002205 - Government Employees Insurance Company

Report Revision Date: 07/15/2013

Rating and Commentary [1]	*Financial* [2]	*General Information* [3]
Best's Credit Rating: 06/14/2013	**Time Period:** 2nd Quarter - 2013	**Corporate Structure:** N/A
Rating Rationale: 06/14/2013	**Last Updated:** 07/11/2013	**States Licensed:** 09/09/2004
Report Commentary: 07/15/2013	**Status:** Quality Cross Checked	**Officers and Directors:** 03/18/2013

Best's Credit Rating Methodology   Disclaimer   Best's Rating Guide

Additional Online Resources

Related News	Archived AMB Credit Reports
Rating Activity and Announcements	Corporate Changes & Retirements
Company Overview	AMB Country Risk Reports - United States

[1]The Rating and Commentary date outlines the most recent updates to the Company's Rating, Rationale, and Report Commentary for key rating and business changes. Report commentary may include significant changes to Business Review, Financial Performance/Earnings, Capitalization, Investment/Liquidity, or Reinsurance sections of the report.

[2]The Financial date reflects the current status of the financial tables found within the body of the Report, including whether the data was loaded as received or had been run through our quality control cross-check process.

[3]The General Information date covers key areas that may have changed such as corporate structure, states licensed or officers and directors.

Ultimate Parent: Berkshire Hathaway Inc

Government Employees Insurance Company

One GEICO Plaza, Washington, District Of Columbia, United States 20076-0001

Tel.: 800-841-3000 **Web:** www.geico.com **Fax:** 301-986-3225

AMB #: 002205 **Ultimate Parent:** 058334 **NAIC #:** 22063 **FEIN#:** 53-0075853

Best's Credit Ratings

Best's Financial Strength Rating: A++ **Outlook:** Stable

Best's Issuer Credit Rating: aaa **Outlook:** Stable

Rating Effective Date: 06/14/2013

Financial Size Category: XV

Report Revision Date: 07/15/2013

Rating Rationale

Rating Rationale: The ratings of GEICO have been extended to the Government Employees Insurance Company as the company shares all the same management and operational infrastructure with its affiliates. In addition, the company's importance to the organization's overall strategy is demonstrated by its standing as the writer of preferred personal automobile insurance for the government and military populations.

The following text is derived from A.M. Best's Credit Report on Government Employees Group (AMB# 002933).

The ratings and outlooks of GEICO, based on the consolidation of the property-casualty members of the organization, reflect its superior risk-adjusted capitalization, consistently strong operating performance, brand-name recognition and market position as one of the top five personal automobile writers in the United States. These strengths are partially offset by high investment leverage, significant stockholder dividend payments in recent years to its parent company, as well as exposure to potential regulatory issues in several of its larger states.

The ratings of recently established companies GEICO Advantage Insurance Company, GEICO Choice Insurance Company, and GEICO Secure Insurance Company reflect the benefits derived from utilizing the same infrastructure, platforms, and personnel of GEICO. As a result, it is expected that the operating performance and risk-adjusted capital position of these companies will eventually be commensurate with the other members of GEICO.

The group's continued strong operating results reflect a considerable underwriting expense advantage, which is driven by its direct distribution business model. In addition, its favorable loss experience over the previous five-year period and a solid stream of investment income have generated substantial capital, supporting steady growth in premiums and enabled it to pay significant dividends to its parent. Furthermore, the group maintains a strategic advantage due to its leadership position in the government and military employee market, as well as an excellent reputation for providing quality service. The group also benefits from strategic alliances with unaffiliated insurers, as well as its ownership of an independent agency, which provides the group with the ability to supplement its automobile products with homeowner coverage without assuming the corresponding catastrophe risk. The ratings also recognize the considerable financial strength of its intermediate parent company, National Indemnity Company, as well as its ultimate parent, Berkshire Hathaway Inc., whose financial profile includes approximately $187 billion of stockholders' equity at year-end 2012, minimal debt and a long history of strong profitability.

The group's negative rating factors include high investment leverage, derived from its significant allocation to equities. This was evident in 2008, when the group reported approximately $1.2 billion in after-tax unrealized capital losses and $647 million in after-tax realized capital losses due primarily to unfavorable equity market conditions. These capital losses resulted in approximately a $1.0 billion decline in statutory surplus in 2008 and a substantial decline in risk-adjusted capitalization. However, as equity market conditions improved in 2009 and solid operating earnings continued, the group has posted surplus growth and improvement in risk-adjusted capitalization since that time. This surplus growth occurred despite significant

Rating Rationale (Continued ...)

stockholder dividend payments to its parent in recent years. Despite these factors, the group continues to maintain superior risk-adjusted capitalization that continues to support the ratings of its members. Historically, the group has been successful in managing its investment portfolio through market volatility. Lastly, the group maintains a modest geographic concentration that exposes it to legislative changes and judicial decisions, as its top five states account for approximately one-half of its direct premiums written. However, this risk is largely mitigated by the group's additional geographic spread throughout the rest of the United States and management's proven ability to quickly adapt to both positive and negative changing market conditions.

A.M. Best believes that the members of GEICO are well positioned at their current ratings. If either deteriorating underwriting results or an equities market downturn result in a significant decline in risk-adjusted capital, negative rating pressure would be exerted.

The ratings apply to Government Employees Insurance Company (GEICO) and its six affiliated companies and are based on the consolidation of these companies.

Five Year Rating History

	BEST'S	
Date	FSR	ICR
06/14/2013	A++	aaa
06/18/2012	A++	aaa
05/26/2011	A++	aaa
05/06/2010	A++	aaa
11/06/2009	A++u	aaa u
05/22/2009	A++	aaa

View 25 Year Rating History

Key Financial Indicators

	Statutory Data ($000)					
	Premiums Written					
Period Ending	Direct	Net	Pre-tax Operating Income	Net Income	Total Admitted Assets	Policyholder's Surplus
2012	4,523,360	11,118,718	1,240,125	1,025,963	19,089,626	8,017,591
2011	4,405,893	10,628,305	949,875	901,660	16,974,938	6,132,293
2010	4,208,733	9,958,568	1,360,050	1,282,073	16,462,921	6,464,466
2009	3,986,291	9,391,943	1,196,960	552,540	15,302,886	6,118,198
2008	3,734,600	8,763,255	1,178,128	287,942	12,495,523	4,131,148
06/2013	2,311,390	5,761,032	946,928	792,858	21,620,206	9,654,057
06/2012	2,258,144	5,519,431	700,076	468,052	17,971,996	7,111,083

Key Financial Indicators (Continued ...)

	Profitability			Leverage			Liquidity	
Period Ending	Combined Ratio	Investment Yield (%)	Pre-Tax ROR (%)	Non-Affiliated Investment Leverage	NPW to PHS	Net Leverage	Overall Liquidity (%)	Operating Cash-flow (%)
2012	93.8	3.2	11.3	137.1	1.4	2.8	172.4	107.4
2011	96.4	3.7	9.1	134.6	1.7	3.5	156.6	111.9
2010	92.6	4.3	13.9	76.3	1.5	3.1	164.7	116.1
2009	93.7	4.8	13.0	110.6	1.5	3.0	166.6	119.0
2008	91.8	3.9	13.6	121.8	2.1	4.1	149.4	115.0
5-Yr Avg	93.8	3.9	12.0	...	...	...	...	...
06/2013	88.6	2.9	16.8	136.9	1.2	2.4	180.7	119.2
06/2012	92.2	3.3	12.9	137.2	1.5	3.1	165.5	108.1

(*) Within several financial tables of this report, this company is compared against the Private Passenger Standard Automobile Composite.
(*) Data reflected within all tables of this report has been compiled from the company-filed statutory statement.

Business Profile

The following text is derived from A.M. Best's Credit Report on Government Employees Group (AMB# 002933).

