment of dividends or otherwise on any class of senior securities.

Item 9. Approximate Number of Equity Security Holders

Title of Class	Number of Record Holders as of December 31, 1978
GEICO Corporation: Common Stock - $1.00 par value	13,031*
Cumulative Convertible Preferred Stock - $1.00 par value	3,682*
GEICO: Cumulative Senior Preferred Stock - $10.00 Par Value	9
Warrant - to purchase 2.08 shares of GEICO Corporation Common Stock at $24 per share, until August 1, 1983.	1,824

* At December 31, 1978, these were shares of common and convertible preferred stock of GEICO. As a result of its reorganization effective January 31, 1979, GEICO became a subsidiary of GEICO Corporation and the shares of GEICO common and convertible preferred stock then outstanding were converted on a share-for-share basis into, respectively, shares of common and convertible preferred stock of GEICO Corporation.

Item 10. Submission of Matters to a Vote of Security Holders

Information required by this Item was disclosed in GEICO's Forms 10-Q for the three months ended March 31, 1978 and for the six months ended June 30, 1978, and in GEICO Corporation Registration Statement No. 2-63138 filed on Form S-14 and Form 8-K filed on January 31, 1979 (date of earliest event reported).

Item 11. Indemnification of Directors and Officers

The information called for by this Item is unchanged from that given in Item 12 of GEICO's Form 10-K Annual Report for the fiscal year ended December 31, 1977.

Item 11A. Executive Officers of the Registrant

John J. Byrne, 46, was elected Chairman of the Board and President of GEICO Corporation in November 1978. He has been Chairman of the Board, President and Chief Executive Officer of GEICO since May 1976. Mr. Byrne is also a Director of GEICO and CRICO. Prior to his employment by GEICO, he served with the Travelers Insurance Companies, from 1967 to 1970 as Director of Variable Annuities; 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.

Paul J. Hanna, 63, was elected Vice Chairman and Chief Financial Officer of GEICO Corporation in November and December 1978, respectively. In July 1978 he was elected Vice Chairman of the GEICO Board and Chairman of the GEFCO Board. He has been a Director of each of the Government Employees Companies since 1967. Prior to his employment by GEICO, he served with Manufacturers Hanover Corporation from 1972 to 1978 as Executive Vice President.

Richard C. Lucas, 52, was elected Controller of GEICO Corporation in November 1978. He has served as Senior Vice President of GEICO since July 1978 and Vice President and Internal Auditor since May 1977. Prior to his employment by GEICO, Mr. Lucas was self-employed as a Consultant at various times from 1973 to 1976. He also served as Vice President, Massachusetts Company from 1975 until 1976; Senior Vice President and Chief Financial Officer, Financial Services Corporation from 1974 until 1975; and Vice President, Administration, Bradford Trust Company in 1973.

John M. O'Connor, 49, was elected Secretary of GEICO Corporation in November 1978. He has been Secretary of GEICO since 1970, when he was also elected Secretary of each of the other Government Employees Companies.

Donald K. Smith, 46, was elected General Counsel of GEICO Corporation in December 1978. He has been Senior Vice President and General Counsel of GEICO since 1977, having served as Vice President and General Counsel since 1972. He has served as General Counsel of GELICO since 1972 and Vice President and General Counsel of CRICO since 1974, and General Counsel since 1972.

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 12. Financial Statements, Exhibits Filed and Reports on Form 8-K

(a) Financial Statements.

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

Exhibits.

Exhibit 1	Annual Report to Shareholders for the year ended December 31, 1978.*
Exhibit 2	Certificate of Incorporation is hereby incorporated by reference to Exhibit 4 of Registration Statement No. 2-63138 on Form S-14.
Exhibit 2-a	Certificate of the Registrant's Board of Directors pursuant to Section 151 of the General Corporation Law of the State of Delaware fixing the provisions of the \$.736 Series of the cumulative junior Preferred Stock is hereby incorporated by reference to Exhibit 2(b) of the Registration Statement filed on Form 8-A on February 28, 1979.

*Filed herewith

Exhibit 3	By-laws of GEICO Corporation are hereby incorporated by reference to Exhibit 6(b) of Registration Statement No. 2-63138 filed on Form S-14.
Exhibit 3-a	Specimen certificate representing the common stock, $1.00 par value is hereby incorporated by reference to Exhibit 6(c) of Registration Statement No. 2-63138 filed on Form S-14.
Exhibit 3-b	Specimen certificate representing the Cumulative Convertible Preferred Stock, $1.00 par value, is hereby incorporated by reference to Exhibit 6-c of Registration Statement No. 2-63138 on Form S-14.
Exhibit 3-c	Specimen certificate representing the Cumulative Senior Preferred Stock, $10.00 par value of GEICO is hereby incorporated by reference to Exhibit 3-c of GEICO's Annual Report on Form 10-K for the fiscal year ended December 31, 1977.
Exhibit 4-a	Specimen Warrant certificate evidencing right to purchase shares of 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	Amendment to Warrant Agreement of May 5, 1971, extending the period during which Warrants may be exercised and reducing the per share exercise price thereof is hereby incorporated by reference to Exhibit 1 of GEICO's Form 8-K current report dated August 31, 1978 (date of earliest event reported).
Exhibit 4-d	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-e	Form of Option Agreement under 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.

*Filed herewith

Exhibit 5-a	Pension Plan, as amended.*
Exhibit 5-b	Profit Sharing Plan, as amended.*
Exhibit 5-c	Statement of 1979 Incentive Bonus Program.*
Exhibit 5-d	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-e	Consultant Contract effective April 1, 1977, between GEICO and Alvin E. Kraus is hereby incorporated by reference to Exhibit 5-g of GEICO's Form 10-K Annual Report for the fiscal year ended December 31, 1977.
Exhibit 6-a	Form of Reinsurance Agreement is hereby incorporated by reference to Exhibit 13-b of Registration Statement No. 2-57242 on Form S-1.
Exhibit 6-b	Form of Endorsement to Reinsurance Agreement is hereby incorporated by reference to Exhibit 6-b of GEICO's Form 10-K Annual Report for the fiscal year ended December 31, 1977.
Exhibit 6-c	Form of Endorsement to Reinsurance Agreement.*
Exhibit 7	Proxy Agreement between Berkshire Hathaway Inc. and Surburban Trust Company is hereby incorporated by reference to Exhibit 7 of GEICO's Annual Report for the fiscal year ended December 31, 1977.
Exhibit 8	Form of GEICO's Cumulative Senior Preferred Stock Purchase Agreement is hereby incorporated by reference to Exhibit 8 of GEICO's Form 10-K Annual Report for the fiscal year ended December 31, 1977.
Exhibit 9	Employment Agreement between GEICO and Paul J. Hanna effective July 1, 1978.*
Exhibit 10	Deferred Compensation Plan.*

(b) Reports on Form 8-K

GEICO did not file any report on Form 8-K during the three months ended December 31, 1978.

*Filed herewith

SIGNATURES

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.

GEICO CORPORATION

/s/ R. C. Lucas

By: ______________________________

R. C. Lucas
Controller

Date: April 2, 1979

Item 12(a)(1): Financial Statements

The following consolidated financial statements of the registrant and its subsidiaries, included in the annual report of the registrant to its shareholders for the year ended December 31, 1978, filed as Exhibit 1 hereto, are incorporated herein by reference:

Consolidated Balance Sheet - December 31, 1978 and December 31, 1977

Consolidated Statement of Income - Years ended December 31, 1978 and December 31, 1977

Consolidated Statement of Shareholders' Equity - Years ended December 31, 1978 and December 31, 1977

Consolidated Statement of Changes in Financial Position - Years ended December 31, 1978 and December 31, 1977

Notes to Consolidated Financial Statements

The following financial information for the years 1978 and 1977 is submitted herewith:

All other Schedules pursuant to Rule 7-06 (Nos. II, III, IV, VI, 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.

Individual financial statements of the registrant (GEICO Corporation) have been omitted as it was made the parent company registrant subsequent to 1978 and the predecessor registrant's (Government Employees Insurance Company) total assets, exclusive of investments in and advances to its consolidated subsidiaries, as would be shown by its December 31, 1978 balance sheet if it were filed, constitute 75% or more of the total assets as shown by the consolidated balance sheet at that date; and the predecessor 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 year if it were filed, constitute 75% or more of the total sales and revenues shown by the most recent consolidated income statement.

Financial statements of the unconsolidated affiliate accounted for by the equity method have been omitted because it does not constitute a significant subsidiary.

Separate financial statements of the consolidated subsidiaries engaged in diverse financial activities have been omitted as they are not required under the materiality tests related to Rule 4-02(e).

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders
GEICO Corporation

We have examined the consolidated balance sheet of GEICO Corporation (parent company of Government Employees Insurance Company effective January 31, 1979 - See Note A) and subsidiaries as of December 31, 1978 and 1977, and the related consolidated statements of income, shareholders' equity, and changes in financial position for the years then ended included in the annual report to shareholders of GEICO Corporation for the year ended December 31, 1978, 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.

In our report dated March 2, 1978, our opinion on the 1977 financial statements and schedules was qualified as being subject to the effect, if any, of the ultimate resolution of certain litigation. As explained in Note J, the litigation was settled during 1978, at no material cost. Accordingly, we have removed our qualification on the 1977 financial statements and schedules.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of GEICO Corporation and subsidiaries at December 31, 1978 and 1977, 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.
February 16, 1979, except as to
Note P as to which the date is
March 23, 1979

ADDITIONAL NOTES TO FINANCIAL STATEMENTS

GEICO CORPORATION

NOTE O: Additional Stock Option Information

The following tabulations show the options granted, the options which became exercisable, the options which were exercised, and the shares under option at December 31, 1978 and 1977.

OPTIONS GRANTED

Year Ended December 31:	Number of Shares	Option Price Per Share	Option Price Total
1978	16,000	$9.25	$148,000
1977	106,525	$6.32 to $6.75	$699,068

OPTIONS WHICH HAVE BECOME EXERCISABLE

Year Ended December 31:	Number of Shares	Option Price Per Share	Total	Market Price on Date Options Became Exercisable Per Share	Market Price on Date Options Became Exercisable Total
1978	92,875	$4.59 to $20.75	$677,245	$7.94 to $9.44	$806,189
1977	77,456	$4.59 to $36.06	$858,095	$5.81 to $7.06	$525,312

OPTIONS EXERCISED

Date Shares Exercised	Price Per Share Option Price	Price Per Share Market Price	Number of Shares	Total Value At Option Price	Total Value At Market Price
1978	$6.56	$8.44	56	$ 368	$ 473
1978	$6.56	$6.56	362	2,376	2,376
1978	$6.56	$6.56	56	367	367
1978	$6.56	$6.69	212	1,391	1,418
			686	$4,502	$4,634

THERE WERE NO OPTIONS EXERCISED IN 1977

SHARES UNDER OPTION

Period During Which Options Were Granted	Under Option	Option Price Per Share*	Total
December 31, 1978			
1973	3,930	$36.06	$ 141,716
1974	28,810	20.75	597,923
1975	22,139	16.90	374,038
1976	209,741	4.59	962,501
1977	103,564	6.56	679,691
1977	1,000	6.75	6,750
1977	1,000	6.32	6,320
1978	16,000	9.25	148,000
	386,184		$2,916,939
December 31, 1977			
1973	31,967	$36.06	$1,152,730
1974	32,103	20.75	666,266
1975	24,708	16.90	417,442
1976	206,195	4.59	946,229
1977	104,525	6.56	685,997
1977	1,000	6.75	6,750
1977	1,000	6.32	6,320
	401,498		$3,881,734

*Options are granted at 100% of fair market value

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.

ADDITIONAL NOTES TO FINANCIAL STATEMENTS

GEICO CORPORATION

NOTE P: Additional Subsequent Events

On March 6, 1979 GEICO Corporation announced that, because of adverse changes in the bond market generally since the announcement of the proposed exchange offer on February 14, the Corporation decided to fix the annual interest rate on the Debentures to be exchanged at 11% and to make the Debentures a senior debt issue rather than a subordinated one.

The exchange offer expired on March 23 and resulted in the issuance of approximately $73.3 million face amount of Debentures for approximately 4.4 million common shares and approximately 1.5 million junior convertible preferred shares.

Through March 20, 1979 GEICO has acquired an additional 113,500 shares of GEFCO for approximately $1,400,000 increasing its ownership to 68% of the outstanding common stock (55% of the voting stock).

ADDITIONAL NOTES TO FINANCIAL STATEMENTS

GEICO CORPORATION

NOTE Q: Additional Earnings Per Share Information

Affiliates include GEICO's consolidated insurance subsidiaries and unconsolidated finance affiliate.

	In Thousands Except Per Share Results	
	Year Ended December 31,	
	1978	1977
Primary:		
Earnings		
Operating income	$62,409	$37,764
Less: Equity in income of affiliates	(9,202)	(696)
Plus: Equity in the affiliates primary earnings per share	9,198	671
Less: Dividends on preferred stock	(8,436)	(6,083)
Operating income applicable to common shares	53,969	31,656
Realized gains/(losses)	(6,958)	120
Income applicable to common shares before extraordinary item	47,011	31,776
Extraordinary item	32,747	20,697
Income applicable to common shares	$79,758	$52,473
Shares		
Weighted-average number of common shares outstanding	18,040	17,744
Primary earnings per share		
Operating income	$2.99	$1.78
Income before extraordinary item	$2.61	$1.79
Net income	$4.42	$2.96
Fully Diluted:		
Earnings		
Operating income	$62,409	$37,764
Less: Equity in income of affiliates	(9,202)	(696)
Plus: Equity in affiliates fully diluted earnings per share	8,943	661
Less: Dividends on senior preferred stock	(2,500)	(14)
Operating income applicable to common shares	59,650	37,715
Realized gains/(losses)	(6,958)	120
Income applicable to common shares before extraordinary item	52,692	37,835
Extraordinary item	32,747	20,697
Income applicable to common shares	$85,439	$58,532
Shares		
Weighted-average number of common shares outstanding	18,040	17,743
Conversion of convertible preferred stock	16,196	16,493
Net effect of dilutive stock options	107	109
Total	34,343	34,345
Fully diluted earnings per share		
Operating income	$1.74	$1.10
Income before extraordinary item	$1.53	$1.10
Net income	$2.49	$1.70

ADDITIONAL NOTES TO FINANCIAL STATEMENTS

GECO CORPORATION
In Thousands

NOTE R: Investment Operations:

Investment Income is summarized as follows:

	Year Ended December 31, 1978	1977
Interest on bonds and notes	$49,930	$37,962
Dividends on preferred stocks	6,298	1,828
Dividends on common stocks	3,242	-
Interest on mortgage loans	1,440	-
Certificates of deposit and commercial paper	2,433	14
Other	1,953	1,565
	65,296	41,369
Investment expenses	1,806	499
Net Investment Income	$63,490	$40,870

Unrealized appreciation (depreciation) on investments are summarized below:

Year Ended December 31, 1978	Realized	Unrealized(1)	Combined
Bonds and notes	$(7,464)	$(53,015)	$(60,479)
Redeemable preferred stocks	3	96	99
Preferred stocks	(59)	(9,613)	(9,672)
Common stocks	191	(5,419)	(5,228)
Other	(2)	-	(2)
	(7,331)	(67,951)	(75,282)
Less: Minority interest	(31)	(8,366)	(8,397)
	(7,300)	(59,585)	(66,885)
Applicable income taxes (credit)	(342)	(3,822)	(4,164)
Net Gains (Losses) on Investments	$(6,958)	$(55,763)	$(62,721)
Year Ended December 31, 1977			
Bonds and notes	$ 731	$(18,501)	$(17,770)
Preferred stocks	(500)	(14)	(514)
	231	(18,515)	(18,284)
Applicable income taxes (credit)	111	(4)	107
Net Gains (Losses) on Investments	$ 120	$(18,511)	$(18,391)

There were no bonds and notes nor preferred and common stocks which were non-income producing for the six month periods ending December 31, 1978 and December 31, 1977.

(1) Unrealized gains and losses on bonds and notes have not been included in shareholders' equity.

ADDITIONAL NOTES TO FINANCIAL STATEMENTS

GEICO CORPORATION

NOTE S: Property and Equipment

When properties are retired or otherwise disposed of, the asset account is relieved of the cost and the allowance for depreciation and amortization is charged with the 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.

NOTE T: 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:

	In Thousands	
	1978	1977
Reserve for losses and loss expenses	$13,875	$10,307
Reserve for unearned premiums	5,935	5,145
Premiums written	11,696	9,797
Losses and loss expenses incurred	7,763	7,365

SCHEDULE I - SUMMARY OF INVESTMENTS
OTHER THAN INVESTMENTS IN AFFILIATES

GEICO CORPORATION
DECEMBER 31, 1978
In Thousands

	Cost Or Amortized Cost	Value	Amount At Which Shown In The Balance Sheet
Bonds and Notes:			
United States Government and government agencies and authorities	$149,045	$144,440	$149,045
State, municipalities and political subdivisions	413,097	364,508	413,097
Foreign government	10,145	9,613	10,145
Public utilities	130,258	117,797	130,258
Industrial and miscellaneous	11,583	10,775	11,583
Total Bonds and Notes	714,128	647,133	714,128
Preferred Stocks:			
Redeemable preferred stocks	6,018	5,945	6,018
Preferred stocks	93,523	81,052	81,052
Total Preferred Stocks	99,541	86,997	87,070
Common Stocks:			
Public utilities	21,724	19,914	19,914
Banks, trust and insurance companies	7,868	7,715	7,715
Industrial, miscellaneous and all other	67,279	65,891	65,891
Total Common Stocks	96,871	93,520	93,520
Total Stocks	196,412	180,517	180,590
Total Bonds and Notes and Stocks	910,540	827,650	894,718
Mortgage Loans on Real Estate	21,944		21,944
Certificates of Deposit and Commercial Paper	44,123		44,123
Total Investments	$976,607		$960,785

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, 1978 or December 31, 1977.