The Government Employees Group is a leading provider of personal automobile insurance written on behalf of government employees and military personnel. In addition, the group is a national personal automobile insurance carrier, with modest geographic concentration along the Eastern Seaboard of the United States. Its business is marketed and distributed primarily by direct response methods in which customers apply for coverage directly to the company over the phone, through the mail or via the internet. Most business is processed directly from its regional offices in Macon, Georgia; Fredericksburg, Virginia; Virginia Beach, Virginia; Woodbury, New York; Dallas, Texas; San Diego, California; and Lakeland, Florida. Branch offices are maintained in Honolulu, Hawaii; Coralville, Iowa; Tucson, Arizona; and Buffalo, New York. The group also utilizes some general field representatives (commissioned agents).

The property / casualty insurance group writes business in seven companies. Government Employees Insurance Company (GEICO), the lead company, writes preferred personal lines coverages for government employees and military personnel. Its fully reinsured subsidiary, GEICO General Insurance Company, writes preferred automobile insurance for insureds who are not government employees or military personnel. Its companion carrier, GEICO Indemnity Company, writes standard automobile and motorcycle insurance. GEICO Indemnity's subsidiary, GEICO Casualty Company, primarily writes non-standard automobile insurance coverages. The group has three newly established companies which are writing new business by tier in certain states as licenses are granted: GEICO Advantage Insurance Company (preferred), GEICO Choice Insurance Company (standard) and GEICO Secure Insurance Company (non-standard).

Government Employees Group's policyholders' are offered homeowner insurance by numerous other insurers through agencies owned by GEICO. The independent agent also has the capability to offer homeowner products from a number of carriers. This allows Government Employees Group to focus on growing its core personal automobile insurance business while at the same time offering its customers a homeowner product.

The group re-entered the state of New Jersey in August 2004 and began writing private passenger auto business. Changes by the New Jersey Legislature and the Department of Insurance helped to improve the competitive environment and make this return possible. New Jersey currently ranks as the group's fifth largest state in terms of direct premiums written.

Scope of Operations

Total Premium Composition & Growth Analysis

Period Ending	Direct Premiums Written		Reinsurance Premiums Assumed		Reinsurance Premiums Ceded		Net Premiums Written	
	($000)	(%Chg)	($000)	(%Chg)	($000)	(%Chg)	($000)	(%Chg)
2012	4,523,360	2.7	6,706,179	6.2	110,822	18.4	11,118,718	4.6
2011	4,405,893	4.7	6,315,976	8.4	93,564	19.6	10,628,305	6.7
2010	4,208,733	5.6	5,828,085	6.7	78,250	39.1	9,958,568	6.0
2009	3,986,291	6.7	5,461,917	8.2	56,266	184.3	9,391,943	7.2
2008	3,734,600	4.4	5,048,449	4.9	19,794	174.6	8,763,255	4.5
5-Yr CAGR	...	4.8	...	6.9	...	72.7	...	5.8
06/2013	2,311,390	2.4	3,513,914	6.0	64,272	19.5	5,761,032	4.4
06/2012	2,258,144	3.4	3,315,066	6.4	53,779	17.6	5,519,431	5.0

Territory

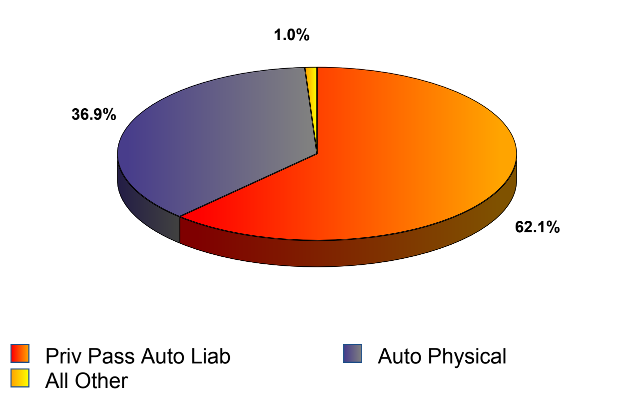
The company is licensed in the District of Columbia and all states.

Business Trends

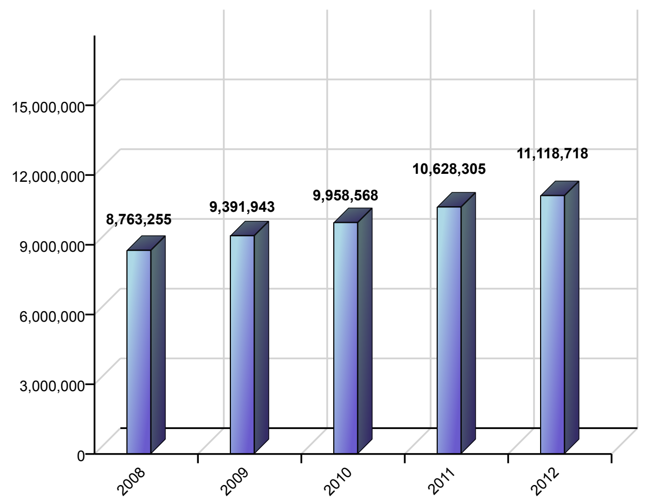
2012 By-Line Business ($000)

Product Line	Direct Premiums Written ($000)	(%)	Reinsurance Premiums Assumed ($000)	(%)	Reinsurance Premiums Ceded ($000)	(%)	Net Premiums Written ($000)	(%)	Business Retention %
Priv Pass Auto Liab	2,709,286	59.9	4,262,124	63.6	68,967	62.2	6,902,442	62.1	99.9
Auto Physical	1,704,590	37.7	2,444,053	36.4	41,779	37.7	4,106,864	36.9	100.0
All Other	109,484	2.4	2	0.0	75	0.1	109,411	1.0	99.9
Total	4,523,360	100.0	6,706,179	100.0	110,822	100.0	11,118,718	100.0	99.9

2012 Top Product Lines of Business (Net Premiums Written)



5 Years of Net Premiums Written ($000)



By-Line Reserve ($000)

Product Line	2012	2011	2010	2009	2008
Priv Pass Auto Liab	6,873,155	6,747,922	6,199,775	5,658,783	4,932,721
Auto Physical	417,506	364,848	322,934	304,501	299,150
All Other	262,793	293,302	285,386	277,232	259,921
Total	7,553,454	7,406,073	6,808,095	6,240,516	5,491,791

Market Share / Market Presence

Market Share / Market Presence (Continued ...)

Geographical Breakdown By Direct Premium Writings ($000)

	2012	2011	2010	2009	2008
Texas	690,750	660,778	606,888	574,571	504,036
New Jersey	603,122	564,015	534,759	487,681	455,928
New York	571,805	552,512	520,318	499,808	478,102
Florida	448,252	421,405	379,339	352,742	341,091
North Carolina	273,815	263,832	252,489	239,408	222,876
Maryland	266,543	281,908	279,379	275,848	269,937
California	210,053	203,506	201,558	188,502	170,315
Virginia	181,654	187,873	197,588	205,908	208,030
South Carolina	164,093	150,990	140,852	130,881	120,937
Massachusetts	121,410	92,354	62,395	19,202	0
All Other	991,862	1,026,719	1,033,168	1,011,740	963,348
Total	4,523,360	4,405,893	4,208,733	3,986,291	3,734,600

Risk Management

The following text is derived from A.M. Best's Credit Report on Government Employees Group (AMB# 002933).

Management is active and hands on, and has shown the ability to react swiftly to changing market conditions, whether positive or negative. GEICO also partners with homeowners writers to afford customers with companion discounts, which helps to maintain their market share, while not taking on the additional risk of property. As a part of the Berkshire Hathaway organization which is publicly traded, the GEICO companies are subject to follow Sarbanes Oxley regulations.