SCHEDULE V - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

GEICO CORPORATION

December 31, 1978 and December 31, 1977
In Thousands

		ADDITIONS			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Amounts-Describe	Deductions - Describe Note 1	Balance at End of Period
Year Ended December 31, 1978: Note 2					
Allowance for amounts uncollectible on cancelled policies	$1,800	$1,351	-	$1,926	$1,225
Year Ended December 31, 1977:					
Allowance for amounts uncollectible on cancelled policies	$3,000	$ (490)	-	$ 910	$1,600

Note 1: The deductions from the allowance during the two years ended December 31, 1978 represent the net write-off of amounts not collected on cancelled policies.

Note 2: Includes allowance of Criterion Insurance Company which is consolidated in 1978.

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

GEICO CORPORATION

Two Years Ended December 31, 1978

Line of Business	PART 1 - PREMIUMS				PART 2 - LOSSES	
	Unearned Premiums Beginning of Period (1)	Premiums Written Net of Reinsurance Ceded	Unearned Premiums End of Period	Premiums Earned During Period	Loss & Claims Incurred During Period	Adjustment Expenses Incurred During Period
Year Ended December 31, 1978:						
Homeowners multiple peril	$ 18,147	$ 30,935	$ 22,525	$ 26,557	$ 15,140	$ 2,982
Auto	278,931	584,145	317,108	545,968	343,565	75,791
Other	3,074	5,683	4,029	4,728	2,341	441
	$300,152	$620,763	$343,662	$577,253	$361,046	$ 79,214
Year Ended December 31, 1977:						
Homeowners multiple peril	$ 21,272	$ 20,964	$ 18,020	$ 24,216	$ 11,718	$ 3,218
Auto	248,500	429,828	242,488	435,840	299,820	69,185
Other	3,100	3,498	3,054	3,544	2,008	566
	$272,872	$454,290	$263,562	$463,600	$313,546	$ 72,969

Part III has been omitted since deferred policy acquisition costs at both the beginning and the end of the period did not exceed 5% of total assets.

(1) Reflects Consolidated Amounts

SCHEDULE VIII - CAPITAL SHARES

GEICO CORPORATION
DECEMBER 31, 1978
COMPANY AND CONSOLIDATED
In Thousands

Column A	Column B	Column C	Column D		Column E		Column F		Column G	
			Number of Shares Included In Column C Which Are		Shares Issued Or Outstanding As Shown On Or Included In Related Balance Sheet Under Caption "Capital Shares"		Number of Shares Held by Affiliates For Which Statements Are Filed Herewith		Number of Shares Reserved for Options, Warrants, Conversions And Other Rights	
			(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
Name of Issuer and Title of Issue(1)	Number of Shares Authorized By Charter	Number of Shares Issued and Not Retired or Cancelled	Held by or For Account of Issuer Thereof	Not Held By or For Account of Issuer Thereof	Number	Amount At Which Shown	Persons Included In Consolidated Statements	Others	Directors, Officers and Employees	Others
GEICO Corporation: (2) (3)										
Common Stock, $1 par value	60,000	18,568	None	18,568	18,568	$18,568	None	None	401	1,349
Cumulative Junior Convertible Preferred Stock, $1 par value, $9.20 redemption value	15,000	7,835	None	7,835	7,835	$72,078	None	None	None	None
Cumulative Senior Preferred Stock, $10 par value	300	None	None	None	None	None	None	None	None	None
Consolidated Subsidiaries: (2)										
Government Employees Insurance Company										
Common Stock, $1 par value	45,000	18,568	None	18,568	None	None	18,568	None	None	None
Cumulative Preferred Stock, $1 par value, $9.20 redemption value	10,000	7,835	None	7,835	None	None	7,835	None	None	None

(Continued on F12)

SCHEDULE VIII - CAPITAL SHARES (CONTINUED)

GEICO CORPORATION
DECEMBER 31, 1978
COMPANY AND CONSOLIDATED
In Thousands

Column A	Column B	Column C	Column D		Column E		Column F		Column G	
			Number of Shares Included in Column C Which Are		Shares Issued or Outstanding As Shown On Or Included In Related Balance Sheet Under Caption "Capital Shares"		Number of Shares Held by Affiliates For Which Statements Are Filed Herewith		Number of Shares Reserved for Options, Warrants, Conversions And Other Rights	
Name of Issuer and Title of Issue(1)	Number of Shares Authorized By Charter	Number of Shares Issued and Not Retired or Cancelled	(1) Held by or For Account of Issuer Thereof	(2) Not Held by or For Account of Issuer Thereof	(1) Number	(2) Amount At Which Shown	(1) Persons Included in Consolidated Statements	(2) Others	(1) Directors, Officers and Employees	(2) Others
Minority Interests:										
Government Employees Insurance Company Senior Preferred Stock, $10 par value, $100 redemption value	300	250	None	250	250	$25,000	None	None	None	None
Criterion Insurance Company Common Stock, $2 par value	5,000	1,462	None	1,462	401	803	1,061	None	19	None
Government Employees Life Insurance Company Common Stock, $1.50 par value	8,000	4,477	None	4,477	1,579	2,370	2,898	None	84	None
						$28,173(4)				

(Continued on F13)

SCHEDULE VIII - CAPITAL SHARES (CONTINUED)

GEICO CORPORATION
DECEMBER 31, 1978
COMPANY AND CONSOLIDATED
In Thousands

(1) Information is not given with respect to all other consolidated subsidiaries since all of the outstanding shares of each issue of capital shares of each of such subsidiary are held by one or more of the persons included in the consolidated balance sheets and the answers to Columns F and G in the case of each such subsidiary would be "None."

(2) On January 31, 1979 shares of Common Stock and Cumulative Junior Preferred Stock of GEICO Corporation were issued on a share for share basis in exchange for Common Stock and Cumulative Preferred Stock, respectively, of Government Employees Insurance Company. See Note A to the Consolidated Financial Statements.

(3) Subsequent Events - On March 6, 1979 GEICO Corporation announced that, because of adverse changes in the bond market generally since the announcement of the proposed exchange offer on February 14, the Corporation decided to fix the annual interest rate on the Debentures to be exchanged at 11% and to make the Debentures a senior debt issue rather than a subordinated one. The exchange offer expired on March 23 and resulted in the issuance of approximately $73.3 million face amount of Debentures for approximately 4.4 million common shares and approximately 1.5 million junior convertible preferred shares.

(4) Included in the consolidated balance sheet under the caption "Minority Interest."

EXHIBIT 1

1978 ANNUAL REPORT TO SHAREHOLDERS

CORPORATION

GEICO
CORPORATION

Corporate Headquarters:
GEICO Plaza
Washington, D.C. 20076
Telephone (301) 986-3000

CONTENTS

GEICO Corporation and Subsidiaries

GEICO Corporation is an insurance and financial services organization whose principal subsidiary, Government Employees Insurance Company (GEICO), is a multiple line property and casualty insurer engaged in writing private passenger automobile, homeowners, fire and extended coverage, comprehensive personal liability and boatowners insurance. Criterion Insurance Company (CRICO), a majority-owned subsidiary, writes standard and substandard private passenger automobile insurance, and Government Employees Life Insurance Company (GELICO), also a majority-owned subsidiary, offers life insurance, accident and health insurance and annuities. GEICO Corporation is affiliated with Government Employees Financial Corporation (GEFCO), a provider of diversified financial services, through investment in that Company's securities. The Corporation also has two real estate subsidiaries, GEICO Properties, Inc., and GEICO Washington Properties, Inc., which are wholly-owned by GEICO.

GEICO Corporation became the parent company of GEICO pursuant to an Agreement and Plan of Reorganization approved by the shareholders of GEICO at a special shareholders meeting on January 31, 1979. While GEICO Corporation's consolidated financial statements which appear elsewhere in this report are presented as if the reorganization had been accomplished on December 31, 1978, the operations for the year then ended were those of GEICO. During 1978 GEICO acquired majority interests in its two insurance subsidiaries GELICO and CRICO, whose operations are included in the consolidated results for 1978. To assist shareholders in comparing results of operations in 1978 with 1977, GEICO's results of operations have been presented in the Financial Highlights table and in the text of this report, as reconciled with the consolidated results, by reflecting the net results of GELICO and CRICO separately.

On February 14, 1979 GEICO Corporation announced a proposed offer to exchange a new issue of Subordinated Debentures due 1999 for up to five million common equivalent shares of the Corporation's outstanding Common Stock and Convertible Preferred Stock. The terms of the offer are described in detail in the Offer to Exchange which accompanies this report, and which should be read carefully by each shareholder.

GEICO
CORPORATION

Financial Highlights

In thousands, except per share results	1978 GEICO Corporation	1978 GEICO	1977 GEICO
Written premiums	$ 625,701	$ 526,819	$ 548,547
Gross premiums earned	640,858	543,541	590,691
Less effects of quota share reinsurance	(35,912)	(35,912)	(127,091)
Premiums earned	604,946	507,629	463,600
Net investment income	63,490	47,542	40,870
Equity in unconsolidated affiliate	1,727	1,727	83
Equity in income of consolidated insurance subsidiaries	—	6,623	613
Benefits and expenses	607,754	501,123	467,402
Operating income	62,409	62,398	37,764
Realized investment gains (losses) net of tax effects	(6,958)	(6,947)	120
Income before extraordinary item	55,451	55,451	37,884
Utilization of operating loss carryforward	32,747	32,747	20,697
Net income	88,198	88,198	58,581
Total assets	1,344,641	1,099,516	989,994
Shareholders' equity	222,943	247,943	180,575
Statutory surplus for the protection of policyholders	—	220,473	178,630
Per share results (primary)			
Operating income	2.99	2.99	1.78
Income before extraordinary item	2.61	2.61	1.79
Net income	4.42	4.42	2.96
Per share results (fully diluted)			
Operating income	1.74	1.74	1.10
Income before extraordinary item	1.53	1.53	1.10
Net income	2.49	2.49	1.70
Cash dividends declared on common stock	3,621	3,621	532
(Per share)	$ .20	$ .20	$ .03
Average common shares outstanding	18,040	18,040	17,744

To Our Shareholders

John J. Byrne,
Chairman

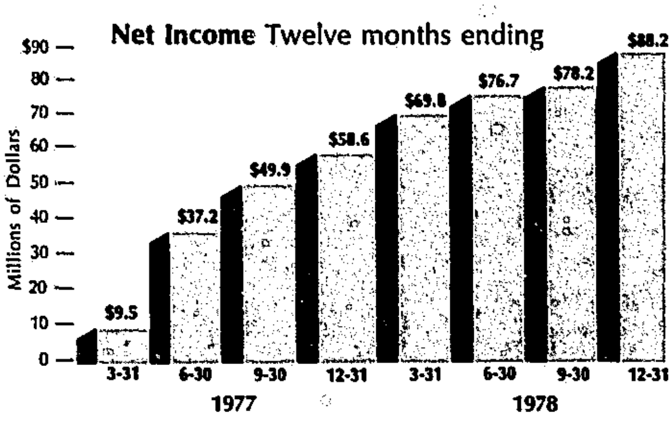
We are pleased to report to you the results achieved by your management in 1978. Substantial gains were made in net income and net worth during the year and major decisions were made regarding the structure of your enterprise. However, our premium revenues continued to shrink despite our attempts to manage a modest increase.

Important actions affecting GEICO's future were announced in November 1978. Its Board of Directors approved the formation of a parent company, GEICO Corporation, and a special meeting of shareholders was held on January 31, 1979 at which you overwhelmingly approved the action. As a result, shareholders of Government Employees Insurance Company became shareholders of a new parent, GEICO Corporation, and Government Employees Insurance Company is now owned by that Corporation. Hereafter we shall refer to the companies as GEICO and GEICO Corporation.

GEICO's primary business will continue to be the family lines of property and casualty insurance. We will continue to apply to that business the traditional fundamentals of management that have served so well for decades. In addition, we are developing strategies which may lead to our offering through GEICO Corporation other insurance and closely related financial products. We will keep you advised of developments.

Reflecting on GEICO's 1978 financial results, its statutory surplus for the protection of policyholders grew substantially during the year reaching a record $220.5 million at year-end. This is an excellent surplus position and one that provides us with ample capacity for future profitable growth. We expect surplus to grow again in 1979.

Net income totaled $88.2 million, up substantially from last year's net income of $58.6 million. The growth in net income will probably moderate until



we can manage a disciplined expansion of our business operations. You should note that by year-end the amount of the operating tax loss carryforward remaining to be used was, for financial reporting purposes, less than the amount used in 1978, and the deferred acquisition cost asset, which was written off completely in 1975, was essentially restored.

We earned $62.4 million from operations after tax, a level I consider reasonable for our size. Aftertax operating income in 1977 was $37.8 million and I told you we could do better than that. I am proud of the management team that made it happen.

Underwriting results continued to improve in 1978 reflecting refinements in pricing, strict adherence to prudent underwriting standards and attentive, cost-conscious claims handling. In 1978 Government Employees Insurance Company realized an underwriting gain of $44.8 million compared with $23.4 million in 1977. The natural underwriting ratio for the year was 95.7%—close to target and a reasonably acceptable result. I question we can achieve this result in 1979, given the continued inflation we see in auto repair costs and in other costs our low rates are calculated to cover.

Our greatest disappointment in 1978 was a drop of 4% in GEICO's written premium volume despite our efforts to manage a modest increase. New business sales were significantly higher than in 1977 but well below our business plan. Our marketing program generated increasing numbers of new business inquiries throughout the year. However, these inquiries resulted in fewer than expected new policies. The rate at which present policyholders renewed their coverage with us was much improved and highly satisfactory—a direct result of the high quality of service rendered by our front-line employees. At year-end our policyholder base appeared to have stabilized, a condition which I thought had been achieved at year-end 1977.

In 1979 we intend to market our insurance services aggressively through our traditional methods, including direct mail, telephone and personal contact, and to expand our efforts to secure the endorsement of GEICO's products by groups and associations. We wish to increase our market penetration in the homeowner and boatowner lines and for all lines in certain areas of the country which look attractive to us.

To ensure long-term profitable growth we are placing considerable emphasis on improving the productivity of our professonal work force and stressing the importance of providing the service levels demanded by the families we protect. Old-fashioned, disciplined management of the fundamentals of our business—product pricing, claim and expense control and underwriting—is essential to the effective management of the enterprise.

We have taken a number of positive steps to ensure that we continue to provide the quality of service our customers have the right to expect. We have improved the training of our sales and service personnel, made better use of computer technology to give our staff immediate access to customer files and simplified renewal and endorsement documents; all in order to provide better value to our clients. We strive to instill in our representatives the highest degree of sensitivity to customer needs. We think we have provided our people with the incentives and support they need to continue to provide outstanding service.

Several independent surveys and articles published during the year on insurance and comparative rates placed GEICO among the industry's low-priced, high-value leaders. We commissioned an independent marketing research firm to conduct a continuous survey of our policyholders' perception of our service. The results tell us many things about our customers' needs and attitudes, including that the majority of them rate our service as satisfactory to excellent.

A policy with GEICO is one of the best insurance values available in today's marketplace. If you haven't already introduced your prudent friends and relatives to us, please do. They will thank you for the money they may save on their auto, homeowners or boat policy. They will also be pleased with our good service. In those instances where we cannot extend coverage to one of your referrals, I hope you will under-stand. We are, quite simply, trying to maintain the highest levels of prudence and selectivity among our clientele so that we may continue to offer outstanding value.

Several other key developments that are discussed in greater depth in the text of this report may be of particular interest to you:

- The industry quota share reinsurance agreement was terminated at midyear by mutual agreement with our reinsurers.
- Cash tender offers for additional shares of our sister companies were made in February and October. The offers were successful and GEICO's ownership in CRICO and GELICO was increased to majority levels.
- The Board of Directors of GEICO Corporation announced that it had declared a quarterly cash dividend on the common stock of $.08 per share, a 60% increase over the quarterly dividends paid by GEICO in 1978.

We see a continuing strong demand for our insurance services. Consumers, faced with rapidly rising costs on all fronts, are becoming increasingly cost and value conscious. This should provide GEICO with a competitive advantage because, by dealing directly with our customers, we deliver our product at very competitive prices. Coupling price advantage with businesslike, efficient service is important to our successful sales effort in 1979. We anticipate intensive competition for the perceived good risk from other carriers who enjoyed profitable years in 1977 and 1978.

A major accomplishment during 1978 does not show up on our balance sheet or in the footnotes—the substantial reinforcement of our senior management team. Ed Clark joined us from IBM and Al Kaltman from the Travelers with responsibilities for our computer systems. Ed plans and coordinates our needs for data services, and Al provides the computer programming and technical operations to fill those needs countrywide. Al Sparks is a respected CPA and joined us to assume responsibility for financial reporting. Dick Ollen joined us from The Massachusetts Company, and Dick is charged with market development both for new products and for new markets for our current products.

Gene Meyung, formerly with State Farm, now manages one of our three regions. At the start of 1978, Ed Utley headed our systems and data processing department—Ed has now moved up to managing a variety of internal services and also oversees our service to policyholders.

We clustered our professional functions under Ed Ring, and Bill Snyder moved over from managing financial controls to managing regional operations and all aspects of marketing including pricing. Dick Lucas has moved up into Bill's old financial control post.

Paul Hanna, a director since 1967, was Executive Vice President of Manufacturers Hanover Corporation and joined our management team in July. Paul has directed the successful formation of GEICO Corporation as well as directing our financial policies.

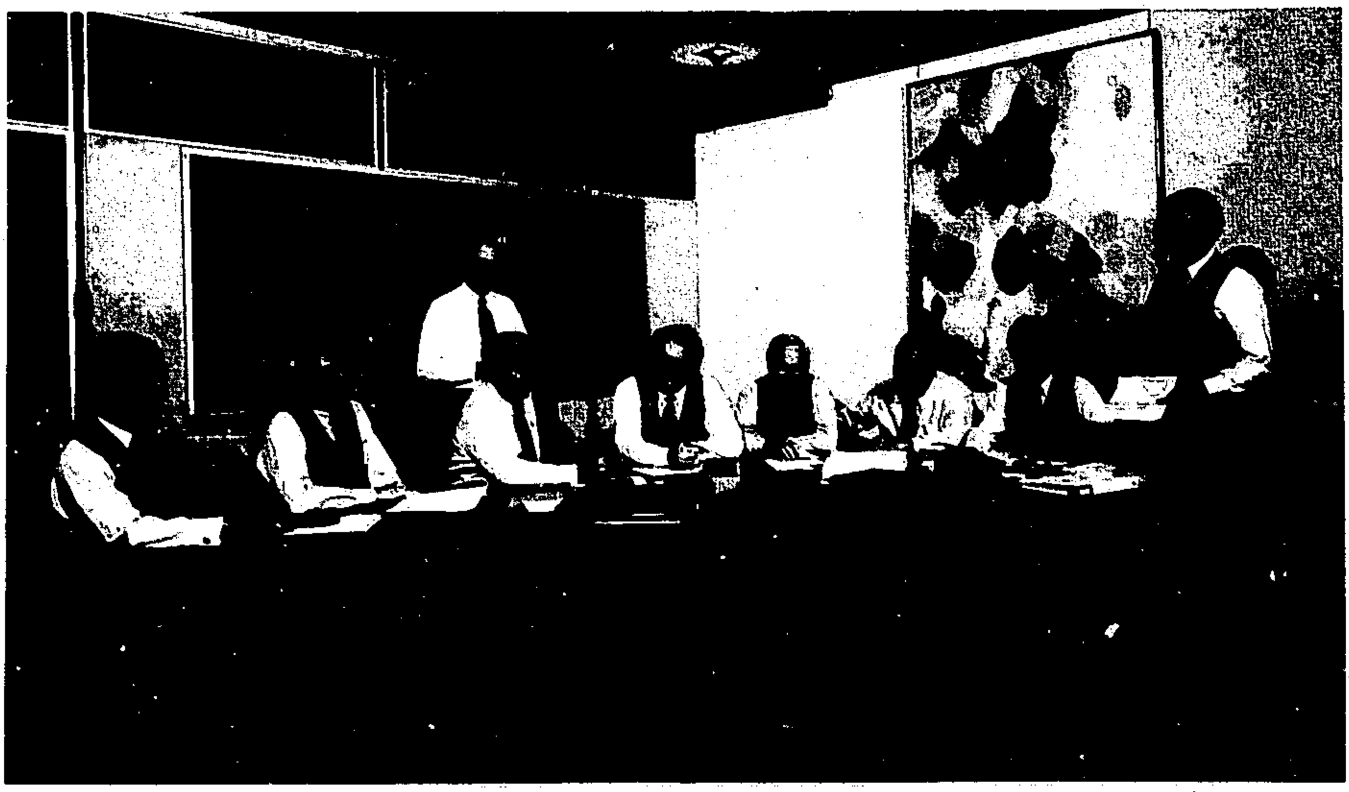
With these reinforcements our senior management team is better organized to manage the enterprise through the complex years I see just ahead.

Our entire staff is talented and ready to meet the challenges 1979 brings. We are motivated to provide the kind of service that generates a high level of policy renewals and referrals—the finest endorsement.

Respectfully submitted,

John J. Byrne
Chairman

March 2, 1979
Washington, D.C.



GEICO Corporate Office from left to right—Arthur T. Y. Loh, Senior Vice President; Donald K. Smith, Senior Vice President and General Counsel; Richard C. Lucas, Senior Vice President; John J. Byrne, Chairman; Edward H. Utley, Senior Vice President; Edward S. Ring, Senior Vice President; Alvin E. Kraus, Consultant to the Corporate Office; Paul J. Hanna, Vice Chairman; and William B. Snyder, Senior Vice President.

Business Review

MARKETING AND FIELD OPERATIONS

Marketing and Field Operations activities include the Marketing Department, Market Development, the three Regions, and support of the Product Task Force and the Pricing Committee for product development and pricing.

Marketing

In 1978 we concentrated on promoting GEICO's homeowners and boatowners lines while seeking better geographical distribution of policyholders in all lines. Our marketing program generated substantial numbers of inquiries during the year, but new business sales were disappointing. Although new sales were up substantially from 1977, they were well below our aggressive 1978 sales plan. During the year policyholders renewed their policies with us at an increasingly satisfactory pace. However, new sales and renewals were not adequate to fully offset terminations.

Policies in force on GEICO's five lines totaled 1,468,071 on December 31, 1978 compared with 1,535,562 at year-end 1977, a decrease of 4.4%. In the first quarter policies declined approximately 2% from year-end 1977. By comparison, policies declined 1% during the second quarter, .5% during the third quarter and .7% in the fourth quarter.

John Kessock, Jr., Director of Sponsored Marketing and NTEU President Vincent L. Connery.

Automobile policies in force decreased by 4.4% to 1,209,115 at the end of 1978 from 1,265,240 at year-end 1977. Of this total, voluntary auto policies decreased by 4.7% from December 31, 1977 to year-end 1978 while involuntary policies decreased 2.5% during the same period. The latter accounted for 10.4% of our total policies at year-end 1978 compared with 10.2% the previous year. Homeowners and miscellaneous lines experienced a moderate overall decrease in 1978 as such policies declined 4.2% from year-end 1977. More competitive and refined pricing on these lines, as well as a revised policyholders' rating by the A. M. Best Company from "Deferred" to "Very Good" will help make these lines more attractive to prospective insurance buyers in 1979.

The marketing challenge before us in 1979 is to reestablish momentum toward growth with profit. We plan to market our insurance services through traditional direct response methods such as direct mail and telephone. We also plan to expand our efforts by obtaining the endorsement of GEICO by trade associations and other organizations that have substantial professional membership.

An important part of this concept is an educa-

Marketing and Field Operations from left to right—Theodore F. Culp, Vice President, Marketing and Field Operations; Ross D. Pierce, Regional Vice President (Macon); James E. Reagan, Regional Vice President (Woodbury); William B. Snyder, Senior Vice President; Thomas N. Exarhakis, Vice President, Marketing; Richard A. Ollen, Vice President, Market Development; and Eugene J. Meyung, Regional Vice President (Chevy Chase).

tional program provided by GEICO for group members that is designed to teach them methods of reducing losses and insurance costs and give them a working knowledge of automobile and homeowners insurance policies and terminology. In January 1979 we received the endorsement of the National Treasury Employees Union (NTEU), which represents more than 100,000 general schedule government employees and is the third largest union in the Federal government. We look forward to a long association with the NTEU and are proud to have received their endorsement.

Regional Operations

In order to provide good service, our operations are regionalized. GEICO serves its customers through three regional offices located in Chevy Chase, Maryland; Woodbury, New York; and Macon, Georgia. The Chevy Chase office, known as GEICO Plaza, also serves as headquarters for GEICO Corporation.

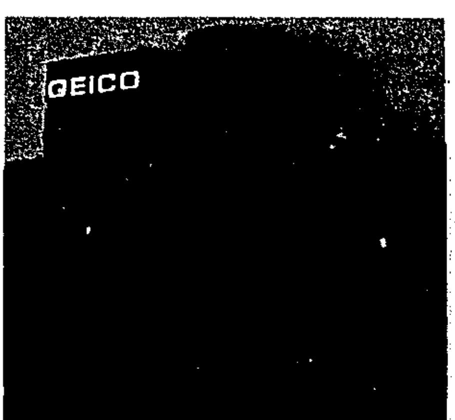
In addition to the regional facilities there are 47 sales offices and 23 claim offices. Many of these offices provide service to clients of our subsidiaries GELICO and CRICO, as well. There are more than 3,500 independent attorneys and adjusters representing GEICO in areas not conveniently accessible to Company claim offices.

Premium Rates

During 1978 GEICO continued to refine its rating structure on all lines to ensure adequate but competitive pricing. Overall, voluntary auto premium rates were down approximately 1% in 1978 from 1977 while involuntary auto rates were raised approximately 9%. Homeowners rates decreased about 5%.

In 1979 we expect strong price competition in all lines. Following profitable years in 1977 and 1978, property and casualty insurers are expected to be marketing aggressively. Nevertheless, we plan to increase our market share in 1979 in areas where it will be profitable to do so.

Because GEICO deals directly with its customers, we have traditionally been able to offer our policyholders first rate insurance coverage at substantial savings. For example, the published results of independent cost surveys done in California and Virginia in 1978 have shown that GEICO's automobile and homeowners policies are either the lowest or among the lowest priced of those companies surveyed. In the prevailing inflationary and consumer oriented environment, price advantage and service have become the two most important factors in selecting an insurance carrier. Because of the value GEICO offers its policyholders, we believe that we will have a competitive edge in 1979.



Regional Office, Woodbury, N.Y.


Corporate Headquarters, Chevy Chase, MD.


Regional Office, Macon, GA.

CONTROL GROUP

Control Group from left to right—Alvin Kaltman, Vice President, Systems and Data Processing; Edward J. Clark, Vice President, Data Administration; Martin Adler, Vice President and Actuary; Richard C. Lucas, Senior Vice President; K. Thomas Kemp, Assistant Vice President, Planning Research and Analysis; Henry J. Collins, Vice President and Comptroller; Jay Planalp, Assistant Vice President, Internal Audit; and W. Alvon Sparks, Jr., Vice President, Financial Reporting.

The control group ensures that business is conducted according to the directions of management and the Board of Directors, monitors the recording, interpretation and reporting of the Company's transactions and results according to regulations and established principles, and provides data processing, analytical and research services.

Loss Reserves

Loss reserves at any date are estimates of the eventual cost of claims incurred but not finally settled at that date. These reserve estimates are based not only on historical experience but also on a judgment of the effect future economic and social forces will have on such claim costs. Additional factors in developing reserve estimates include GEICO's experience with the type of risk involved, knowledge of circumstances surrounding individual claims and projections of the probable number and nature of claims not yet reported. Judgment plays a large role and loss reserves are inherently subject to a number of highly variable circumstances. Consequently, GEICO continuously monitors its actual losses and revises the reserves as necessary to assure their adequacy.

The adjacent table shows GEICO's year-end loss reserves and the ratio of those reserves to premiums earned for each of the last five years.

As indicated by the table, GEICO's loss reserves were increased substantially in 1975 and 1976. Inflationary pressures on the cost of hospital and medical care and auto crash parts, "social" inflation resulting from unprecedented jury awards, changes in tort law and the introduction of no-fault insurance laws in numerous states made accurate assessment of loss reserves during that period particularly difficult. Claim settlement costs continued to rise from 1976 through 1978 but were in substantial accord with our expectations.

GEICO believes that its aggregate provision for loss and loss adjustment expenses at December 31, 1978 is 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. The methods used to develop these reserves are subject to continuing review and refinement. The analysis of these loss reserves by a leading independent consulting actuarial firm remains essentially in agreement with our own. Please see Note A to the Financial Statements for further discussion on loss reserves.

Year-End	Loss Reserves (Millions)	Ratio of Loss Reserves to Year's Earned Premiums
1978	**$448.9**	**84.5%**
1977	$444.3	76.9%
1976	$430.5	66.7%
1975	$368.4	61.9%
1974	$263.0	49.4%

Unearned Premiums

Unearned premiums represent the portion of premiums written on all policies in force and not yet taken into income. They are calculated based on the number of days remaining in the unexpired portion of each individual policy. Neither estimates nor assumptions of future events are used in their development.

GEICO's unearned premium reserve was $306.3 million on December 31, 1978, a decrease of 5% from the year-end 1977 reserve of $323.0 million ($263.6 million after quota share reinsurance). This decrease was due to the decline in written premiums described earlier.

RESOURCES AND SERVICES

Resources and Services from left to right—Walter R. Tinsley, Vice President, Real Estate and Facilities Management; Edward H. Utley, Senior Vice President; Ralph L. Belford, III, Vice President, Policyholder Service; Terry L. Baxter, Assistant Vice President, Communications; and DeWayne C. Cuthbertson, Vice President, Employee Relations.

The resources and services group includes the employee relations, facilities management, communications and policyholder service functions.

Service

Firmly committed to providing good service, we contracted in 1978 with an independent market research firm to monitor on a continuing basis the quality and consistency of the service provided our clients. Over 98% of those policyholders surveyed continue to rate GEICO's service as satisfactory or better. This is a tribute to our front-line supervisors and our public contact employees who work hard to ensure that our customers receive the kind of service that makes them want to renew with us each year and recommend us to their friends and relatives. Because of their efforts, over 75% of our automobile policyholders have been insured with GEICO for three years or more and approximately 90% of all automobile policyholders who have been offered renewals consistently accept them; an enviable record by industry standards and one of which we are proud.

Another measure of our service is the volume of complaints received. To us, any indication of unacceptable service is classified as a complaint. The number of complaints received in the fourth quarter of 1978 was down 41% from the comparable 1977 period and down 57% from the first quarter of 1977. The progress we have made on improving service is gratifying and we are continuing an all-out effort to ensure that service stays at the highest level possible.

The Staff

The most important asset of any business is an experienced, well-trained and highly motivated staff. In a service-oriented operation such as ours this is particularly the case because we deal directly with our customers. The enthusiasm, knowledge and concern for people each of our employees brings to the job have a direct bearing on the way GEICO is perceived by the public.

We believe in building professional qualities at all levels by offering challenging career opportunities and by encouraging self-development through educational assistance programs and participative business planning. We stress to our employees the importance of each job and that outstanding performers are recognized and rewarded. Professional development opportunities combined with a system that rewards achievement are keys to attracting and maintaining competent and experienced employees.

The program is achieving positive results for us. With approximately 46% of our employees having 5 or more years service with us, there is a good mix of upper and middle level management experience and an abundance of future management potential.

Communications

In order to improve our employees' knowledge of their jobs, Company and benefits, as well as enhance public understanding and acceptance of GEICO policies and products, we have a corporate communications department which provides a broad range of communications services.

If you are a policyholder or shareholder you have probably seen a copy of ACCESS, our new policyholder magazine. We believe that ACCESS will establish a valuable, mutually beneficial channel of two-way communication with our customers.

Our commitment to social responsibility has resulted in expanded involvement in significant community affairs. The communications staff coordinates our participation in a variety of projects including the Special Olympics, Adopt-A-School Program, Cerebral Palsy Telethon, and support of Children's Hospital in Washington, D.C.

TODAY, a special report highlighting the annual shareholders' meeting, is an attractive addition to our regular shareholder communications such as the interim and annual shareholder reports, and investment portfolio report.

Videotape plays an important role in programs keeping our employees up-to-date on technical and business skills, general news, benefit refinements and a variety of other subjects. "FOCUS," a regular employee news show, has been extremely well received during its first full year of production. Other employee communications include in-house publications such as a biweekly newspaper, a quarterly magazine, a newsletter for managers and an annual report for employees. Other audiovisual support and media production services are provided by the communications department to all areas of the Company.

The spectrum of professional services provided by the communications staff in disseminating information to policyholders, shareholders, employees, news media and the general public represents an important and very visible part of the staff support necessary to accomplish GEICO's mission.

Insurance Counselor Anna Busey has 17 years of telephone service experience with the Company. Approximately 46% of our employees have five or more years service with us.

PROFESSIONAL SUPPORT OPERATIONS

Professional Support Operations from left to right—Gerald T. Jackson, Assistant Vice President, Residual Market; Merrill D. Knight, III, Vice President, Claims; Edward S. Ring, Senior Vice President; John J. Hughes, Product Manager, Fire and Allied Lines; Ernest M. Lucas, Vice President and Legislative Counsel; and Harry I. Bond, Vice President, Underwriting.

Our own employees handled directly 65% of all claims reported during the year.

The professional support operations group develops and disseminates underwriting and claim policies, and plans and conducts the Company's governmental and industry relations programs.

Claims

GEICO's claim policy is to satisfy all meritorious claims promptly and equitably while strongly defending against unwarranted or excessive demands. In 1978 437,757 automobile claims were reported to GEICO, a decrease of 18% from the 533,560 reported in 1977. By comparison, the claims reported in 1977 declined 40.5% from the prior year. These decreases reflect our smaller number of policyholders as well as reduced accident frequency and the growing number of policies with higher deductibles.

A major challenge facing our claims staff in 1978 was to reduce claims outstanding. Although new claims were decreasing at a satisfactory pace, the normal length of time required to settle serious or litigated claims, and external forces such as lengthy court calendars and insurance fraud, prevented us from reducing outstanding claims at an acceptable rate in 1977. To meet the challenge this situation presented, we concentrated our supervisory and educational resources on four areas: early contact with bodily injury claimants, aggressive and realistic negotiations, greater concentration on and sophistication in medical management, and improved supervision of litigated cases. The results show that these efforts were successful. Automobile claims pending at December 31, 1978 totaled 90,396, down 13.9% from the 104,957 pending at year-end 1977, and bodily injury suit files pending totaled 12,158, down 15.9% from 14,465 the prior year.