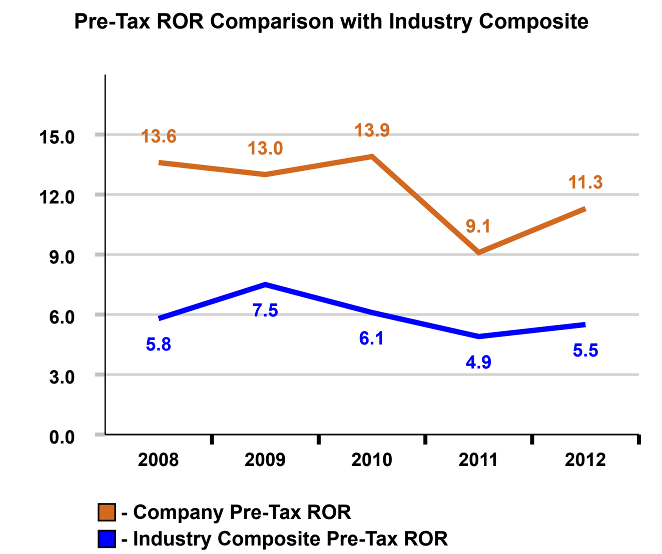
Operating Performance

The following text is derived from A.M. Best's Credit Report on Government Employees Group (AMB# 002933).

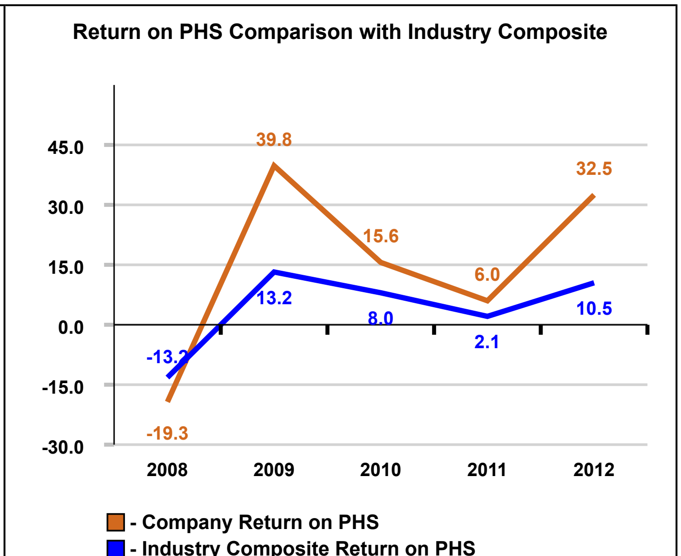
Operating Results: The group has produced strong operating earnings as evidenced by its five-year pre-tax return on revenue (ROR), which compares favorably to the private passenger automobile industry composite. The five-year pre-tax ROR has been driven by solid underwriting earnings and generally increasing investment income over the period. The group's solid underwriting earnings have been attributable to rate adequacy and favorable loss frequency trends for most coverages. The group's net investment income remains a key contributor to earnings due to steady investment yields and invested asset growth. The group's five-year total return on equity is favorable to industry composite norms, despite $1.2 billion in unrealized capital losses and $647 million in realized capital losses in 2008 due to unfavorable equity market conditions. As market conditions improved since that time, recovery in market value and surplus growth has occurred.

Profitability Analysis

	Company							Industry Composite		
Period Ending	Pre-tax Operating Income	After-tax Operating Income	Net Income	Total Return	Pre-Tax ROR	Return on PHS	Operating Ratio	Pre-Tax ROR	Return on PHS	Operating Ratio
2012	1,240,125	827,553	1,025,963	2,297,024	11.3	32.5	89.3	5.5	10.5	95.0
2011	949,875	646,529	901,660	379,509	9.1	6.0	91.4	4.9	2.1	95.7
2010	1,360,050	903,165	1,282,073	979,183	13.9	15.6	86.5	6.1	8.0	94.2
2009	1,196,960	790,536	552,540	2,038,035	13.0	39.8	87.4	7.5	13.2	93.4
2008	1,178,128	768,171	287,942	-892,998	13.6	-19.3	86.8	5.8	-13.2	94.8
5-Yr Avg/Tot	5,925,138	3,935,955	4,050,178	4,800,753	12.0	16.3	88.4	5.9	4.2	94.6
06/2013	946,928	648,057	792,858	1,726,711	16.8	37.5	84.0	XX	XX	XX
06/2012	700,076	479,963	468,052	883,851	12.9	13.8	87.6	XX	XX	XX



* Industry Composite - Private Passenger Standard Automobile Composite



* Industry Composite - Private Passenger Standard Automobile Composite

Underwriting Results

Underwriting Results: The group has produced favorable underwriting results as evidenced by its five-year average combined ratio, which is measurably lower than the private passenger automobile industry composite. Underwriting results are driven by a below average expense structure, partially offset by a pure loss ratio equal to the industry composite. The group's favorable underwriting expense ratio is derived from its cost efficient direct marketing approach, advanced use of technology and economies of scale, which are tempered somewhat by its extensive advertising budget. In recent years, the group's combined ratio has trended modestly upwards due primarily to a slightly higher loss adjustment expenses and the impact of frequent and severe weather events nationally, including Sandy in 2012.

The group's improved pure loss experience in prior years was driven by rate adequacy and decreasing claim frequencies in most coverages. In more recent years, claim frequency and severity have continued to increase moderately for coverages for bodily injury and medical cost, while auto physical damage coverages saw slight declines in severity. Risks are reviewed more thoroughly with fewer exceptions granted from its current guidelines. In addition, staff training has been increased to insure overall compliance with the guidelines and improved allocation to the appropriate rating tier based on the characteristics of the risk. The most recent increase in loss and LAE ratio was impacted by private passenger automobile rate decreases in a number of states due to increased price competition in these markets. The increase in the underwriting expense ratio was reflective of increased advertising and greater expenses related to benefits.