At year-end GEICO had 26 Company claim offices, including the three regional facilities, located in areas of high policyholder concentration. Our own employees handled directly 65% of all claims reported during the year, up slightly from 1977.

The ratio of loss adjustment expense to earned premium improved in 1978 to 14.6% from 15.2% in 1977. Successful use in 1978 of direct claim handling techniques, such as telephone adjusting, permitted us to consolidate certain facilities and increase the volume of claims handled directly by our employees. We are pleased with this result and greater use of these techniques is foreseen in 1979. There will also be greater emphasis in 1979 on effective management of our human resources.

In order to fulfill our social responsibility to assist with the rehabilitation of accident victims and to further control the rising costs associated with personal injury claims, we further expanded our rehabilitation staff in 1978. The results achieved by this program, particularly when the claimants and their attorneys cooperate, are socially rewarding as well as cost-effective.

Material damage claims accounted for 47% of all loss payments made in 1978 on automobile claims. New car prices, parts prices and labor costs all continued upward inflationary trends. One of the results was an abrupt slowdown in depreciation of used cars which tends to increase our settlement costs for total thefts and total losses.

Recently there were significant amendments to no-fault laws in New York and Florida—two states where we have large concentrations of policyholders. Such amendments limit suits for bodily injury essentially to serious injury cases. Further, the workers compensation payment schedule was adopted as the standard for medical treatment costs in New York. Although it is too early to accurately judge the effectiveness of these changes, the laws are being strictly applied and we think the revisions are both constructive and in the public interest.

Underwriting

During the year state legislators and regulators brought increased pressure on the property and casualty insurance industry to revise current rating and underwriting practices, particularly with respect to using age, sex, marital status or territory in those activities. These pressures are expected to continue into the foreseeable future. Although these are valid underwriting and rating criteria, amply supported by convincing statistical data, we are investigating alternate underwriting and rating plans intended to allow us to maintain disciplined underwriting standards and still comply with rapidly changing legal requirements.

To improve our products and services certain modifications were made to the "Good Driver Plan" rating program to allow additional discounts for individuals with good driving records. For example, a four-year accident-free discount was introduced in most states. Innovations of this nature are part of GEICO's efforts to encourage present and potential policyholders with a history of good driving to insure with GEICO and benefit from lower rates.

During the year GEICO also began an auto rating program based on historical loss data reflecting the degree of damage sustained by various makes and models of vehicles involved in accidents. This program represents a positive approach toward keeping costs down while promoting improvement of vehicle safety characteristics and repairability.

The homeowners division is actively working with police and fire departments of various jurisdictions across the country to develop burglary and fire prevention programs that are designed to induce homeowners, renters and builders of new homes to comply with established specifications of building security and fire safety. Residences which comply with the specifications are eligible for a GEICO homeowner insurance discount. GEICO is one of the first carriers to offer discounts to participants in these programs. In 1978 protection programs were implemented in Montgomery and Charles Counties in Maryland; Santa Clara, California; Morton Grove, Illinois; and in Bibb County, Georgia. Similar programs are presently being considered in several other locations.

In response to the question of availabilty of homeowners polices in varying segments of the marketplace, it is GEICO's intention in 1979 to offer a modified homeowners coverage form that will permit coverage based on market value rather than replacement cost. This will allow the Company to write an increased volume of older dwellings.

In 1979 we plan to expand the boatowners line to include a new policy that will allow us to cover boats that are larger than we presently insure. The new policy should be available before the 1979 boating season begins and will help increase our boatowners business this year.

Legislation

The principal issues before the 96th U.S. Congress that will affect the property-casualty insurance industry will be Federal standards for no-fault automobile insurance and repeal of the McCarran-Ferguson Act with attendant implications of Federal regulation of the industry.

Although the Carter Administration has consistently supported the concept of Federal no-fault standards, no such legislation passed in either the House of Representatives or the Senate in 1978. It is anticipated, however, that Federal no-fault standards bills will be reintroduced in 1979. GEICO opposes such legislation because of its belief that continued state regulation of the property-casualty industry is in the best interest of the insuring public.

Strong opposition to the notion of dual state-federal regulation of the insurance industry is expected to deter the enactment by the 96th Congress of any such legislation that might be introduced in 1979.

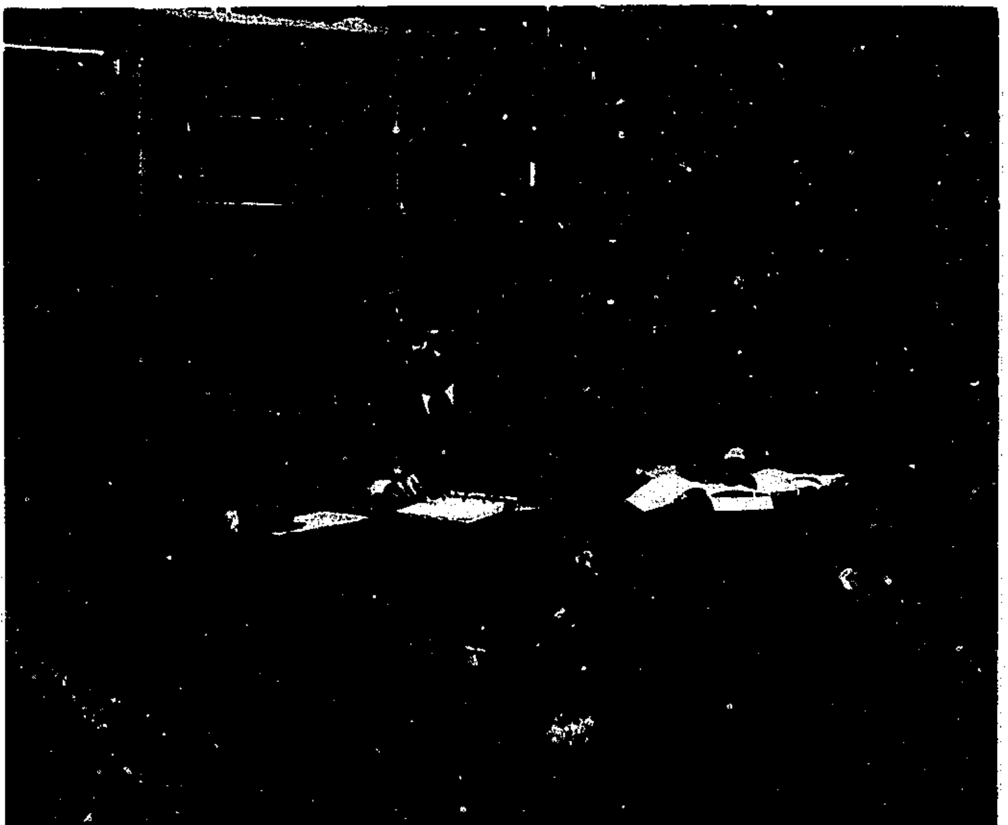
The National Commission for the Review of Antitrust Laws and Procedures has recommended, among other antitrust reforms, that much of the immunity from federal antitrust laws granted the insurance industry by the McCarran-Ferguson Act be repealed. While it is not likely that legislation proposing such action will be enacted by Congress this year, any such proposals would enjoy significant support from the Administration, the Congress, and consumer and labor interests.

The controversy surrounding the use of age, sex and marital status as rating classifications will be the most important industry issue to be considered by the state legislatures in 1979. Legislation was introduced in New York in 1978 that would severely restrict insurers' use of such classifications and will be reintroduced with strong support in 1979. Many other states in which GEICO does business are either considering similar legislation or regulations, or will do so soon. A task force appointed by the National Association of Insurance Commissioners (NAIC) to study the insurance industry's rating practices recommended to the NAIC that rating by sex and marital status be replaced by other methods. Accordingly, the NAIC has given property and casualty insurers six months to develop suitable alternate rating criteria. The task force also recommended that insurers be allowed to retain age as a rating criteria because of the overwhelming statistical data that shows age is a substantial factor in identifying risk qualty. We have and will continue to actively oppose any legislation or regulations that will result in a pricing classification system for which there is inadequate statistical support.

Legislation is being considered in the District of Columbia, Illinois and Texas, among other jurisdictions in which the Company does business, that would provide for some form of compulsory automobile liability insurance. Compulsory liability insurance laws have proven unsuccessful and unduly costly both to government and the insured public. GEICO opposes such legislation.

General Counsel

General Counsel from left to right—John M. O'Connor, Secretary; Charles R. Davies, Assistant Vice President and Assistant General Counsel; Myrtle N. Pitsenbarger, Assistant Secretary; and Donald K. Smith, Senior Vice President and General Counsel.



The general counsel's office is responsible for the corporate legal and secretarial functions.

FINANCIAL AND INVESTMENTS

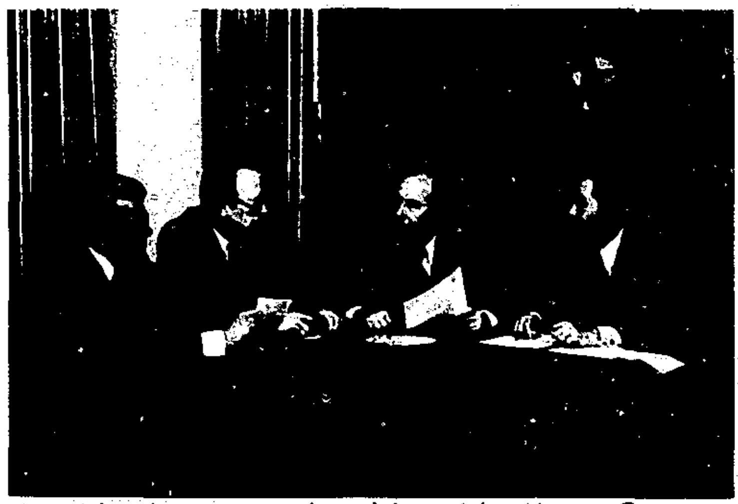
The financial and investments group has broad financial responsibilities including corporate development.

Investments

GEICO's net investment income increased steadily in each of the past five years. Investment income in 1978 of $47.5 million was 16% higher than the $40.9 million in 1977. A substantial increase in funds available for investment, higher yields on new investments and favorable timing in portfolio changes contributed to the substantially improved results.

During 1978 we made a portfolio realignment of approximately $100 million from taxable bonds to common stocks, preferred stocks and municipal bonds. The sale side was completed in early July and the purchase side was spaced out over the remainder of the year. Although the portfolio restructuring resulted in a pretax capital loss of approximately $7 million, there will be substantial benefit from improved aftertax investment income in future years.

For most of 1978 GEICO maintained substantial amounts of funds in short-term money market instruments. As interest rates moved higher later in the year, we began to move a significant portion of the accumulated funds to more permanent investments in tax-exempt and tax-sheltered securities.



Financial and Investments from left to right—Vernon G. Phelps, Assistant Vice President, Investor Relations; Albert M. McKenney, Treasurer; Paul J. Hanna, Vice Chairman; and Arthur T. Y. Loh, Senior Vice President.

The values of bonds and stocks listed in the Investment Summary below are based on amortized value for bonds and the approximate market value for stocks. A detailed schedule of GEICO's investment portfolio showing all stocks and bonds as of December 31, 1978 is in the Investment Portfolio Report which is available upon request to the Office of the Secretary.

INVESTMENT SUMMARY
(Millions)

	1978			
	Amount	**%**	1977	1976
Money Market Instruments	**$ 44.1**	**6.0**	$ 0.3	$ 0.2
U.S. Government Bonds	**146.3**	**19.7**	252.9	218.7
Corporate Bonds	**68.4**	**9.2**	108.8	104.4
Tax Exempt Bonds	**346.6**	**46.8**	239.1	239.0
Bonds	**561.3**	**75.7**	600.8	562.1
Preferred Stocks	**65.9**	**8.9**	22.4	20.3
Common Stocks	**69.8**	**9.4**	—	—
Stocks	**135.7**	**18.3**	22.4	20.3
Totals	**$741.1**	**100.0**	$623.5	582.6

The largest portion of our holdings are U.S. Governments and AAA rated bonds. Of our bond portfolio of $561 million, 66% are rated AA or better by Moody's. Approximately 96% are rated A or better.

There was an unrealized loss of $9.1 million on equity securities at December 31, 1978 due largely to price declines in preferred stocks during the fourth quarter reflecting higher interest rates. It is unlikely that GEICO will find it necessary to realize any of these unrealized losses.

Bond Maturity Pattern

GEICO Insurance's bond portfolio has a relatively short-term maturity with U.S. Governments generally in the one to five year range, the tax exempts in the intermediate to longer range, and the corporates in the longer range. Approximately 45% of the bond holdings will mature in less than ten years.

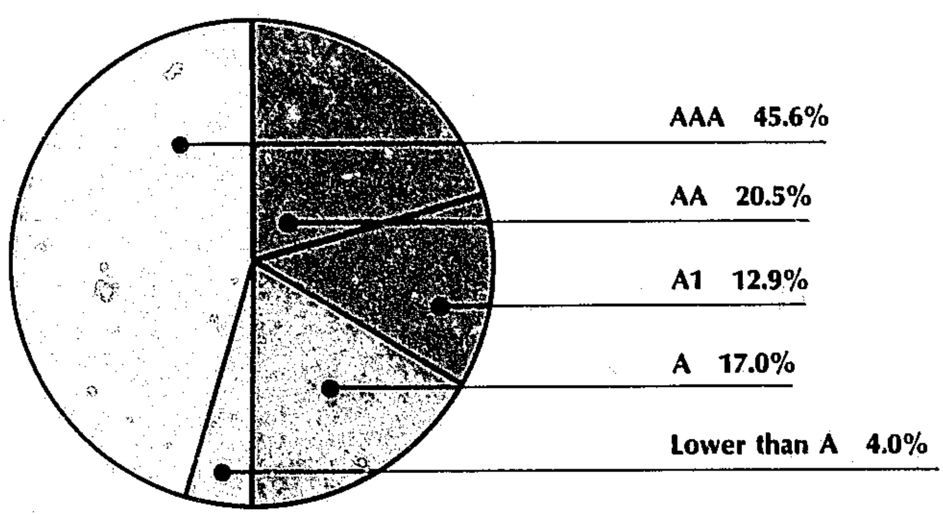
Investments in Affiliates

During 1978 GEICO made public cash tender offers for Common Stock of the affiliates, offering $14 per share for GELICO and $21.50 per share for CRICO in both February and October and $12.25 per share for GEFCO in February. All shares of the affiliates tendered as a result of those offers were purchased and GEICO now owns 64.7%, 72.6% and 58.4% of the outstanding Common Stock of GELICO, CRICO and GEFCO, respectively.

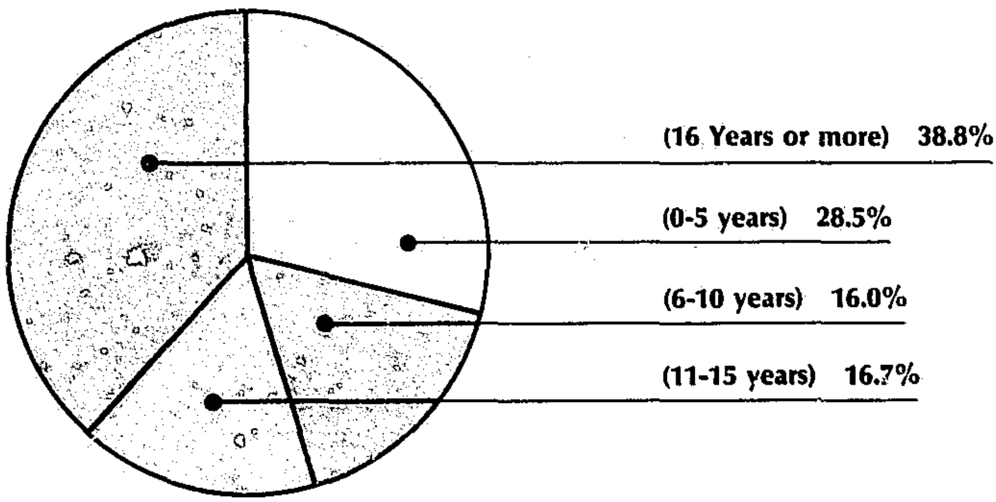
Our investments in GELICO, CRICO and GEFCO contributed $8.4 million toward the consolidated net income of $88.2 million in 1978 after recognition of minority interests. The corresponding amount in 1977 was $.7 million.

The GEICO Board has authorized future purchases of these securities of the affiliates in the open market or by private transactions from time to time within limitations set forth in the various laws and corporate documents governing such purchases by GEICO.

GEICO Bond Portfolio Rating by Moody's
Percent of Portfolio



GEICO Bond Maturity Pattern
Percent of Portfolio



Quota Share Reinsurance

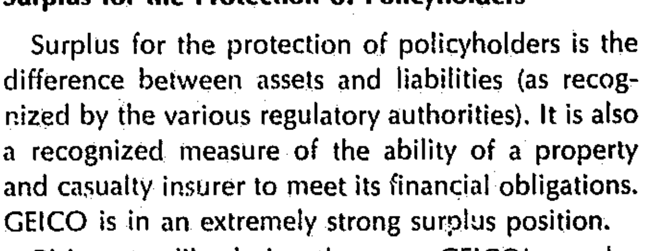
Quota share reinsurance was reduced by one-fourth at the end of the second quarter of 1977 by mutual agreement with the reinsurers. Based on the terms of the quota share reinsurance treaty, GEICO and its reinsurers had the right to terminate the agreement when the reinsurers' combined ratio reached 98% or less on an inception-to-date basis. In the fourth quarter of 1977 the cumulative combined ratio for the reinsured book of business reached 98% and we notified the reinsurers of our intentions to terminate the treaty during 1978.

On April 12, 1978 GEICO announced plans to terminate the 75% balance of the treaty by June 30, 1978. The remaining participants in the treaty consented to amendments reducing it by 39% of the original amount at the end of the first quarter of 1978 and terminating the remaining 36% at mid-year. The treaty was terminated consistent with that plan.

Covering a two year period from June 30, 1976 to June 30, 1978, the quota share reinsurance treaty was an integral part of a recovery program that provided temporary risk and capital relief for GEICO. During the life of the treaty earned premiums ceded amounted to $243.6 million. The cumulative cost to GEICO was 2% of such earned premiums, $2.5 million of interest credit, plus the loss of investment income of varying amounts during the period.

Carried out under the supervision of the District of Columbia Superintendent of Insurance, the late Maximilian Wallach, the quota share reinsurance worked well for both GEICO and the reinsurers. Without Superintendent Wallach's noble efforts it would not have been possible to complete the treaty with the 27 companies that assisted us. Superintendent Wallach passed away unexpectedly on November 7, 1978. He was a dedicated public servant who diligently applied his many talents and knowledge in carrying out his responsibilities to the public and the insurance industry. He is greatly missed by all who were privileged to have been associated with him.

GEICO Policyholders' Surplus
(On a Statutory Basis)



Surplus for the Protection of Policyholders

Surplus for the protection of policyholders is the difference between assets and liabilities (as recognized by the various regulatory authorities). It is also a recognized measure of the ability of a property and casualty insurer to meet its financial obligations. GEICO is in an extremely strong surplus position.

Rising steadily during the year, GEICO's surplus was $220.5 million on December 31, 1978, up 23.4% from $178.6 million at year-end 1977.

BOARD OF DIRECTORS

The Boards of Directors of GEICO Corporation and GEICO are identical in membership. Each Board presently consists of twelve members, two of whom, having reached mandatory retirement age, will not stand for reelection in 1979.

Five Board Committees are charged with assisting the Boards in the management of their responsibilities. A brief description of the primary functions of these committees follows. The members of each committee are listed on page 41. The membership of each of the respective Committees of GEICO is identical to the membership of each of the respective Committees of the Corporation.

Audit Committee—In addition to recommending the appointment of the Corporation's Independent Accountants, the Audit Committee (which is composed entirely of nonmanagement Directors) with the assistance of the Internal Audit Department, monitors the Accountants' audits, reviews the audit results with management and the Accountants, recommends changes to internal controls and accounting procedures and monitors the issuance of periodic reports to shareholders. The Internal Auditor reports directly to the Audit Committee.

Executive Committee—This committee exercises the powers of the Board of Directors when the Board is not in session.

Finance Committee—The Finance Committee authorizes the purchase and sale of securities, recommends plans relating to the development of corporate structure to the Board and determines capital needs.

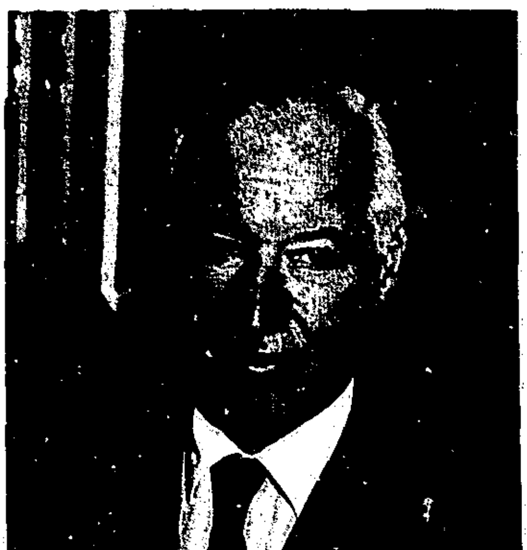
Human Resources Committee—This committee reviews programs relating to the development of human resources, including personnel and compensation practices; education and training programs; and the introduction of external resources (both the hiring of new employees and retention of consultants). It recommends to the Board the compensation of the Chief Executive Officer and other Officers, approves and administers the incentive compensation programs, recommends to the Board the election of all Senior Officers, elects all Junior Officers and approves Directors' compensation. The Committee also recommends proposed nominees for election to the Board by the shareholders at the Annual Meetings.

Social Responsibility Committee—This committee oversees the fulfillment of social responsibilities to shareholders, policyholders, employees and the general public. It reviews the Affirmative Action Program with respect to employment and upward mobility of females, minorities and disadvantaged segments of society. The Committee also monitors involvement in political action, particularly with respect to state legislative affairs, and reviews our responsibilities to society in the providing of insurance services and allocating charitable contributions.

On April 12, 1978 the GEICO Board of Directors announced the election of Dr. Clarence C. Walton, then President of The Catholic University of America, as a member of that Company's Board of Directors. Dr. Walton has since retired from that position and is presently Professor of Business at the Columbia University Graduate School of Business.

Dr. Walton was appointed the first lay president of the Catholic University of America in September 1969. Prior to his appointment he served Columbia University for more than a decade, first as associate dean of the Graduate School of Business and subsequently as dean of the School of General Studies.

Dr. Walton has authored numerous scholarly works on ethical issues involved in managerial decision making, including **Ethos and the Executive, Conceptual Foundations in Business** (co-authored by Richard Eels) and **Corporate Social Responsibility.** Dr. Walton serves on the Board's Human Resources and Social Responsibility Committees.



The Honorable Shelby Cullom Davis, having reached retirement age, will not stand for reelection to the Board. A former Ambassador to Switzerland and Director of the Government Employees Companies since 1973, Ambassador Davis served on the Audit and Finance Committees of the Board. He has served as Chairman of the Board of GELICO since 1976 and was Chairman of the Board of GEFCO from 1976 to 1978. Ambassador Davis' distinguished service to the Companies and his many valuable contributions have played an important role in their success.

David Lloyd Kreeger, also having reached retirement age, will not stand for reelection to the Board. A retired Chairman of the Board and a former Chairman of the Executive Committees of the Government Employees Companies, Mr. Kreeger has been a member of GEICO's Board of Directors since 1948. In recent years Mr. Kreeger has also served as Chairman of the Social Responsibility Committee of the Board and as a member of the Finance Committee. Mr. Kreeger has given selflessly of his time to the Companies and to the Washington Community. His dedication and inspirational leadership have been invaluable assets to the Companies over the years.

PRICES OF COMMON AND PREFERRED STOCK

The securities of GEICO Corporation (which are the converted shares of GEICO Common and Convertible Preferred Stock) are traded in the over-the-counter market. The following table shows the low bid and high asked prices for the Common Stock and Convertible Preferred Stock by quarter for 1978 and 1977:

Summary of Stock Prices

Common Stock

1978	Low Bid	High Asked
4th Quarter	5⅝	8¾
3rd Quarter	7½	9⅜
2nd Quarter	7⅜	10
1st Quarter	6¾	8¼

1977	Low Bid	High Asked
4th Quarter	6⅛	9
3rd Quarter	5	6⅝
2nd Quarter	5¾	7⅝
1st Quarter	5⅛	7¼

Year	Low Bid	High Asked
1976	2⅛	12⅜
1975	9⅛	28
1974	14⅝	42¼

Convertible Preferred Stock

1978	Low Bid	High Asked
4th Quarter	11⅝	17⅛
3rd Quarter	15⅛	18½
2nd Quarter	15⅛	19⅝
1st Quarter	14⅛	16⅝

1977	Low Bid	High Asked
4th Quarter	13¼	18½
3rd Quarter	11⅝	14¾
2nd Quarter	13⅜	15⅞
1st Quarter	12⅛	14⅝

Business Segments

GEICO Corporation writes private passenger automobile insurance and life and accident and health insurance, as well as homeowners, fire, boatowners and comprehensive personal liability policies.

PRIVATE PASSENGER AUTOMOBILE INSURANCE

GEICO has specialized in writing private passenger automobile insurance since its founding in 1936. Traditionally, automobile policies have accounted for over 90% of written premium volume.

In 1978, before the effect of quota share reinsurance, automobile written premiums totaled \$480.5 million, down 5.3% or \$27.0 million from the \$507.4 million written in 1977. Voluntarily selected and underwritten automobile business decreased in volume by \$8.6 million or 2% while involuntary business (policies issued to those who are unable to obtain insurance directly from insurance companies) decreased by \$18.4 million or 22% from 1977. Active automobile policies in force at December 31, 1978 totaled 1,209,115, down 4.4% from the 1,265,240 active policies in force at year-end 1977.

In 1978 GEICO's natural statutory underwriting gain on this line totaled \$24.3 million compared with a profit of \$7.3 million in 1977, an increase of 233%. Reflected in these figures are underwriting losses of \$9.2 million and \$28.9 million on involuntary automobile policies written in 1978 and 1977, respectively. Chronically unprofitable, involuntary business accounted for 13.5% of our 1978 automobile written premiums compared with 16.4% last year.

Underwriting losses from involuntary business totaled \$76.5 million over the last three years.

CRICO offers liability and physical damage automobile insurance to military personnel, young drivers, senior citizens and others who have difficulty obtaining insurance in the voluntary market. The majority of CRICO's policyholders are in one of these categories and consequently, CRICO does not compete with GEICO. CRICO is licensed to do business in the District of Columbia and all states except Massachusetts and New Jersey.

CRICO recorded income before extraordinary item of \$5.8 million in 1978 or \$3.96 per share compared to \$5.7 million or \$3.91 per share in 1977. Net income in 1978 totaled \$7.1 million or \$4.86 per share compared to \$8.6 million or \$5.87 per share in 1977.

LIFE AND HEALTH INSURANCE

GELICO's insurance operations are broadly diversified. Products include life insurance, health insurance and annuities, available on both an individual and group basis. Individual life insurance accounts for the majority of the Company's business.

Sales of individual life insurance during 1978 totaled $173.4 million, an increase of 12.3% over sales of $154.4 million in 1977. Approximately 96% of GELICO's individual life sales is produced through a staff of field representatives. The remaining 4% is produced by a direct mail follow-up program.

Life insurance in force totaled $2,325.3 million on December 31, 1978 representing an increase of 1% over the $2,306.4 million in force at year-end 1977. Of this amount, individual life totaled $1,370.4 million, up 3.0% from the same date last year. Group life totaled $954.9 million, down 2.3%. Individual life insurance accounted for 58.9% of the total in force and group life accounted for the remaining 41.1%.

Premium income and annuity considerations totaled $29.1 million in 1978, representing an increase of 2% over last year's 28.6 million. Individual life insurance premium income totaled $20.9 million, an increase of 3.0% over the $20.3 million in 1977. Group life premiums increased 1.4% to a total of $4.7 million compared with $4.6 million in 1977. Health premiums were $3.5 million in 1978 and 1977.

OTHER LINES OF INSURANCE

Homeowners

New sales on the homeowners line increased 140.8% in 1978 over those in 1977. However, new sales and new business inquiries were below our expectations for the year. New sales were not sufficient to fully offset terminations, even though terminations decreased over 41.4% from 1977.

In 1978 we continued to refine our premium rates to ensure a competitive and profitable position in the marketplace. Consistently a profitable line for GEICO, competition for new homeowners business was intense in 1978 and is expected to continue that way through 1979.

We are committed to expanding our homeowners business and we are emphasizing the line in our advertising campaigns. A recent development that should help sales in 1979 is a 1978 A.M. Best Company's Policyholder Rating of "Very Good."

Written premiums increased in 1978 to $29.1 million from $23.8 million in 1977. Active policies in force totaled 217,182 on December 31, 1978 compared with 226,271 at year-end 1977, a decrease of approximately 4%. The homeowners loss ratio was 70.4% in 1978 compared with 64.8% last year.

Boatowners Insurance

Following extensive revisions in late 1977, GEICO introduced a customized and innovative boatowners policy that was actively marketed in 1978. Initial response to the policy was good and new boatowner policy sales increased 126% in 1978 over 1977.

Written premiums on the boatowners line increased to $1.5 million in 1978 from $1.0 million in 1977. Active policies in force increased approximately 4% to 12,400 on December 31, 1978 from 11,936 last year.

Fire Insurance

Fire premiums amounted to $3.3 million in 1978 compared with $3.0 million in 1977. Active policies in force declined to 25,532 compared with 27,460 in 1977. This line is written primarily for rental properties and is not aggressively marketed.

Comprehensive Personal Liability

In 1978 the comprehensive personal liability line (CPL) produced $110,288 in written premiums compared with $85,980 in 1977. Active policies in force declined from 4,655 at year-end 1977 to 3,842 this year. This line is written for specialized situations and, like the fire line, not marketed aggressively.

Government Employees Financial Corporation (an unconsolidated affiliate)

Based in Denver, Colorado, GEFCO and its wholly-owned subsidiaries provide a varied and broad range of consumer finance, industrial banking and insurance brokerage services to residents of the United States and to U.S. nationals residing in foreign countries.

Statutory Information

GEICO's natural* ratio of losses and loss adjustment expenses incurred to premiums earned (loss ratio) declined steadily from quarter to quarter in 1978. The improvement from the 1977 loss ratio reflects dedication to conservative underwriting of new and renewal business, reduced levels of accident frequency, pricing discipline and close attention to control of claim costs and overall expenses.

SIGNIFICANT STATUTORY INDICATORS

	1977	1978, Period Ended				
	Year Ended	1Q	2Q	3Q	4Q	Year
Surplus for protection of policyholders (millions)	$178.6	$181.8	$189.3	$208.0	$220.5	**$220.5**
Ratio of twelve months written premium to ending surplus	2.5:1	2.5:1	2.6:1	2.5:1	2.4:1	**2.4:1**
Active policies in force (000)	1,535	1,507	1,488	1,480	1,468	**1,468**
NATURAL INFORMATION*						
Loss ratio	84.4%	84.4%	81.6%	78.8%	78.4%	**80.8%**
Expense Ratio	14.8%	14.3%	13.1%	17.0%	15.5%	**14.9%**
Underwriting Ratio	99.2%	98.7%	94.7%	95.8%	93.9%	**95.7%**
Ratio of twelve months written premium to ending surplus	3.0:1	2.9:1	2.7:1	2.4:1	2.3:1	**2.3:1**

*Note to Natural information:
Natural results are statutory and are based on total operations for GEICO only, before the effect of quota share reinsurance. Management believes this method presents more meaningful information to shareholders since the quota share reinsurance agreement tended to temporarily distort these significant indicators. The natural expense ratio has been calculated using underwriting expense less net service charges, as related to premiums written.

GEICO Corporation

Consolidated Summary of Operations

In thousands of dollars, except per share results

Revenue	1978	1977	1976	1975	1974
Premiums earned before effects of quota share reinsurance	**$640,858**	$590,691	$656,041	$603,320	$536,690
Effects of quota share reinsurance	**(35,912)**	(127,091)	(80,639)	—	—
Premiums earned	**604,946**	463,600	575,402	603,320	536,690
Net investment income	**63,490**	40,870	38,126	33,560	32,328
Equity in earnings of affiliate(s)	**1,727**	696	—	—	—
Total Revenue	**670,163**	505,166	613,528	636,880	569,018
Benefits and Expenses					
Benefits and expenses, other than minority interest and income taxes, before effects of quota share reinsurance	**599,596**	559,963	723,687	797,190	544,297
Effects of quota share reinsurance	**(36,932)**	(115,514)	(83,789)	—	—
Benefits and expenses, other than minority interest and income taxes	**562,664**	444,449	639,898	797,190	544,297
Minority interest	**6,254**	—	—	—	—
Income taxes (credits)	**38,836**	22,953	—	(36,136)	(1,403)
Total Benefits and Expenses	**607,754**	467,402	639,898	761,054	542,894
Operating income (loss)	**62,409**	37,764	(26,370)	(124,174)	26,124
Realized investment gains (losses) net of tax effects	**(6,958)**	120	60	(2,283)	(1,035)
Income (loss) before extraordinary item	**55,451**	37,884	(26,310)	(126,457)	25,089
Utilization of operating loss carryforward	**32,747**	20,697	—	—	—
Net income (loss)	**$ 88,198**	$ 58,581	$ (26,310)	$ (126,457)	$ 25,089
Preferred dividends	**8,436**	6,083	489	—	—
Earnings applicable to common stock	**$ 79,762**	$ 52,498	$ (26,799)	$ (126,457)	$ 25,089
Per Share Results (1)					
Primary: Operating income (loss)	**$ 2.99**	$1.78	$ (1.51)	$ (7.00)	$1.47
Income (loss) before extraordinary item	**$ 2.61**	$1.79	$ (1.51)	$ (7.13)	$1.42
Net income (loss)	**$ 4.42**	$2.96	$ (1.51)	$ (7.13)	$1.42
Fully Diluted: Operating income	**$ 1.74**	$1.10	—	—	—
Income before extraordinary item	**$ 1.53**	$1.10	—	—	—
Net income	**$ 2.49**	$1.70	—	—	—
Weighted-average common shares outstanding (000's)	**18,040**	17,744	17,737	17,732	17,719
Common Stock dividends per share	**$ .20**	$ .03	—	$ .20	$ .80
Convertible Preferred dividends per share	**$ .736**	$.736	$.0593	—	—
Senior Preferred dividends per share	**$10.00**	$.0555	—	—	—

[1] See Note H to the Consolidated Financial Statements

Unrealized investment gains (losses) included separately in shareholders' equity for 1978 through 1974 were $(8,782), $(10), $19,097, $22,937, and $(33,012), respectively.