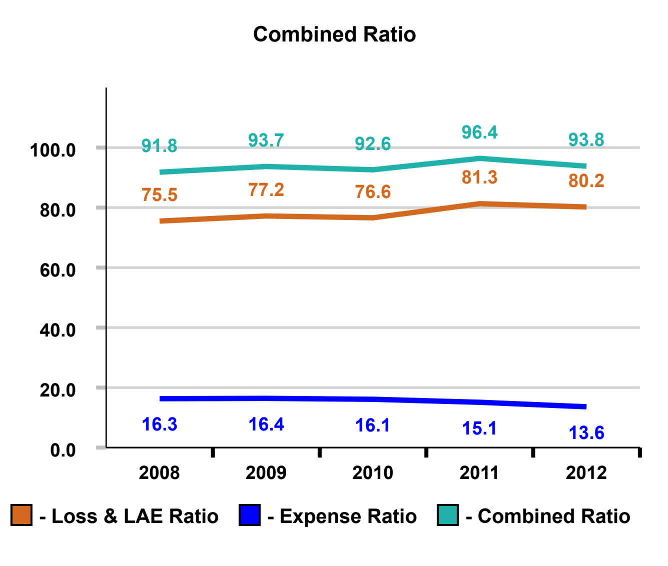
Underwriting Experience

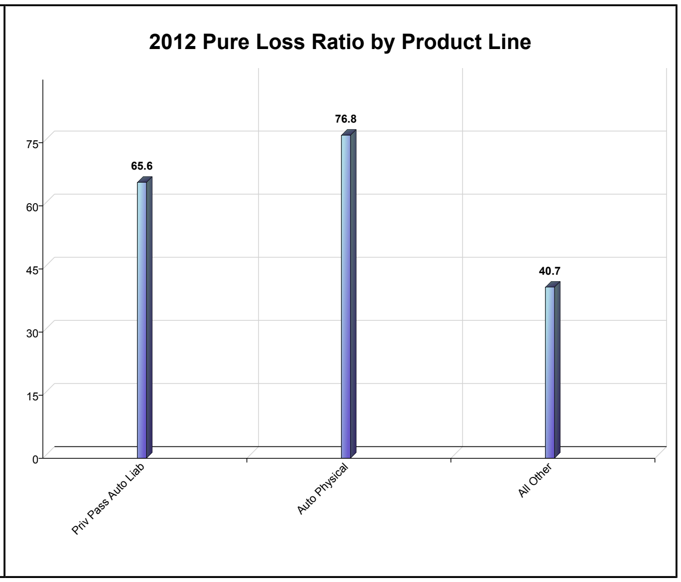
		Loss Ratios			Expense Ratios				
Year	Net Undrw Income ($000)	Pure Loss	LAE	Loss & LAE	Net Comm	Other Exp.	Total Exp.	Div. Pol.	Comb. Ratio
2012	666,566	69.5	10.7	80.2	0.3	13.3	13.6	...	93.8
2011	348,818	70.0	11.3	81.3	0.4	14.8	15.1	...	96.4
2010	699,201	65.2	11.3	76.6	0.3	15.7	16.1	...	92.6
2009	559,647	65.8	11.5	77.2	0.3	16.1	16.4	...	93.7
2008	687,769	64.4	11.1	75.5	0.3	16.0	16.3	...	91.8
5-Yr Avg	2,962,002	67.2	11.2	78.3	0.3	15.1	15.4	...	93.8
06/2013	628,169	66.2	10.4	76.7	XX	XX	11.9	...	88.6
06/2012	408,701	67.0	11.1	78.1	XX	XX	14.2	...	92.2

Loss Ratio By Line

Product Line	2012	2011	2010	2009	2008	5-Yr. Avg.
Priv Pass Auto Liab	65.6	71.7	69.4	70.8	67.5	69.0
Auto Physical	76.8	68.0	59.0	58.2	59.7	64.7
All Other	40.7	39.2	55.5	62.5	65.6	51.7
Total	69.5	70.0	65.2	65.8	64.4	67.2

Underwriting Results (Continued ...)





Direct Loss Ratios By State

	2012	2011	2010	2009	2008	5-Yr. Avg.
Texas	70.9	64.3	55.8	66.2	68.2	65.1
New Jersey	57.2	47.2	62.5	92.4	70.2	64.9
New York	82.8	68.2	68.1	66.3	66.8	70.7
Florida	61.2	77.1	64.1	59.8	60.3	64.8
North Carolina	62.9	66.2	60.5	64.5	68.1	64.3
Maryland	60.0	66.7	64.6	66.4	62.7	64.1
California	62.5	55.0	54.2	57.7	60.4	57.9
Virginia	54.9	62.8	60.5	62.4	60.8	60.4
South Carolina	65.4	75.5	65.0	63.1	61.5	66.4
Massachusetts	60.6	77.3	98.9	97.7	-10.9	75.3
All Other	63.1	63.6	67.4	60.6	61.4	63.3
Total	65.3	64.1	63.7	66.7	64.4	64.8

Investment Results

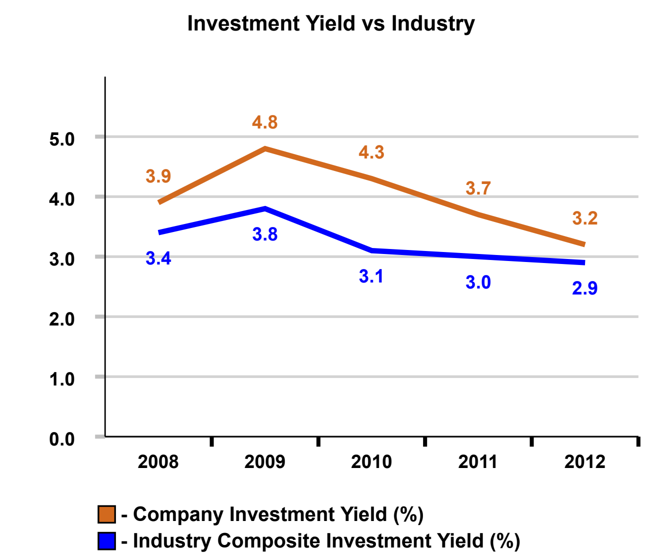
Investment Results: The group maintains a high quality and well diversified investment portfolio that consists primarily of common and preferred stocks, long-term bonds, short-term investments and cash. The overall bond portfolio is primarily allocated to corporate, tax-exempt municipal and U.S. Treasury securities. The group significantly increased its allocation to long-term bonds and preferred stocks in 2008, while decreasing its holdings in cash and short-term investments.

The group's net investment income had been on an increasing trend for most of the previous five-year period, driven by higher investment yields and invested asset growth. The increase in investment yield was reflective of higher market interest rates, while the growth in invested assets was attributable to the group's strong operating cash flows from profitable operations. However, net investment income declined moderately in 2008 due to a decrease in invested assets and slightly lower investment yield. The group reported approximately $1.2 billion in unrealized capital losses and approximately $647 million in realized capital losses in 2008, driven by unfavorable market conditions, which resulted in a significantly negative total return on invested assets for the year. However, due to more favorable conditions in the equity markets, unrealized capital gains of $1.8 billion were reported in 2009, more than recovering the unrealized losses from 2008. Swings in capital gains since that time have been more modest.

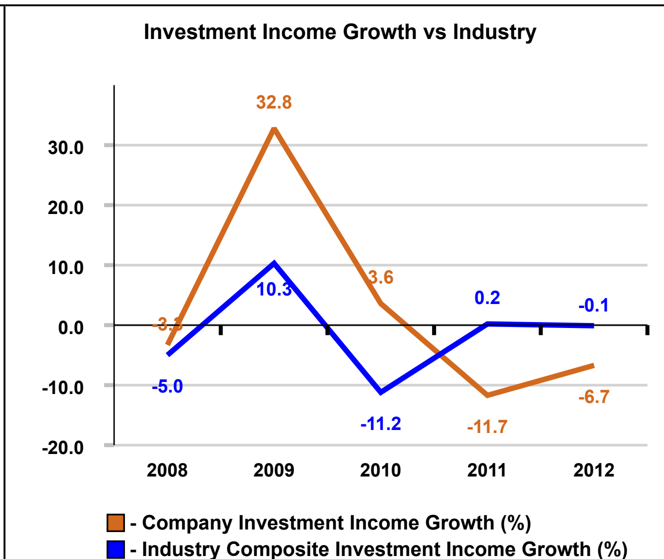
Investment Results (Continued ...)

Investment Gains ($000)

	Company							Industry Composite	
Year	Net Investment Income ($000)	Realized Capital Gains ($000)	Unrealized Capital Gains ($000)	Investment Income Growth (%)	Investment Yield (%)	Return on Invested Assets (%)	Total Return (%)	Investment Income Growth (%)	Investment Yield (%)
2012	492,609	198,410	1,271,060	-6.7	3.2	4.4	13.2	-0.1	2.9
2011	528,200	255,130	-522,150	-11.7	3.7	5.5	1.8	0.2	3.0
2010	597,986	378,909	-302,890	3.6	4.3	7.2	4.9	-11.2	3.1
2009	576,964	-237,997	1,485,495	32.8	4.8	2.8	16.1	10.3	3.8
2008	434,347	-480,229	-1,180,940	-3.3	3.9	-0.4	-10.3	-5.0	3.4
5-Yr Avg/Tot	2,630,106	114,223	750,575	1.7	3.9	4.1	5.3	-1.4	3.2
06/2013	263,237	144,801	933,853	5.3	2.9	5.0	16.3	XX	XX
06/2012	250,026	-11,911	415,798	-10.6	3.3	3.6	5.1	XX	XX



* Industry Composite - Private Passenger Standard Automobile Composite



* Industry Composite - Private Passenger Standard Automobile Composite

Balance Sheet Strength

Capitalization

The following text is derived from A.M. Best's Credit Report on Government Employees Group (AMB# 002933).