Management's Discussion and Analysis of the Summary of Operations

REVENUES

Premiums

Consolidated premiums for the year totaled $604.9 million. GEICO's portion of these premiums before the effect of quota share reinsurance was $543.5 million compared with $590.7 million in the comparable 1977 period and $656.0 million in 1976, annual decreases of 7.9% and 10.0% respectively. The 1978 decrease in premiums reflects a higher level of terminations than new business sales.

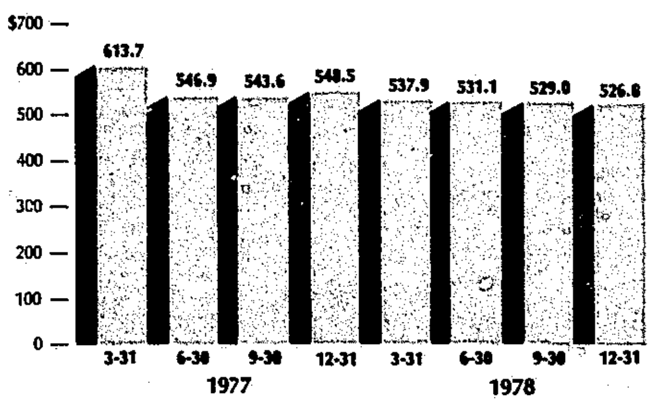
The 1977 decrease resulted from the implementation of more selective underwriting standards, a higher than desired rate of termination by policyholders and the phasing out of insurance operations in New Jersey and Guam. The discontinuation of automobile insurance operations in Massachusetts and the temporary cessation of writing new or renewal business in ten other jurisdictions through early 1977 also accounted for a portion of the attrition. GEICO resumed insurance operations in those ten areas by year-end 1977 or in early 1978.

GEICO Net Premiums Earned
Thousands

	1978	1977
Premiums written including service charges	$526,819	$548,547
Quota share reinsurance ceded	(23,525)	94,257
Net premiums written	550,344	454,290
Decrease in unearned premium reserve	42,715	9,310
Premiums (net premiums earned)	$507,629	$463,600

GEICO Premiums Written Twelve Months Ending

$ Millions



GEICO Net Premiums Written
Millions

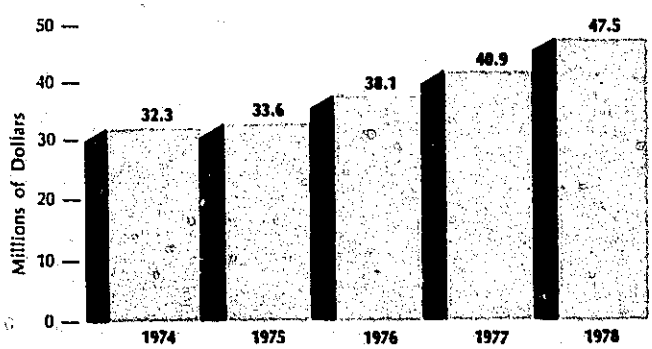
	1978	1977	% Increase (Decrease)
Automobile:			
Voluntary	$415,693	$424,247	(2.02)
Involuntary	64,762	83,199	(22.16)
Total Auto	480,455	507,446	(5.32)
Homeowners	29,098	23,858	21.96
Fire & Extended Coverage	3,256	2,978	9.34
Comprehensive Personal Liability	110	86	27.91
Boatowners	1,460	978	49.28
	514,379	535,346	(3.92)
Service Charges	12,440	13,200	(5.76)
Less Quota Share Reinsurance	(23,525)	94,256	—
Total Premiums Including Service Charges	$550,344	$454,290	21.14

Net Investment Income

Consolidated pretax net investment income totaled $63.5 million in 1978. GEICO's portion of investment income, was $47.5 million, up 16% from $40.9 million in 1977. In comparison, GEICO's 1977 net investment income increased $2.8 million or 7.3% over the 1976 investment income of $38.1 million. The substantial gain in investment income in 1978 resulted from higher rates obtained on new investments and increased investable funds. During the year adjustments in GEICO's investment portfolio were made to shift emphasis from corporate bonds to tax-exempt bonds and to purchase more preferred and common stocks. Additionally, a higher rate of return on short-term investments was obtained due to market conditions.

Approximately 37% of GEICO's 1978 investment income was exempt from Federal income taxes as compared to 28% in 1977.

GEICO Net Investment Income
Pretax



Investment Income
Millions

	1978	1977	1976
Taxable interest	$24.5	$25.3	$20.3
Tax-exempt interest	14.2	12.7	15.9
Dividend income	6.1	1.8	2.6
Other	4.0	1.6	—
Total investment income	48.8	41.4	38.8
Less investment expenses	1.3	.5	.7
	$47.5	$40.9	$38.1
Realized gains (losses)	$(7.0)	$ 0.1	$ .01

Equity In Net Income of Affiliates

Earnings of GEFCO, included in the consolidated financial statements on the equity method of accounting, totaled $1.7 million for the year. Net income from affiliated companies during November and December 1977 amounted to $.7 million, including $.6 million from CRICO and GELICO. As the result of additional investments in CRICO and GELICO in 1978 the accounts of these two insurance subsidiaries have been consolidated in 1978.

BENEFITS AND EXPENSES

Consolidated benefits and expenses totaled $607.8 million in 1978. GEICO's portion of this amount, excluding 1978 income taxes, was $467.1 million, an increase of 5% from the $444.4 million incurred in 1977. In comparison, 1977 benefits and expenses decreased 30.5% from the $639.9 million incurred in 1976. The increase in benefits and expenses in 1978 from 1977 reflects the termination of the quota share reinsurance treaty. The decline in benefits and expenses in 1977 from 1976 resulted primarily from GEICO's smaller policyholder base. During all three years, dedication to prudent underwriting of new and renewal business, reduced accident frequency and attention to the control of expenses served as offsets against steady inflationary pressures on the costs of doing business and increases in accident severity.

The minority interest of $6.3 million represents that part of the 1978 net income of CRICO and GELICO attributable to the shareholders of those companies other than GEICO.

Income Taxes

Federal income taxes totaled $38.8 million in 1978 compared with $23 million in 1977 and no such taxes in 1976. The 1977 and 1978 taxes reflect GEICO's return to profitability in these two periods, and 1978 also reflects the consolidation of the insurance subsidiaries. Tax loss credits of $32.7 million and $20.7 million, respectively, have been reflected as extraordinary items in the summary of operations for those periods.

OPERATING INCOME

After consolidation, 1978 operating income totaled $62.4 million, up sharply from operating income of $37.8 million in 1977 and from the loss of $26.4 million in 1976. Operating results on a primary per share basis, beginning with the most recent year, were $2.99, $1.78 and $(1.51) respectively, and on a fully diluted basis were $1.74 in 1978 and $1.10 in 1977.

Careful risk selection, refined premium rate levels, improved accident frequency and better expense management contributed to the improvements noted. GEICO's 1976 operating losses resulted from sharp increases in claim costs brought about by inflationary pressures on the cost of auto repair and hospital and medical costs, as well as higher jury awards. Although claim costs continued to rise during 1978, refinements in product pricing, risk selection and loss management served as effective offsets.

Utilization of Operating and Capital Loss Carryforwards

Resulting from 1976 and prior year losses, the operating loss carryforward for financial reporting purposes, most of which has now been used, totaled approximately $146.0 million at year-end 1976, $102.7 million at year-end 1977 and $34.1 million at year-end 1978. The $68.6 million of the carryforward used during 1978 resulted in a benefit of approximately $32.7 million. By comparison the $43.0 million used in 1977 resulted in a benefit that year of $20.7 million.

Additionally, there is a capital loss carryforward of $6.3 million which resulted from the restructuring of GEICO's investment portfolio during the second and third quarters of 1978 to improve after tax investment income. The restructuring of the portfolio is discussed in the investments section of this report.

Please see Note E to the Financial Statements for additional information on the utilization of the operating loss carryforward.

NET INCOME

Consolidated 1978 net income totaled $88.2 million compared with net income of $58.6 million in 1977 and a net loss of $26.3 million in 1976.

Preferred Dividends

The Board of Directors declared quarterly cash dividends payable during 1977 and 1978 on the Convertible Preferred Stock. An initial dividend of $.0593 per share, representing a pro rata payment for the 29 day period from the date of issuance to December 31, 1976, was paid on January 1, 1977. The regular quarterly dividends of $.184 per share were paid the first business day of each quarter thereafter through January 1, 1979. On February 14 the Board declared the regular quarterly cash dividend of $.184 per share payable April 1, 1979.

The Board declared a pro rata dividend of $.0555 per share on the Cumulative Senior Preferred Stock covering the two day period ending December 30, 1977, payable on January 1, 1978. The regular semi-annual cash dividend of $5.00 per share was paid on July 1, 1978 and on November 15 the Board declared the regular semi-annual cash dividend of $5.00 payable January 1, 1979.

Common Stock Dividends Per Share

Cash dividends on GEICO Common Stock were resumed by the Board on November 9, 1977 with the declaration of a quarterly cash dividend of $.03 per share, payable December 30, 1977. In 1978 quarterly cash dividends on the Common Stock of $.05 per share were paid March 30, June 30, September 29 and December 29. On February 14, the Board declared a quarterly cash dividend of $.08 per share on the Common Stock of GEICO Corporation payable March 30, 1979.

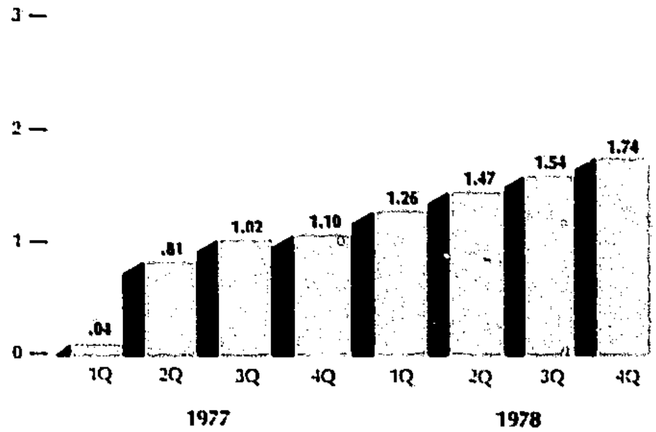
Earnings Applicable to Common Stock

Earnings applicable to Common Stock totaled $79.8 million in 1978 compared with $52.5 million in 1977 and a loss of $26.8 million in 1976.

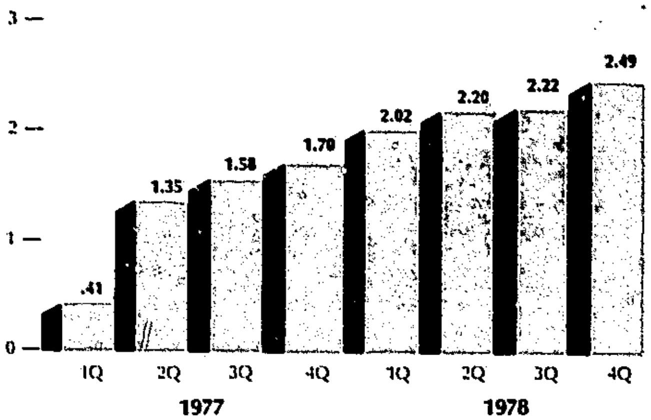
Per Share Results

Consolidated primary operating income per share was $2.99 in 1978 compared with $1.78 in 1977 and a net loss in 1976 of $1.51 per share. Fully diluted operating income per share totaled $1.74 in 1978 compared with $1.10 per share in 1977.

Operating Income Per Share (Fully Diluted)
12 Months Ending Quarter Shown
Dollars Per Share



Net Income Per Share (Fully Diluted)
12 Months Ending Quarter Shown
Dollars Per Share



Primary and fully diluted net income per share were $4.42 and $2.49 respectively in 1978 compared with $2.96 and $1.70 respectively in 1977. In 1976 GEICO sustained a primary operating loss of $1.51 per share.

Unrealized Investment Gains (Losses)

There was an unrealized loss of $8.8 million on equity securities in 1978, due largely to price declines in preferred stocks reflecting higher interest rates. The company had an unrealized loss of $10,000 on equity securities in 1977, and an unrealized gain of $19.1 million in 1976. The net unrealized losses at December 31, 1978 amounted to $9.1 million. It is unlikely that GEICO Corporation and its insurance subsidiaries will find it necessary to realize any of these unrealized losses.

Financial Section

**Report of Ernst & Ernst,
Independent Auditors**

**To the Shareholders
GEICO Corporation**

We have examined the consolidated balance sheet of GEICO Corporation (parent company of Government Employees Insurance Company effective January 31, 1979—See Note A) and subsidiaries as of December 31, 1978 and 1977, and the related consolidated statements of income, 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.

In our report dated March 2, 1978, our opinion on the 1977 financial statements was qualified as being subject to the effect, if any, of the ultimate resolution of certain litigation. As explained in Note J, the litigation was settled during 1978, at no material cost. Accordingly, we have removed our qualification on the 1977 financial statements.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of GEICO Corporation and subsidiaries at December 31, 1978 and 1977, 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.

Washington, D.C.
February 16, 1979

Ernst & Ernst

[redacted]

GEICO Corporation

Consolidated Balance Sheet

December 31, in thousands of dollars

ASSETS

	1978	1977
Investments—		
Bonds and notes, at amortized cost (market $647,133 and $589,769)	$ 714,128	$600,746
Redeemable preferred stocks, 1978 at cost (market $5,945) and 1977 at market (which approximated cost)	6,018	3,133
Preferred stocks, at market (cost $93,523 and $19,945)	81,052	19,290
Common stocks, at market (cost $96,871)	93,520	—
Mortgage loans	21,944	—
Certificates of deposit and commercial paper	44,123	252
	960,785	623,421
Cash	24,314	18,907
Investments in unconsolidated affiliate(s)—Note A	12,033	35,371
Accrued investment income	14,032	9,798
Premiums receivable, less allowance for cancellations of $1,225 and $1,600	187,144	170,910
Amounts due from reinsurers—Note C	—	54,752
Property and equipment at cost, less accumulated depreciation of $23,468, and $20,626—Note F	51,706	47,423
Deferred policy acquisition costs—Notes A and D	55,120	14,157
Other assets	39,507	15,255
Total Assets	**$1,344,641**	**$989,994**

See Notes to Consolidated Financial Statements

LIABILITIES AND SHAREHOLDERS' EQUITY

	1978	1977
Liabilities		
Loss reserves	$ 417,599	$386,814
Life benefit reserves	114,085	—
Loss adjustment expense reserves	64,566	57,503
Unearned premiums	343,662	263,562
Accounts payable and accrued expenses	15,785	10,776
Deferred income taxes—Note E	7,974	4,228
Long-term debt—Note F	47,154	47,524
Other liabilities	55,627	39,012
Minority interest (including $25,000 of Senior Preferred Stock of subsidiary—Note G)	55,246	—
Total Liabilities	1,121,698	809,419
Shareholders' Equity—Notes B and G		
Cumulative Senior Preferred Stock—$10 par value, $100 redemption value, 300,000 shares authorized, 250,000 shares issued and outstanding in 1977 (included in minority interest in 1978)	—	25,000
Cumulative Junior Convertible Preferred Stock—$1 par value, $9.20 redemption value, 15,000,000 shares authorized (10,000,000 in 1977), 7,834,592 and 8,246,090 shares issued and outstanding (aggregate liquidation value $78,346 and $82,461)	72,078	75,864
Common Stock—$1 par value, 60,000,000 shares authorized (45,000,000 in 1977), 18,567,574 and 17,743,892 shares issued and outstanding	18,568	17,744
Paid-in surplus	100,068	97,101
Unrealized depreciation of investments	(9,058)	(276)
Retained earnings (deficit)	41,287	(34,858)
Total Shareholders' Equity	222,943	180,575
Total Liabilities and Shareholders' Equity	$1,344,641	$989,994

GEICO Corporation

Consolidated Statement of Income

For the year ended December 31, in thousands of dollars except per share results

	1978	1977
Revenue		
Premiums:		
Property and liability insurance		
Premiums written	$ 620,763	$454,290
Change in unearned premiums	(43,510)	9,310
Premiums earned	577,253	463,600
Life insurance	27,693	—
	604,946	463,600
Investment income net of expenses of $1,806 and $499	63,490	40,870
Equity in earnings of affiliate(s) (includes dividends of $502 and $193)	1,727	696
Total Revenue	670,163	505,166
Benefits and Expenses		
Losses and loss adjustment expenses	440,260	386,516
Life insurance benefits	22,317	—
Policy acquisition expenses net of reinsurance commissions earned—Notes C and D	32,844	45,807
Interest expense	4,205	4,236
Other operating expenses	63,038	7,890
Minority interest	6,254	—
Total Benefits and Expenses	568,918	444,449
Operating Income Before Income Taxes	101,245	60,717
Income taxes—Note E	38,836	22,953
Operating Income	62,409	37,764
Realized gains (losses) on sale of investments, net of tax effect (net unrealized depreciation on investments in stocks reflected directly in shareholders' equity was $8,782 in 1978 and $10 in 1977)	(6,958)	120
Income Before Extraordinary Item	55,451	37,884
Utilization of operating loss carryforward	32,747	20,697
Net Income	$ 88,198	$ 58,581
Per Share Results:		
Primary: Operating income	$2.99	$1.78
Income before extraordinary item	$2.61	$1.79
Net income	$4.42	$2.96
Fully Diluted: Operating income	$1.74	$1.10
Income before extraordinary item	$1.53	$1.10
Net income	$2.49	$1.70

See Notes to Consolidated Financial Statements

GEICO Corporation

Consolidated Statement of Shareholders' Equity

For the two years ended December 31, 1978, in thousands of dollars

	Cumulative Senior Preferred Stock	Cumulative Junior Convertible Preferred Stock	Common Stock	Paid-In Surplus	Unrealized Depreciation on Investments In Stocks	Retained Earnings (Deficit)	Total
Balance at January 1, 1977		$ 75,897	$ 1,773	$113,039	$ (266)	$ (86,620)	$103,823
Increase in par value of Common Stock to $1.00 per share			15,969	(15,969)			
Issuance of Senior Preferred Stock	$ 25,000					(165)	24,835
Exchange of Convertible Preferred Stock for Common Stock		(33)	2	31			
Additional cost of sale of Convertible Preferred Stock						(39)	(39)
Net income for 1977						58,581	58,581
Dividends on Convertible Preferred Stock ($.736 per share)						(6,069)	(6,069)
Dividend on Senior Preferred Stock ($.0555 per share)						(14)	(14)
Dividend on Common Stock ($.03 per share)						(532)	(532)
Unrealized depreciation of investments in stocks					(10)		(10)
Balance at December 31, 1977	25,000	75,864	17,744	97,101	(276)	(34,858)	180,575
Exchange of Convertible Preferred Stock for Common Stock		(3,786)	823	2,963			
Proceeds from exercise of stock options and other			1	4		4	9
Net income for 1978						88,198	88,198
Dividends on Convertible Preferred Stock ($.736 per share)						(5,936)	(5,936)
Dividends on Senior Preferred Stock ($10.00 per share)						(2,500)	(2,500)
Dividends on Common Stock ($.20 per share)						(3,621)	(3,621)
Unrealized depreciation of investments in stocks, net of tax benefit of $3,450					(8,782)		(8,782)
Reclassification to minority interest of Senior Preferred Stock of subsidiary not exchanged in formation of GEICO Corporation	(25,000)						(25,000)
Balance at December 31, 1978	—	$ 72,078	$ 18,568	$100,068	$ (9,058)	$ 41,287	$222,943

See Notes to Consolidated Financial Statements

GEICO Corporation

Consolidated Statement of Changes in Financial Position

For the year ended December 31, in thousands of dollars	1978	1977
Funds provided		
Income before extraordinary item	$ 55,451	$ 37,884
Charges (credits) to earnings not involving funds:		
Amounts due from reinsurers	54,752	(12,419)
Net premiums receivable	5,067	31,929
Deferred policy acquisition costs	(9,556)	(14,157)
Loss and loss adjustment expense reserves	1,467	13,818
Life benefit reserves	9,288	—
Unearned premiums	43,510	(9,310)
Unearned reinsurance commissions	(7,659)	(6,062)
Deferred income tax	1,834	2,404
Equity in undistributed earnings of affiliate(s)	(1,225)	(531)
Minority interest	(1,439)	—
Provision for depreciation	3,496	3,312
Accrual of discount and amortization of premiums on bonds	(3,138)	(2,137)
Other	(3,588)	242
Cash provided from operations exclusive of extraordinary item	148,260	44,973
Utilization of operating loss carryforward	32,747	20,697
Cash provided from operations	181,007	65,670
Sale of investments	632,582	172,946
Issuance of Senior Preferred Stock	—	24,796
Decrease (increase) in receivable from security sales	2,477	(7,786)
Increase (decrease) in payable on security purchases	5,731	(1,007)
Total funds provided	821,797	254,619
Funds applied		
Purchase of investments	758,737	211,659
Investment in affiliate(s)	5,832	34,868
Purchases and consolidation of insurance subsidiaries:		
Marketable securities and other investments	219,686	—
Reserves assumed	(184,809)	—
Cash acquired	4,177	—
Other assets acquired—net	49,945	—
Excess of purchase price over net assets acquired	9,521	—
Minority interest	(30,246)	—
	68,274	—
Less cost of voting interest held at December 31, 1977	(29,952)	—
	38,322	—
Cash dividends paid to shareholders	10,896	5,573
Cash dividends paid by subsidiaries to minority shareholders	1,074	—
Other	1,529	2,256
Total funds applied	816,390	254,356
CHANGE IN CASH	5,407	263
CASH, BEGINNING	18,907	18,644
CASH, ENDING	$ 24,314	$18,907

See Notes to Consolidated Financial Statements

NOTE A: Significant Accounting Policies

Parent Company

On January 31, 1979 GEICO Corporation (the Corporation) became the parent company of Government Employees Insurance Company (GEICO). Pursuant to an Agreement and Plan of Reorganization approved by the shareholders the outstanding Common Stock and Cumulative Convertible Preferred Stock of GEICO were converted into Common Stock and Cumulative Junior Preferred Stock, respectively, of GEICO Corporation on a share for share basis and the authorized capitalization of GEICO Corporation was increased. The accompanying financial statements are presented as if the reorganization had been accomplished on December 31, 1978.

Consolidation

The consolidated financial statements include the accounts of GEICO Corporation, GEICO, its wholly-owned real estate subsidiaries and, in 1978, its majority-owned insurance subsidiaries, Government Employees Life Insurance Company (GELICO) and Criterion Insurance Company (CRICO). GEICO's ownership of GELICO (64.7%) and CRICO (72.6%) was increased to these majority levels in 1978. GEICO's investment in Government Employees Financial Corporation (GEFCO), a consumer finance company, which is accounted for using the equity method, was also increased in 1978 to 58.4% of its outstanding common stock (47.0% of its voting stock).

The cost of GEICO's purchases of GELICO exceeded its equity in GELICO's historical book value by approximately $10.5 million. Revaluation of the respective assets and liabilities of GELICO to fair value when acquired would not have resulted in a material effect upon the consolidated results of operations and accordingly, the accompanying financial statements reflect the GELICO accounts at historical cost. The revaluation study did, however, indicate that the assignment of the excess of cost over book value to the cost of insurance in force was appropriate and as a result this excess (which is being amortized by the sum-of-the-digits method over 20 years) has been reclassified to deferred policy acquisition costs. The excess of GEICO's equity in the aggregate net book value of GEFCO and CRICO over the total purchase price amounting to approximately $5.5 million is being amortized straight-line over 40 years. Intercompany accounts and transactions have been eliminated in consolidation.

The pro-forma unaudited results of operations for 1978 and 1977, assuming the purchases of GELICO, CRICO and GEFCO had been made as of January 1, 1977, are as follows:

(In thousands, except per share results)

		1978	1977
Revenue		**$669,233**	$610,193
Operating income		**63,766**	44,186
Income before extraordinary item		**56,808**	44,316
Net income		**88,999**	62,202
Per Share:			
Primary:	Operating income	**$3.07**	$2.15
	Income before extraordinary item	**$2.68**	$2.15
	Net income	**$4.47**	$3.16
Fully Diluted:	Operating income	**$1.78**	$1.29
	Income before extraordinary item	**$1.57**	$1.29
	Net income	**$2.51**	$1.81

Summary financial information for GEICO's unconsolidated affiliate, GEFCO, for 1978 is as follows:

	In Thousands
Receivables	$202,875
Total assets	223,550
Long-term debt	93,808
Shareholders' equity	34,654
Revenue	39,966
Net income	3,349

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 as described in Note B.

Investments

Investments in bonds and notes are reported at amortized cost, redeemable preferred stocks at cost and investments in all other preferred and common stocks at their market value. Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the statement of income. GEICO Corporation's equity in changes in unrealized appreciation (depreciation) on common and prefered stocks, after deferred income tax effects, is reported directly in shareholders' equity. The consolidated unrealized investment losses at December 31, 1978 before minority interest and tax effects consisted of gross gains of $2,319,990 and gross losses of $18,141,929.

Deferred Policy Acquisition Costs

Costs that vary with and which are directly related to the production of business and are recoverable have been deferred. The costs of acquiring property, liability and health insurance are being amortized to income as the related written premiums are earned. Costs of acquiring individual and group life insurance and annuities are being amortized over the lesser of 35 years or the premium paying periods in proportion to the receipt of premium revenue.

Loss and Benefit Reserves

Property and liability reserves are based upon averages for automobile claims reported within the most recent six months, case basis estimates for other reported claims and calculated estimates of unreported losses. The reserve for losses further includes additional amounts to compensate for presently anticipated possible deficiencies caused by future changes in economic and social conditions. The determination of these additional amounts is based upon studies of reserve levels using various projection techniques and has included consideration of studies performed by independent consulting actuaries. Loss adustment expense reserves are based upon estimates of expenses to be incurred in the settlement of claims.

Management believes that its aggregate provision for loss and loss adjustment expenses at December 31, 1978 is 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 provision is necessarily based on estimates and the ultimate net cost may vary from such estimates. As adjustments to these estimates become necessary, such adjustments are reflected in current operations. The methods used to develop these reserves are subject to continuing review and refinement. The analyses of loss reserves by an independent consulting actuarial firm remain essentially in agreement with management's estimate.

Benefit reserves for individual life policies have been computed by the net level premium method based upon assumptions regarding interest, mortality and withdrawals, including provisions for unfavorable deviations from such assumptions. Interest rates range from 2-¾% to 6-¾% and mortality and withdrawal assumptions have been based on experience. Reserves for life policies are graded to cash values over 35 years.

Recognition of Premium Revenue

Property and liability premiums are earned prorata over the terms of the policies and are reported net of reinsurance. Individual life and annuity premiums are recognized as revenue over the premium paying period. Premiums on credit life policies and accident and health policies are recognized over the contract terms with the unearned premiums included in benefit reserves. Accruals for experience refunds are charged to operations based upon current estimates.

Property and Equipment

The annual provisions for depreciation are computed by the straight-line method for buildings over 45 year useful lives and by accelerated methods for equipment over 10 year useful lives. Amortization of leasehold improvements is computed by the straight-line method over the lesser of the lease periods or estimated useful lives.

NOTE B: Reconciliation of Statutory Accounts

The more significant generally accepted accounting principles which differ from statutory accounting practices are:

Policy acquisition costs are deferred and amortized in proportion to premium recognition.

Loss reserves are based upon estimates of ultimate net losses.

Life benefit reserves are based upon realistic estimates of mortality, interest and withdrawals.

Accruals for certain experience refunds are made based upon current estimates.

Deferred income taxes are provided for timing differences between pretax accounting income and taxable income.

Nonadmitted assets, principally certain premiums receivable and property and equipment, are reported as assets.

The mandatory securities valuation reserve is reported as a part of retained earnings.

Reinsurance commissions are deferred and earned over the term of the business ceded.

Equity in the undistributed net income of affiliates is included in net income.

A reconciliation of net income and shareholders' equity of GEICO under statutory practices to that reported herein under GAAP for the Corporation is as follows:

Net Income	In Thousands Year Ended December 31, 1978	1977
GEICO-statutory accounting practices	$ 61,174	$ 35,227
Equity in undistributed net income of affiliate(s)	1,225	503
Net income from consolidation of insurance subsidiaries	5,029	—
Deferred policy acquisition costs	8,404	14,157
Allowance for cancellations	600	1,400
Deferred income taxes	(706)	(2,404)
Additional statutory reserves	9,000	2,500
Unearned reinsurance commissions	7,659	6,062
Other	(4,187)	1,136
The Corporation in accordance with generally accepted accounting principles	$ 88,198	$ 58,581

Shareholders' Equity	In Thousands December 31, 1978	1977
GEICO-statutory accounting practices	$220,473	$178,630
Additional statutory reserves	11,500	2,500
Allowance for cancellations	(1,000)	(1,600)
Deferred policy acquisition costs	22,561	14,157
Deferred income taxes	(492)	(3,860)
Effects of consolidated real estate subsidiaries	(21,058)	(20,476)
Unearned reinsurance commissions	(1,332)	(8,991)
Revaluation of intercompany note	—	2,054
Nonadmitted assets	7,482	8,494
Valuation of consolidated insurance subsidiaries and affiliate	14,760	10,419
Senior preferred stock of GEICO included in minority interest	(25,000)	—
Other	(4,951)	(752)
The Corporation in accordance with generally accepted accounting principles	$222,943	$180,575

Under the Holding Company System Regulatory Act applicable to District of Columbia domestic insurers, the maximum amount of dividends and other distributions to its shareholder 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.

In addition, distributions on GEICO's common stock are limited by the terms of agreements of its Cumulative Senior Preferred Stock to 50% of statutory net income accumulated after December 31, 1976. See Note G.

NOTE C: Quota Share Reinsurance Agreement

Pursuant to a program carried out under the supervision of the District of Columbia Superintendent of Insurance, effective June 30, 1976, 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. 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. The reinsurance agreements did not discharge GEICO from its primary legal liability on the covered policies but, under industry practice as permitted by existing regulations, GEICO accounted for the business covered by these agreements as if it were no longer liable.

By mutual agreement with the companies participating in the Quota Share Reinsurance Agreement, GEICO reduced its reinsurance by one fourth at the end of the second quarter of 1977 reducing the quota share to 19.02% of GEICO's business at the start of the third quarter of 1977. Also, pursuant to the reinsurance agreements, commissions were reduced from 15% to 12% on July 1, 1977.

The companies participating in the reinsurance treaty mutually agreed to amend the agreements to 36% of the original amount at the end of the first quarter of 1978 (9% of GEICO's business) and to terminate the remainder at midyear.

The direct effect of the reinsurance treaty on the GEICO operations for 1978 compared to 1977 is as follows:

	In Thousands 1978	1977
Net premiums ceded	$ (35,912)	$ (127,091)
Losses and loss expenses ceded	28,206	97,915
Reinsurance commissions earned	4,809	18,819
Termination adjustments	3,917	(1,219)
Effect on GEICO's underwriting income	$ 1,020	$ (11,576)

The termination adjustments represent the amounts required to fix the reinsurers' combined loss and expense ratio at 98%, as provided in the agreement. Interest was earned at 3% per annum on funds held by the reinsurers after June 30, 1977, amounting to

$1.5 million in 1978 and $1.5 million in 1977, and is included in investment income.

In addition to the quota share reinsurance GEICO and its insurance subsidiaries maintain certain reinsurance agreements for the purpose of insuring excess risks. GEICO and its insurance subsidiaries remain liable for any amounts to the extent that the reinsuring companies are unable to meet their obligations.

NOTE D: Policy Acquisition Costs

In contemplation of the new AICPA Statement of Position for the property and liability insurance industry, GEICO completed in 1978 a functional study of those costs which varied with and were related to the production of business. Estimates of acquisition costs in prior years had been based upon certain statutory expense classifications. The costs deferred in 1978 using this functional cost study amounted to approximately $22.8 million less than that which would have been deferred using the statutory expense classifications. In addition, as a result of continued improvements in underwriting results, GEICO removed in 1978 the limitation it had placed on recoverable acquisition costs in 1977. Based upon current estimates of future losses and maintenance expenses, the costs deferred at December 31, 1978 are recoverable.

Policy acquistion costs information is summarized as follows:

	In Thousands	
	1978	1977
Policy acquisition costs incurred:		
Commission and brokerage	$ 11,693	$ 9,891
Premium taxes	12,976	14,078
Direct mail selling and other, net of reinsurance commissions earned	17,791	35,995
	42,460	59,964
Purchase cost of GELICO insurance in-force	10,486	—
	$ 52,946	$ 59,964
Policy acquisition costs expensed	$ 32,844	$ 45,807

NOTE E: Income Taxes

Tax expense has been computed upon pre-tax financial reporting income before utilization of the net operating loss carryforward as follows:

	In Thousands	
	1978	1977
Tax basis income before loss carryforward	$ 26,225	$ 9,982
Timing differences	12,611	12,971
Income tax provision	$ 38,836	$ 22,953

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

	In Thousands	
	1978	1977
Income tax provision at 48% of pre-tax income	$ 48,598	$ 29,144
Effect of:		
Minority interest	3,002	—
Tax-exempt interest income	(6,518)	(4,636)
Income not presently subject to taxation under Federal income regulations—GAAP basis	(1,573)	—
Dividends received deduction	(3,601)	(824)
Other items	(1,072)	(731)
Income tax provision	$ 38,836	$ 22,953

The deferred tax provision resulted from timing differences in recognition of revenue and expenses for tax and financial statement purposes as follows:

	In Thousands	
	1978	1977
Deferral of policy acquisition costs	$ 4,632	$ 6,795
Commission on reinsurance treaties	3,677	2,910
Accrued investment income	1,322	783
Additional statutory reserves	4,349	1,200
Accrued experience reserve	(2,016)	—
Other	647	1,283
Deferred tax provision	$ 12,611	$ 12,971

At December 31, 1978 GEICO had a net operating loss carryforward for tax purposes of approximately $69.9 million, of which $50.3 million will expire in 1980 and $19.6 million will expire in 1983. The unused investment tax credit carryforward is approximately $2.1 million. In addition, at December 31, 1978 a capital loss carryforward of approximately $6.3 million expiring in 1983 is available to offset future capital gains.

Because of timing differences, the net operating loss carryforward for financial statement purposes is approximately $34.1 million. Utilization of the tax loss carryforward in excess of this amount will result in restoration of deferred taxes.