Capitalization: Government Employees Group maintains superior capitalization as measured by Best's Capital Adequacy Ratio (BCAR), which supports its rating. The group's capital position reflects its moderate underwriting leverage, consistently favorable loss reserve development, nominal dependence on reinsurance and modest catastrophe exposure, which is partially offset by high common stock leverage. The group's risk-adjusted capitalization has been variable in recent years due to significant stockholder dividend payments to its parent and more recently from unrealized capital losses due to unfavorable equity market conditions, although risk-adjusted capitalization continues to support the rating. The group's capitalization is considerably strengthened by its ultimate parent, Berkshire Hathaway Inc., with shareholder equity of approximately $187 billion and minimal debt at year-end 2012.

Capital Generation Analysis ($000)

	Source of Surplus Growth							
Year	Pre-tax Operating Income	Realized Capital Gains	Income Taxes	Unrealized Capital Gains	Net Contributed Capital	Other Changes	Change in PHS	% Change in PHS
2012	1,240,125	198,410	412,572	1,271,060	-528,100	116,375	1,885,298	30.7
2011	949,875	255,130	303,345	-522,150	-646,400	-65,283	-332,174	-5.1
2010	1,360,050	378,909	456,886	-302,890	-610,000	-22,915	346,269	5.7
2009	1,196,960	-237,997	406,424	1,485,495	-413,000	362,014	1,987,049	48.1
2008	1,178,128	-480,229	409,956	-1,180,940	...	-80,235	-973,233	-19.1
5-Yr Total	5,925,138	114,223	1,989,184	750,575	-2,197,500	309,956	2,913,210	9.5
06/2013	946,928	144,801	298,871	933,853	...	-90,246	1,636,466	20.4
06/2012	700,076	-11,911	220,113	415,798	...	94,940	978,791	16.0

Quality of Surplus ($000)

Year	Surplus Notes	Other Debt	Contributed Capital	Unassigned Surplus	Year End Policyholders Surplus	Conditional Reserves	Adjusted Policyholders Surplus
2012	...	...	1,234,643	6,782,948	8,017,591	...	8,017,591
2011	...	...	1,234,643	4,897,649	6,132,293	...	6,132,293
2010	...	...	1,234,643	5,229,823	6,464,466	...	6,464,466
2009	...	...	1,234,643	4,883,554	6,118,198	...	6,118,198
2008	...	...	1,234,643	2,896,505	4,131,148	...	4,131,148
06/2013	...	...	1,234,643	8,419,413	9,654,057	...	9,654,057
06/2012	...	...	1,234,643	5,876,440	7,111,083	...	7,111,083

Underwriting Leverage

Underwriting Leverage: The group maintains underwriting leverage that is higher than the private passenger automobile industry composite. Net underwriting leverage is derived from above average net premiums written leverage and net liabilities leverage. Gross underwriting leverage is only slightly higher than net underwriting leverage due to nominal ceded reinsurance leverage, as the group consistently retains nearly 100% of its direct premium writings.

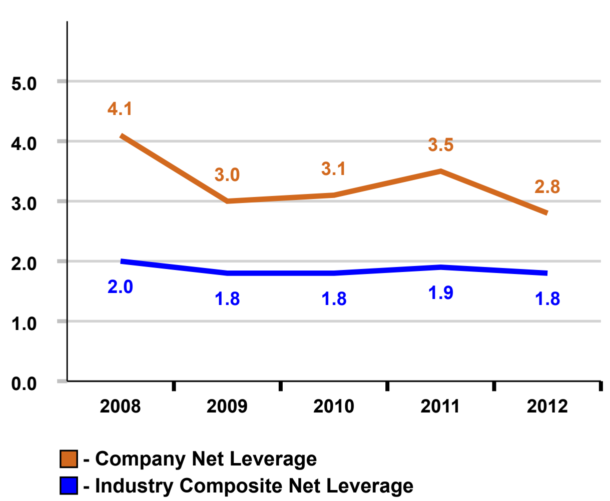
The group's underwriting leverage has trended upward in recent years due to the decline in surplus in 2008 from realized and unrealized realized capital losses on its equity portfolio, along with continued growth in net premiums written and associated liabilities. However, leverage measures improved measurably in 2009 and have been relatively stable since as solid earnings and significant unrealized capital gains from improved investment markets resulted in significant surplus growth. Nonetheless, the group's underwriting leverage is elevated relative to its industry composite. The growth in net premiums written over the previous five-year period was driven by policy growth derived from the group's intensive advertising campaign and direct sales approach through the use of call centers, as well as the internet. A portion of the group's premium growth earlier in the period can be attributed to its expansion in New Jersey, which is currently the fifth largest state in direct written premium. However, the growth in net premiums written has gradually slowed during the period due to increasingly competitive pricing in the private passenger automobile market.

Leverage Analysis

	Company				Industry Composite			
Year	NPW to PHS	Reserves to PHS	Net Leverage	Gross Leverage	NPW to PHS	Reserves to PHS	Net Leverage	Gross Leverage
2012	1.4	0.9	2.8	2.8	0.8	0.5	1.8	1.9
2011	1.7	1.2	3.5	3.5	0.8	0.6	1.9	2.0
2010	1.5	1.1	3.1	3.1	0.8	0.5	1.8	1.9
2009	1.5	1.0	3.0	3.1	0.8	0.5	1.8	1.9
2008	2.1	1.3	4.1	4.2	0.9	0.6	2.0	2.1
06/2013	1.2	0.8	2.4	XX	XX	XX	XX	XX
06/2012	1.5	1.0	3.1	XX	XX	XX	XX	XX

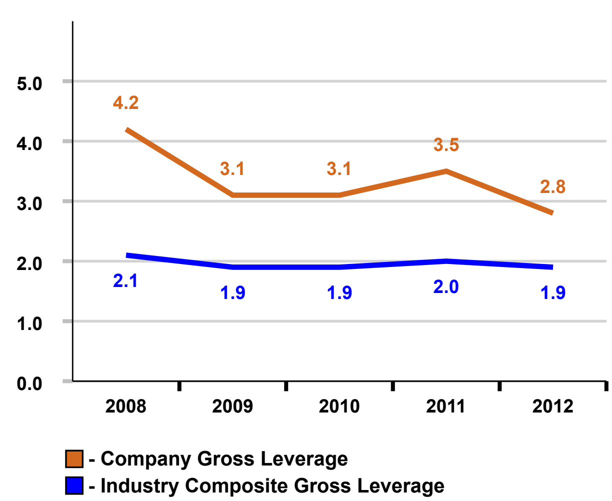
Current BCAR: 250.6

Net Leverage vs Industry



* Industry Composite - Private Passenger Standard Automobile Composite

Gross Leverage vs Industry



* Industry Composite - Private Passenger Standard Automobile Composite

Underwriting Leverage (Continued ...)

Ceded Reinsurance Analysis ($000)

	Company				Industry Composite		
Year	Ceded Reinsurance Total	Business Retention (%)	Reinsurance Recoverables to PHS (%)	Ceded Reinsurance to PHS (%)	Business Retention (%)	Reinsurance Recoverables to PHS (%)	Ceded Reinsurance to PHS (%)
2012	150,326	99.9	1.8	1.9	85.1	13.5	15.6
2011	158,798	99.9	2.5	2.6	86.6	12.8	15.1
2010	165,678	99.9	2.5	2.6	87.3	10.5	12.8
2009	103,073	99.9	1.6	1.7	86.2	9.5	13.1
2008	107,897	99.9	2.4	2.6	89.4	8.4	11.5

2012 Reinsurance Recoverables ($000)

	Paid & Unpaid Losses	Incurred But Not Reported (IBNR) Losses	Unearned Premiums	Other Recoverables *	Total Reinsurance Recoverables
US Affiliates	34,502	16,943	27,460	...	78,906
US Insurers	19,710	28,890	23	...	48,623
Pools/Associations	14,432	80,472	1	...	94,907
Other Non-Us	...	...	...	...	...
Total(ex Us Affils)	34,142	109,362	24	...	143,530
Grand Total	68,644	126,305	27,485	...	222,435

* Includes Commissions less Funds Withheld

Loss Reserves

Loss Reserves: The group maintains a conservative loss reserve position with consistently favorable development reported for all calendar and accident years. Reserve development patterns have been favorable for all major lines of business. Reserves are primarily comprised of the private passenger automobile liability line of business, which account for approximately 90% of total reserves. The group maintains modest A&E exposure stemming from a limited number of excess commercial umbrella policies, generally as a participant in high layers of liability during a short period (1981 through early 1984).

Loss Reserves (Continued ...)

Loss and ALAE Reserve Development: Calendar Year ($000)

Calendar Year	Original Loss Reserves	Developed Reserves Thru 2012	Development to Original (%)	Development to PHS (%)	Development to NPE (%)	Unpaid Reserves @ 12/2012	Unpaid Reserves to Development (%)
2012	6,696,047	6,696,047	...	...	60.8	6,696,047	100.0
2011	6,629,888	6,035,707	-9.0	-9.7	57.7	3,383,222	56.1
2010	6,080,508	5,430,877	-10.7	-10.0	55.3	1,850,255	34.1
2009	5,605,053	4,781,108	-14.7	-13.5	51.7	1,003,023	21.0
2008	4,939,841	4,199,507	-15.0	-17.9	48.6	569,108	13.6
2007	4,534,280	3,878,869	-14.5	-12.8	46.6	380,303	9.8

Loss and ALAE Reserve Development: Accident Year ($000)

Accident Year	Original Loss Reserves	Developed Reserves Thru 2012	Development to Original (%)	Unpaid Reserves @ 12/2012	Accident Year Loss Ratio	Accident Year Comb. Ratio
2012	3,312,825	3,312,825	...	3,312,825	86.6	100.2
2011	3,357,981	2,954,005	-12.0	1,532,967	82.6	97.7
2010	3,060,975	2,736,786	-10.6	847,232	78.6	94.7
2009	2,926,070	2,457,781	-16.0	433,915	76.0	92.4
2008	2,571,263	2,139,369	-16.8	188,805	74.2	90.5
2007	2,365,999	2,021,644	-14.6	86,594	73.8	91.2

Asbestos And Environmental Reserves Analysis

	Company						Industry Composite		
Year	Net A&E Reserves ($000)	Reserve Retention (%)	Net Incurred But Not Reported (IBNR) Mix (%)	Survival Ratio (3 Yr)	Comb. Ratio Impact (1 Yr)	Comb. Ratio Impact (3 Yr)	Survival Ratio (3 Yr)	Comb. Ratio Impact (1 Yr)	Comb. Ratio Impact (3 Yr)
2012	98,342	56.3	49.9	23.3	0.0	0.1	9.1	0.6	0.6
2011	111,236	56.6	46.7	157.7	0.0	0.1	9.1	0.5	0.6
2010	116,422	57.9	47.0	390.7	0.2	0.1	7.2	0.7	0.5
2009	93,282	56.9	67.8	...	0.0	...	...	0.6	...
2008	90,063	56.7	70.7	...	0.0	...	...	0.3	...

Liquidity

The following text is derived from A.M. Best's Credit Report on Government Employees Group (AMB# 002933).

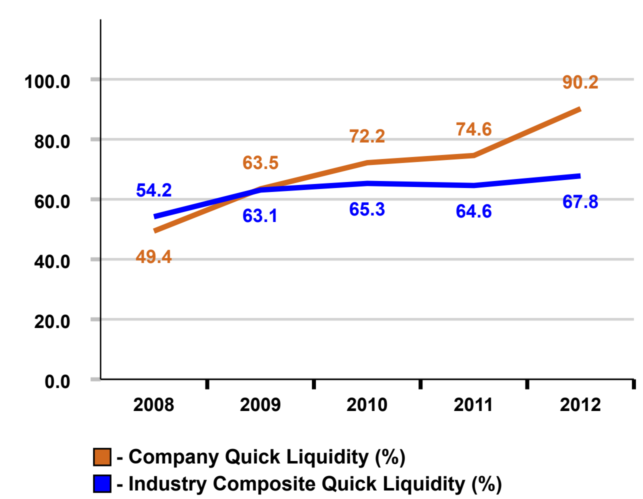
Liquidity: The group maintains sound balance sheet liquidity as non-affiliated invested assets comfortably exceed overall liabilities. The group's invested assets declined in 2008 due to significant unrealized capital losses on its equity portfolio, though the portfolio gained in value as market conditions improved in 2009 and in years since. The group's liquidity position has been augmented by strong operating cash flows over the previous five-year period, which were driven by premium growth

Liquidity (Continued ...)

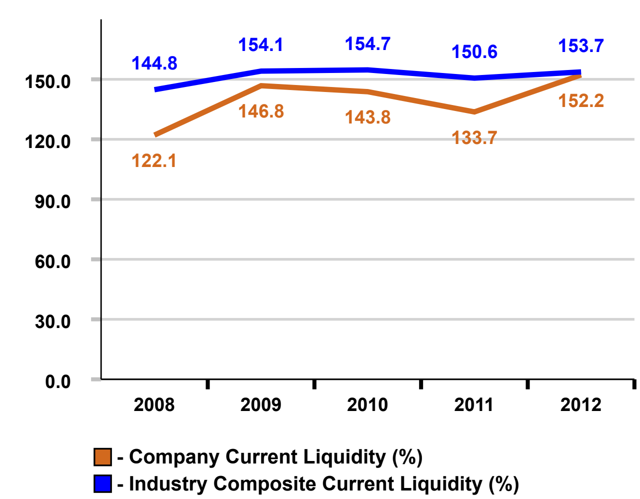
and profitable underwriting results. The group's liquidity position is also enhanced by the significant financial flexibility of its immediate parent, GEICO Corporation, as well as its ultimate parent, Berkshire Hathaway Inc.

Liquidity Analysis

	Company				Industry Composite			
Year	Quick Liquidity (%)	Current Liquidity (%)	Overall Liquidity (%)	Gross Agents Balances to PHS(%)	Quick Liquidity (%)	Current Liquidity (%)	Overall Liquidity (%)	Gross Agents Balances to PHS (%)
2012	90.2	152.2	172.4	4.7	67.8	153.7	199.5	2.5
2011	74.6	133.7	156.6	5.9	64.6	150.6	195.2	2.4
2010	72.2	143.8	164.7	4.8	65.3	154.7	200.4	2.1
2009	63.5	146.8	166.6	4.4	63.1	154.1	200.0	2.3
2008	49.4	122.1	149.4	5.3	54.2	144.8	194.0	2.9
06/2013	XX	163.0	180.7	4.0	XX	XX	XX	XX
06/2012	XX	141.9	165.5	5.3	XX	XX	XX	XX



* Industry Composite - Private Passenger Standard Automobile Composite



* Industry Composite - Private Passenger Standard Automobile Composite

Liquidity (Continued ...)