Consolidated retained earnings at December 31, 1978 includes approximately $5 million of undistributed earnings of GEICO's insurance subsidiaries for which no deferred taxes have been provided since it is GEICO's intention that they reinvest these undistributed earnings in their operations.

GELICO has accumulated in "policyholders' surplus" as defined by the Life Insurance Company Income

Tax Act of 1959 amounts which, subject to certain limitations, are not taxable except under conditions which management considers to be remote. The balance of the "policyholders' surplus" account at December 31, 1978 on which no tax has been provided was approximately $23.4 million.

NOTE F: Long-Term Debt

The long-term debt owned by GEICO's wholly-owned real estate subsidiaries is as follows:

	In Thousands December 31, 1978	1977
GEICO Properties, Inc.:		
8¼% notes, due in equal quarterly installments of $339 including interest, until June 15, 2004	**$ 14,371**	$ 14,531
8½% note, due in equal quarterly installments of $196 including interest, until May 1, 2004	**8,159**	8,246
	22,530	22,777
GEICO Washington Properties, Inc.:		
9⅜% note, due in equal monthly installments of $203 including interest until June 1, 2010	**24,624**	24,747
	$ 47,154	$ 47,524

Property with a cost of $41,462,204 at December 31, 1978 has been pledged as security for the notes and long-term leases have been assigned as additional collateral. All the note agreements provide that the entire unpaid principal and interest become due and payable in the event of default.

The aggregate maturities of long-term debt for the years 1979 through 1983 are $403,727, $440,054, $479,664, $522,855 and $569,949.

NOTE G: Shareholders' Equity

GEICO has outstanding 250,000 shares of Cumulative Senior Preferred Stock (the GEICO Senior Preferred Stock) par value $10 per share, which is included in minority interests in the December 31, 1978 consolidated balance sheet of GEICO Corporation.

The GEICO Senior Preferred Stock will continue to be a senior security of GEICO which will initially be the source of all of GEICO Corporation's income. GEICO is subject to restrictions on its ability to pay dividends to GEICO Corporation, including restrictions designed to safeguard the seniority of the GEICO Senior Preferred Stock. (See Note B). So long as any shares of GEICO Senior Preferred Stock are outstanding, GEICO may not (i) pay any cash dividend on its Common Stock or redeem, purchase or otherwise acquire, whether by sinking fund or otherwise, any shares of its Convertible Preferred Stock or its Common Stock (this provision has been waived so long as the terms of the GEICO Senior Preferred Stock purchase agreement are met) or (ii) pay any cash dividend on its Convertible Preferred Stock if the dividend and sinking fund payments on the GEICO Senior Preferred Stock have not been met.

The holders of shares of the GEICO Senior Preferred Stock are entitled to receive cash dividends, when and as declared by the Board of Directors of GEICO, at the rate of $10 per share per annum. Such dividends are payable in cash semi-annually on January 1 and July 1 in each year to holders on the record dates.

The GEICO Senior Preferred Stock is redeemable at $100 per share, 50% on December 1, 1981 and the remainder on December 1, 1982.

GEICO Corporation has authorized 15 million shares of Cumulative Junior Convertible Preferred Stock, par value $1 per share. The only authorized series thereof is the $.736 Convertible Series (the Convertible Preferred Stock) which is junior to the Corporation's Senior Preferred Stock (none of which has been issued), but senior to its Common Stock, with respect to both dividends and distributions of assets upon liquidation. So long as any shares of its Convertible Preferred Stock are outstanding, GEICO Corporation may not pay any cash dividend on its Common Stock or redeem, purchase or otherwise acquire any shares of its Common Stock if the dividend and sinking fund payments on the Convertible Preferred Stock have not been met.

Holders of the Convertible Preferred Stock are entitled to receive quarterly 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 January 1, 1979.

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

From and after January 1, 1981, shares of Convertible 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.

The Convertible 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 Corporation will pay to the transfer agent for the Convertible Preferred Stock an amount sufficient to redeem 10% of the number of shares of Convertible Preferred Stock outstanding on January 1, 1991, at $9.20 plus an amount equal to accrued and unpaid dividends. Holders of Convertible Preferred Stock will be entitled, upon any voluntary or involuntary dissolution, liquidation or winding up of GEICO Corporation, to receive $10 per share, plus an amount equal to accrued and unpaid dividends, before any distribution is made on the Common Stock.

During 1973 a Stock Option Plan was adopted under which both qualified and nonqualified 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).

	Shares Available for Grant	Options Outstanding: Per Share on Date of Grant	Options Outstanding: Number of Shares
Balance at January 1, 1977	89,922	$ 4.59 to $46.33	322,524
Granted	(106,525)	6.32 to 6.75	106,525
Exercised	—	—	—
Terminated	16,603	16.90 to 46.33	(27,551)
Balance at December 31, 1977	—	4.59 to 36.06	401,498
Granted	(16,000)	9.25	16,000
Exercised	—	6.56	(686)
Terminated	30,628	6.59 to 36.06	(30,628)
Balance at December 31, 1978	14,628	$ 4.59 to $36.06	386,184

At December 31, 1978 GEICO Corporation had outstanding warrants, exercisable at anytime to August 1, 1983 to purchase 1,348,999 shares of its Common Stock at $24.00 per share. A total of 1,749,811 shares have been reserved for stock options and warrants.

NOTE H: Earnings Per Share

Primary earnings per share have been computed by dividing the weighted average number of common shares outstanding of 18,040,284 in 1978 and 17,743,504 in 1977 into earnings after deduction for preferred stock dividend requirements and adjustment for GEICO's equity interest in the primary earnings per share of its insurance subsidiaries and finance affiliate.

Fully diluted earnings per share were determined using 34,342,898 shares in 1978 and 34,344,987 in 1977 on the assumption that the Convertible Preferred Stock and dilutive stock options have been converted into Common Stock and reflect adjustment for GEICO's equity interest in the fully diluted earnings per share of its insurance subsidiaries and finance affiliate.

NOTE I: Employee Benefits

GEICO Corporation and its subsidiaries have a pension plan covering most full-time employees, the cost of which amounted to $3,834,836 in 1978 and $2,976,258 in 1977. GELICO administers the pension plan funds and as a result the assets and liabilities of the plan are included in the accompanying consolidated balance sheet. The policy is to fund accrued pension costs including amortization of prior service costs over thirty years. Fund assets at December 31, 1977 (latest actuarial valuation) exceeded vested benefits. The unfunded prior service cost as of the latest valuation was $14,544,008.

An incentive bonus program is provided for key employees other than the Chairman of the Board to reward specific eligible personnel for outstanding performance. The Chairman of the Board, under the terms of his employment contract is eligible for a bonus related to profits. The total expense for both amounted to $1,087,329 and $676,968 for 1978 and 1977 respectively.

NOTE J: Litigation

During 1978 the United States District Court for the District of Columbia approved settlement of four securities class action law suits against GEICO and certain other persons and entered a Final Judgment dismissing those law suits. The cost of the settlement, for which an accrual was made in 1977, was not material. As part of the settlement, GEICO's Warrants and Warrant Agreement were amended as reflected in Note G.

NOTE K: Commitments

Rental expense for all leases was approximately $5,600,000 in 1978 and $7,300,000 in 1977.

The Company has entered into non-cancellable leases expiring at various dates through 1992 for both real estate and equipment all of which are operating leases. Real estate lease commitments are shown net of any income from signed subleasing agreements. The future minimum rental commitments as of December 31, 1978 for all non-cancellable leases is as follows:

In Thousands	Total	Building Space	Equipment
1979	$ 3,045	$ 1,894	$ 1,151
1980	2,663	1,859	804
1981	1,888	1,559	329
1982	1,550	1,339	211
1983	1,293	1,159	134
1984-1992	4,818	4,204	614
Totals	$15,257	$12,014	$ 3,243

Certain of the building space leases contain renewal options for periods ranging from 1 to 10 years. No options extend beyond the periods indicated.

NOTE L: Segment Reporting

In 1977 GEICO's principal business segment was providing private passenger automoble insurance which accounted for 90% of premium revenue and operating income. With the acquisition of a majority interest in GELICO, which provides life and health insurance, the 1978 consolidated operations include this additional business segment.

A summary of the Corporation's segment information for 1978 is as follows:

In Thousands	Private Passenger Automobile Insurance	Life And Health Insurance	Other	Consolidated
Revenues	$ 597,644	$ 39,830	$ 32,394	$ 669,868
Intersegment revenues		(1,432)		(1,432)
Equity in unconsolidated affiliate				1,727
	$ 597,644	$ 38,398	$ 32,394	$ 670,163
Operating income before taxes	$ 96,428	$ 10,131	$ 3,418	$ 109,977
Equity in unconsolidated affiliate				1,727
Interest expense				(4,205)
Minority interest				(6,254)
				$ 101,245
Identifiable assets	$1,099,517	$205,011	$ 28,080	$1,332,608
Investment in unconsolidated affiliate				12,033
				$1,344,641

Intersegment revenues represent group insurance coverage provided by GELICO. Investment income included in revenues, operating income before taxes and identifiable assets have been allocated to segments based upon assumptions and estimates.

NOTE M: Quarterly Highlights of Operating Results (Unaudited)
(In millions, except per share results)

	1977 Three Months Ended				1978 Three Months Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
Revenue								
Premiums earned	$114.7	$112.0	$120.7	$116.2	$139.6	$140.8	$162.9	$161.7
Net investment income	9.4	9.5	10.9	11.1	15.1	15.3	15.8	17.3
Equity in earnings of affiliate(s)	—	—	—	.7	.2	.5	.5	.5
Total Revenue	124.1	121.5	131.6	128.0	154.9	156.6	179.2	179.5
Benefits and Expenses								
Losses and benefits	101.4	95.9	96.0	93.2	110.4	107.5	124.2	120.5
Operating expenses, net of reinsurance commissions earned and deferred acquisition costs	11.9	12.4	16.8	16.9	20.5	21.1	29.4	29.1
Minority interest	—	—	—	—	1.9	1.5	1.5	1.4
Income taxes	3.7	5.1	7.0	7.2	8.9	10.5	9.2	10.2
Total Benefits and Expenses	117.0	113.4	119.8	117.3	141.7	140.6	164.3	161.2
Operating income	7.1	8.1	11.8	10.7	13.2	16.0	14.9	18.3
Realized gains (losses) on sale of investments, net of tax effect	.1	.9	—	(.9)	(.2)	(4.2)	(2.9)	.3
Income Before Extraordinary Item	7.2	9.0	11.8	9.8	13.0	11.8	12.0	18.6
Utilization of operating loss carryforward	2.1	5.0	6.7	6.9	7.6	9.1	8.0	8.1
Net Income	$ 9.3	$ 14.0	$ 18.5	$ 16.7	$ 20.6	$ 20.9	$ 20.0	$ 26.7
Per Share Results								
Primary: Operating income	$ .31	$ .38	$ .58	$ .52	$ .62	$ .77	$ .72	$ .88
Income before extraordinary item	$ .32	$ .43	$ .58	$ .47	$ .61	$ .54	$ .55	$ .91
Net income	$ .44	$ .71	$ .96	$ .85	$ 1.04	$ 1.05	$ .99	$ 1.34
Fully Diluted: Operating income	$ .20	$ .24	$ .34	$ .31	$ .37	$ .44	$ .42	$ .51
Income before extraordinary item	$ .21	$ .27	$ .34	$ .28	$ .36	$ .32	$ .33	$ .52
Net income	$ .27	$ .41	$ .54	$ .48	$ .58	$ .59	$ .57	$ .75

NOTE N: Subsequent Events

On February 14, 1979 the Board of Directors of the Corporation announced a proposed offer to exchange a new issue of 20-year Subordinated Debentures for up to 5 million common equivalent shares of the Corporation's outstanding Common Stock and Convertible Preferred Stock. Under the terms of the proposed offer, holders of outstanding shares of Common Stock and Convertible Preferred Stock would be able to exchange their shares for the new Debentures at the rate of $10 principal amount of Debentures for each share of Common Stock and $20 principal amount of Debentures for each share of Convertible Preferred Stock. The Corporation would be obligated to accept tenders for up to $50,000,000 principal amount of Debentures. The Corporation could, but would not be obligated to, accept tenders for a greater amount of Debentures.

The Corporation agreed on February 12, 1979 to purchase, from one institutional investor, 572,900 shares of the Corporation's Convertible Preferred Stock for cash at a price of $18 per share.

Directors and Officers

Boards of Directors

GEICO Corporation and GEICO

THOMAS E. BOLGER
Executive Vice President, American Telephone and Telegraph Company, Basking Ridge, N.J.

SAMUEL C. BUTLER
Partner, Cravath, Swaine and Moore, Attorneys, New York, N.Y.

JOHN J. BYRNE
Chairman of the Board, President and Chief Executive Officer

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

SHELBY CULLOM DAVIS
Chairman, Shelby Cullom Davis & Co., investment bankers, New York, N.Y.; Chairman of the Board, Government Employees Life Insurance Company

PAUL J. HANNA
Vice Chairman of the Board; Chairman of the Board, Government Employees Financial Corporation

ALVIN E. KRAUS
Consultant; Chairman of the Board, Criterion Insurance Company

DAVID LLOYD KREEGER
Retired Chairman, 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.

CLARENCE C. WALTON
Professor of Business, Graduate School of Business, Columbia University, New York, N.Y.

H. EDWARD WRAPP
Consultant; Professor of Business Policy, Graduate School of Business, University of Chicago, Chicago, Il.

Board Committees

GEICO Corporation and GEICO

Audit Committee
John M. Christie, Chairman
Thomas E. Bolger
Shelby Cullom Davis
Joseph J. Sisco

Executive Committee
Samuel C. Butler, Chairman
John J. Byrne
Paul J. Hanna
Alvin E. Kraus
David Lloyd Kreeger

Finance Committee
Paul J. Hanna, Chairman
Samuel C. Butler
John J. Byrne
John M. Christie
Shelby Cullom Davis
David Lloyd Kreeger

Human Resources Committee
Melvin M. Payne, Chairman
Thomas E. Bolger
Samuel C. Butler
Alvin E. Kraus
Clarence C. Walton
H. Edward Wrapp

Social Responsibility Committee
David Lloyd Kreeger, Chairman
John J. Byrne
John M. Christie
Paul J. Hanna
Melvin M. Payne
Joseph J. Sisco
Clarence C. Walton

GEICO OFFICERS

Corporate Office

John J. Byrne*
Chairman of the Board, President and Chief Executive Officer
Paul J. Hanna*
Vice Chairman of the Board
Alvin E. Kraus
Consultant to the Corporate Office

Senior Vice Presidents
Arthur T. Y. Loh
Richard C. Lucas*
Edward S. Ring
Donald K. Smith, General Counsel*
William B. Snyder
Edward H. Utley

Vice Presidents
Martin Adler, Actuary
Ralph L. Belford, III
Harry I. Bond
Edward J. Clark
Henry J. Collins, III
Theodore F. Culp
DeWayne C. Cuthbertson
Thomas N. Exarhakis
Alvin Kaltman
Merrill D. Knight, III
Ernest M. Lucas, Legislative Counsel
Albert M. McKenney, Treasurer
Eugene J. Meyung
Elaine W. Murphy, M.D., Medical Director
John M. O'Connor, Secretary*
Richard A. Ollen
Ross D. Pierce
James E. Reagan
W. Alvon Sparks, Jr.
Walter R. Tinsley

Assistant Vice Presidents
August P. Alegi
Charles R. Armstrong
Terry L. Baxter
Joseph T. Brady
Theodore R. Branthover
Marion E. Byrd
Noel A. Chandonnet
Charles R. Davies
Luther M. Dean
Willard T. Fones
Gerald T. Jackson
K. Thomas Kemp
Mordecai J. Lebowitz
Ronald J. Loy
James M. McCormick, III
Donald D. Messmer
Olza M. Nicely
John C. Owen, Jr.
Jay C. Planalp
Vernon G. Phelps
Myrtle N. Pitsenbarger*
Louis E. Schoemer, Jr.
Carl F. Tennille
John R. Williams
Stacy L. Williams

**Also an officer of GEICO Corporation*

TRANSFER AGENTS

American Security Bank, N.A.
Corporate Trust Department
P.O. Box 1744
Washington, D.C. 20013

Manufacturers Hanover Trust Company
Corporate Trust Department
4 New York Plaza
New York, N.Y. 10015

SHAREHOLDER INQUIRIES

Communications concerning transfer requirements, lost certificates, dividends and changes of address should be directed to American Security Bank or Manufacturers Hanover Trust Company.

COMMON AND PREFERRED SHARES

The Corporation's Common and Convertible Preferred Stock and the Warrants of GEICO are traded over-the-counter. Their NASDAQ symbols are: Common Stock—GCOR, Convertible Preferred Stock—GCORP, and Warrants—GEICW.

FORM 10-K

The Corporation's Annual Report on Form 10-K and those of CRICO and GELICO, as filed with the Securities and Exchange Commission, are available without charge to shareholders upon written request directed to:

Mr. John M. O'Connor, Secretary
GEICO Corporation
GEICO Plaza
Washington, D.C. 20076

STATISTICAL SUPPLEMENT

A statistical supplement for GEICO containing details of the statistical data which are summarized in this report is available to shareholders and other interested parties upon request directed to the Office of the Secretary.

INDEPENDENT AUDITORS

The financial statements contained in this report have been examined by Ernst & Ernst, GEICO Corporation's independent auditors who have been appointed by the Board of Directors to examine the 1979 financial statements. A representative of Ernst & Ernst is expected to be present at the Annual Meeting to respond to appropriate questions.

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

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