Cash Flow Analysis ($000)

	Company					Industry Composite	
Year	Underwriting Cash Flow	Operating Cash Flow	Net Cash Flow	Underwriting Cash Flow (%)	Operating Cash Flow (%)	Underwriting Cash Flow (%)	Operating Cash Flow (%)
2012	798,908	803,118	-416,933	107.8	107.4	100.2	106.6
2011	984,347	1,176,797	-1,841,283	110.4	111.9	100.0	106.9
2010	1,373,253	1,457,663	3,160,272	116.2	116.1	104.2	111.3
2009	1,344,507	1,578,445	477,081	117.0	119.0	102.5	110.4
2008	1,216,128	1,191,641	-3,613,604	116.3	115.0	101.6	108.5
5-Yr Total	5,717,142	6,207,664	-2,234,467	...	...	...	...
06/2013	766,215	968,809	584,045	115.5	119.2	XX	XX
06/2012	397,222	430,730	-492,045	107.8	108.1	XX	XX

Investments

The following text is derived from A.M. Best's Credit Report on Government Employees Group (AMB# 002933).

Investments: The group maintains high investment leverage relative to the private passenger automobile industry composite, as total preferred and common stock represents approximately 55% of invested assets, as of year-end 2012. Nevertheless, the high investment leverage is partially mitigated by the group's historically strong portfolio management. In addition, the portfolio is well-diversified with allocations spread across a number of securities and industries. The group also maintains significant non-investment grade bond holdings. These bonds are nearly all NAIC Class 4, most of which were purchased in the fourth quarter of 2008 to attain a higher investment yield.

Investment Leverage Analysis (% of PHS)

	Company						Industry Composite	
Year	Class 3-6 Bonds	Real Estate / Mortgages	Other Invested Assets	Common Stock	Non - Affiliated Investment Leverage	Affiliated Investments	Class 3-6 Bonds	Common Stock
2012	20.6	...	0.8	115.6	137.1	2.8	3.3	51.5
2011	30.4	...	0.8	103.3	134.6	3.7	3.6	49.1
2010	29.8	...	0.4	46.1	76.3	3.5	3.4	44.9
2009	26.1	...	...	84.4	110.6	4.0	3.1	46.0
2008	35.2	...	0.1	86.5	121.8	13.3	3.0	41.5

Investments - Bond Portfolio

Investments - Bond Portfolio (Continued ...)

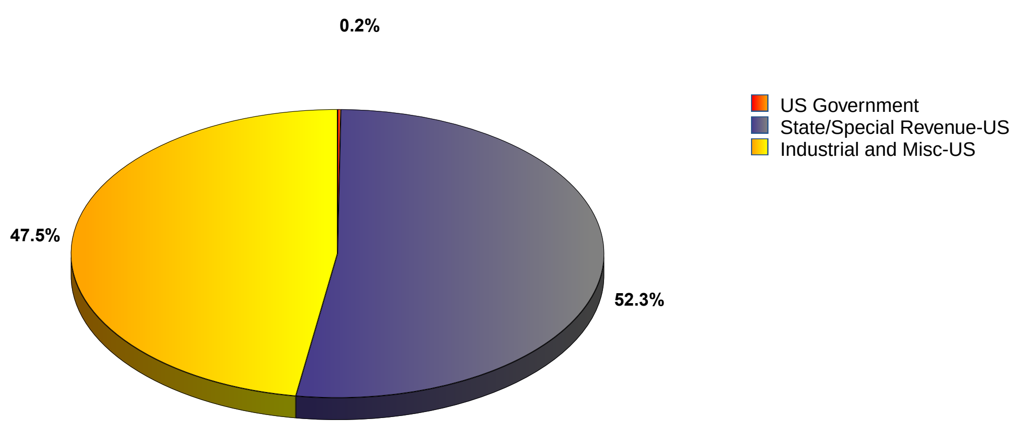
2012 Distribution By Maturity

	Years					
	0-1	**1-5**	**5-10**	**10-20**	**20+**	**Years Average Maturity**
Government	40.6	...	...	...	...	0.5
Government Agencies & Muni.	0.3	2.1	7.1	12.9	6.4	14.3
Industrial & Misc.	4.3	2.8	23.2	0.1	...	6.0
Total	45.3	4.9	30.4	13.0	6.4	6.2

Bond Distribution By Issuer Type

	2012	2011	2010	2009	2008
Bonds (000)	3,569,598	3,745,225	4,016,532	4,095,819	3,261,657
US Government	0.2	0.2	0.5	0.5	0.2
State/Special Revenue-US	52.3	51.9	53.7	61.5	54.0
Industrial and Misc-US	47.5	47.9	45.8	38.0	45.8

2012 Bond Distribution By Issuer Type



Bond Percent Private vs Public

	2012	2011	2010	2009	2008
Private Issues	18.9	17.5	13.7	21.5	29.6
Public Issues	81.1	82.5	86.3	78.5	70.4

Investments - Bond Portfolio (Continued ...)

Bond Quality Percent

	2012	2011	2010	2009	2008
Class 1	66.8	67.2	73.2	60.3	59.6
Class 2	7.7	6.1	5.1	11.4	8.6
Class 3	18.7	2.4	2.0	2.8	2.7
Class 4	5.7	22.5	17.7	21.2	29.1
Class 5	...	...	2.0	4.2	...
Class 6	1.1	1.8	...	...	...

Investments - Equity Portfolio

	2012	2011	2010	2009	2008
Total Stocks(000)	10,698,581	7,750,857	5,531,675	7,742,782	6,078,153
Unaffiliated Common	86.7	81.7	53.8	66.7	58.8
Affiliated Common	1.1	1.4	1.9	1.2	6.4
Unaffiliated Preferred	12.3	16.9	44.3	32.1	34.8

Investments - Mortgage Loans And Real Estate

	2012	2011	2010	2009	2008
Mortgage Loans and Real Estate (000)	113,362	120,750	125,271	149,695	161,421
Property Occupied by Company	100.0	100.0	100.0	100.0	100.0

Investments - Other Invested Assets

	2012	2011	2010	2009	2008
Other Invested Assets(000)	2,604,174	3,006,881	4,827,832	1,644,733	1,162,840
Cash	52.2	25.7	82.6	23.0	21.5
Short-Term	45.3	72.6	16.7	76.6	78.3
Schedule BA Assets	2.5	1.7	0.6	0.1	0.3
All Other	...	...	0.1	0.3	...

History

Government Employees Insurance Company (GEICO) was reincorporated and redomesticated on January 3, 1986 under the laws of Maryland to effect a change in corporate domicile from the District of Columbia to Maryland. The original Government Employees Insurance Company was formed August 1936 in Texas, and was reincorporated in the District of Columbia in 1937 and 1979. At commencement of business, December 1, 1937, the District of Columbia domiciled GEICO absorbed all of the assets and liabilities of the Texas domiciled Government Employees Insurance Company, Fort Worth, Texas. The Texas stock company had been organized as successor to the Government Employees Insurance Association, a reciprocal exchange, which was formed on March 20, 1934 under the title Government Employees Underwriters.

Original sponsors were men prominent in Fort Worth banking, insurance and financing business, headed by members of the Rhea family and by Leo Goodwin, Sr. Financial control passed to the Graham-Newman Corporation, New York, in March 1948. In July of the same year, that corporation distributed its Government Employees Insurance Company stock to its own shareholders.

Management

Financial control of Government Employees Insurance Company resides with GEICO Corporation since January 31, 1979 which, as of January 2, 1996, became a wholly-owned indirect subsidiary of Berkshire Hathaway Inc., an insurance holding company which controls directly or indirectly the fifty property / casualty companies and the five life/health companies. The holding company, in turn, is owned (33%) by Warren E. Buffett and family. Prior to January 2, 1996, GEICO Corporation was a publicly owned holding company traded on the NYSE under the symbol GEC. It acquired ownership of Government Employees Insurance Company through the exchange of common and preferred stock (excluding the nonconvertible senior preferred), on a share for share basis, with the shareholders of the company.

Government Employees Insurance Company is the principal subsidiary of GEICO Corporation, and the largest member of a group of affiliated property / casualty insurance companies.

Administration of the company's affairs is under the direction of experienced insurance executives headed by Olza M. Nicely, chairman of the board, president and chief executive officer. Mr. Nicely became president in 1989, chief executive officer in 1992 and chairman of the board in May 1993. He has been with GEICO since 1961 and has served for four decades with GEICO companies.

Officers And Directors

Officers

Chairman of the Board, President and CEO Olza M. Nicely
EVP William E. Roberts
SVP and CFO Michael H. Campbell
SVP and Chief Information Officer Stephen G. Kalinsky
SVP Donald R. Lyons
SVP Robert M. Miller
Vice President and Chief Actuary Warren A. Klawitter
Vice President James G. Brown
Vice President Robin W. Burdick
Vice President Shawn A. Burklin
Vice President Martha T. Furnas
Vice President Richard T. Guertin
Vice President Richard S. Hoagland
Vice President Lily S. Hopkins
Vice President Seth M. Ingall
Vice President Scott E. Markel
Vice President John W. McCutcheon
Vice President James F. Nayden, Jr. (Legislative Counsel)
Vice President John W. Pham
Vice President Nancy L. Pierce
Vice President Dana K. Proulx
Vice President George W. Rogers
Vice President Rynthia M. Rost
Vice President Daniel S. Schechter
Vice President Jan C. Stewart
Vice President Joseph R. Thomas
Vice President Edward W. Ward III
Vice President Mary F. Zarcone
Vice President John J. Zinno
Secretary William C.E. Robinson
Treasurer Charles G. Schara
Controller William J. McDonald

Directors

Michael H. Campbell
Seth M. Ingall
Stephen G. Kalinsky
Donald R. Lyons
Robert M. Miller
Olza M. Nicely
Nancy L. Pierce
William E. Roberts
George W. Rogers

Regulatory

An examination of the financial condition was made as of December 31, 2009, by the insurance department of Maryland. The 2012 annual independent audit of the company was conducted by Deloitte & Touche, LLP. The annual statement of actuarial opinion is provided by Paul Lavrey, Assistant Vice President and Associate Actuary.

Reinsurance

The following text is derived from A.M. Best's Credit Report on Government Employees Group (AMB# 002933).

Given the group's lines of business, size and market presence, management has concluded that the purchase of external reinsurance is generally impractical. Instead, the group manages its risks through its underwriting guidelines and appropriate risk placement in its various companies and pricing tiers.

Balance Sheet ($000)

Admitted Assets	12/31/2012	12/31/2011	2012 %	2011 %
Bonds	3,569,598	3,745,225	18.7	22.1
Preferred Stock	1,312,000	1,312,000	6.9	7.7
Common Stock	9,272,210	6,333,129	48.6	37.3
Cash & Short-Term Invest	2,538,708	2,955,641	13.3	17.4
Real estate, investment	...	...	...	...
Derivatives	...	...	...	...
Other Non-Affil Inv Asset	65,466	51,240	0.3	0.3
Investments in Affiliates	114,371	105,727	0.6	0.6
Real Estate, Offices	113,362	120,750	0.6	0.7
Total Invested Assets	16,985,715	14,623,713	89.0	86.1
Premium Balances	1,442,130	1,343,716	7.6	7.9
Accrued Interest	81,482	77,427	0.4	0.5
Life department	...	...	...	...
All Other Assets	580,299	930,083	3.0	5.5
Total Assets	19,089,626	16,974,938	100.0	100.0

Liabilities & Surplus	12/31/2012	12/31/2011	2012 %	2011 %
Loss & LAE Reserves	7,553,454	7,406,073	39.6	43.6
Unearned Premiums	2,780,927	2,672,655	14.6	15.7
Conditional Reserve Funds	...	...	...	...
Derivatives	...	...	...	...
Life department	...	...	...	...
All Other Liabilities	737,653	763,918	3.9	4.5
Total Liabilities	11,072,035	10,842,646	58.0	63.9
Surplus notes	...	...	...	...
Capital & Assigned Surplus	1,234,643	1,234,643	6.5	7.3
Unassigned Surplus	6,782,948	4,897,649	35.5	28.9
Total Policyholders' Surplus	8,017,591	6,132,293	42.0	36.1
Total Liabilities & Surplus	19,089,626	16,974,938	100.0	100.0

Interim Balance Sheet ($000)

Admitted Assets	03/31/2013	06/30/2013
Bonds	3,510,629	3,457,384
Preferred Stock	1,312,000	1,312,000
Common Stock	10,596,357	11,451,030
Cash & Short-Term Invest	2,787,833	3,122,753
Other Investments	193,633	177,209
Total Invested Assets	18,400,452	19,520,377
Premium Balances	1,567,642	1,509,577
Accrued Interest	122,454	97,719
Reinsurance Funds	6,220	7,915
All Other Assets	464,271	484,618
Total Assets	20,561,040	21,620,206

Liabilities & Surplus	03/31/2013	06/30/2013
Loss & LAE Reserves	7,448,616	7,615,625
Unearned Premiums	2,967,128	2,899,608
All Other Liabilities	1,193,046	1,450,916
Total Liabilities	11,608,790	11,966,149
Capital & Assigned Surp	1,234,643	1,234,643
Unassigned Surplus	7,717,606	8,419,413
Total Policyholders' Surplus	8,952,250	9,654,057
Total Liabilities & Surplus	20,561,040	21,620,206

Summary Of 2012 Operations ($000)

Statement of Income	12/31/2012	Funds Provided from Operations	12/31/2012
Premiums earned	11,010,446	Premiums collected	11,020,321
Losses incurred	7,653,893	Benefit & loss-related pmts	7,616,503
LAE incurred	1,176,064		
Undwr expenses incurred	1,513,750	LAE & undwr expenses paid	2,604,910
Other expenses incurred	172	Other income / expense	...
Dividends to policyholders	...	Dividends to policyholders	...
Net underwriting income	666,566	Underwriting cash flow	798,908
		Net transfer	...
Net investment income	492,609	Investment income	509,543
Other income/expense	80,950	Other income/expense	80,950
Pre-tax operating income	1,240,125	Pre-tax cash operations	1,389,401
Realized capital gains	198,410		
Income taxes incurred	412,572	Income taxes pd (recov)	586,283
Net income	1,025,963	Net oper cash flow	803,118

Interim Income Statement ($000)

	Period Ended 06/30/2013	Period Ended 06/30/2012	Increase / Decrease
Premiums earned	5,642,352	5,428,108	214,243
Losses incurred	3,736,747	3,635,860	100,887
LAE incurred	589,149	602,387	-13,238
Undwr expenses incurred	688,290	781,092	-92,802
Other expenses incurred	-3	69	-72
Dividends to policyholders	...	...	...
Net underwriting income	628,169	408,701	219,469
Net investment income	263,237	250,026	13,211
Other income/expense	55,521	41,350	14,172
Pre-tax operating income	946,928	700,076	246,851
Realized capital gains	144,801	-11,911	156,712
Income taxes incurred	298,871	220,113	78,757
Net income	792,858	468,052	324,806

Interim Cash Flow ($000)

	Period Ended 06/30/2013	Period Ended 06/30/2012	Increase / Decrease
Premiums collected	5,699,013	5,473,806	225,207
Benefit & loss-related pmts	3,647,574	3,604,736	42,838
LAE & undwr expenses paid	1,285,224	1,471,847	-186,623
Dividends to policyholders	...	...	...
Underwriting cash flow	766,215	397,222	368,993
Net transfer	...	...	...
Investment income	247,756	237,896	9,860
Other income/expense	55,521	41,350	14,172
Pre-tax cash operations	1,069,493	676,468	393,025
Income taxes pd (recov)	100,684	245,738	-145,054
Net oper cash flow	968,809	430,730	538,079

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

A Best's Debt/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

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