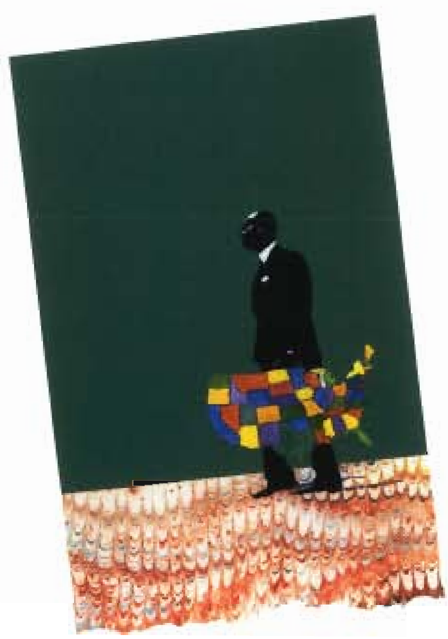
General Re Corporation

1985 Annual Report

Positioned for the Future

This was a pivotal year, perhaps even a watershed in the modern history of your company. The men and women of General Re accomplished a great deal in 1985, and we are ready to seize the opportunities that lie before us.



Developments Since Year-End

Stock Offering

In February, the Corporation sold 2.875 million shares of common stock in an underwritten public offering at a price to the public of $114.50 per share and net proceeds to the Corporation of $322.6 million.

Annual Meeting

The Board of Directors set the annual meeting of stockholders for 9:30 a.m. on May 27, 1986, at the corporate headquarters, Financial Centre, Stamford, Connecticut.

Proposed Stock Split and Amendments to Certificate of Incorporation

The Board of Directors proposed a two-for-one split in the common stock. In addition, it was proposed that the Certificate of Incorporation be amended to increase the authorized capital of the corporation to 250 million shares of common stock, $.50 par value, and 20 million shares of preferred stock. The amendments to the Certificate of Incorporation would also add a fair price provision, an anti-greenmail provision, and several related changes. The amendments will be submitted to stockholders for approval at the annual meeting of stockholders. Assuming stockholder approval, this will be the seventh stock split since April 1969, resulting in 120 General Re shares for each pre-1969 share.

Dividend Increase

The Board increased the first quarter dividend on the current shares to $.44 per share, an annual rate of $1.76 per share, compared with $1.56 per share in 1985.

Reinsurance Terms

Reinsurance is the assumption by the reinsurer of all or part of a risk originally undertaken by another insurer, called the "ceding" or "primary" company. The principal functions of reinsurance are:

—to provide insurers with capacity that enables them to write coverages involving larger amounts than could otherwise be written

—to protect against the accumulation of losses arising out of catastrophes

—to share the financial burden of reserves attending the growth of premium income

—generally, to reduce an insurer's net liability to amounts considered appropriate in relation to the insurer's financial resources.

Treaty reinsurance is a standing agreement, often long-term in nature, between reinsured and reinsurer for the automatic cession and assumption of certain classes of risk identified in the treaty.

Facultative reinsurance means reinsurance of individual risks by offer and acceptance wherein the reinsurer retains the "faculty" to accept or reject each risk offered.

Combined ratio is a combination of the underwriting expense ratio which measures the ratio of underwriting expenses to premiums written and the loss and loss expense ratio which measures the ratio of losses and loss expense incurred to premiums earned. A combined ratio under 100 percent indicates an underwriting profit; one over 100 percent generally indicates an underwriting loss.

Excess of loss reinsurance refers to reinsurance which indemnifies the ceding company for that portion of a loss (arising out of any one occurrence) which is in excess of a stipulated amount or primary retention of the ceding company.

Retention is the net amount of risk which a ceding company keeps for its own account.

Occurrence refers to a form of liability insurance which responds for incidents which occurred during the policy term, regardless of when the claim is presented.

Claims made refers to a form of liability insurance which responds for claims which are presented during the policy term, regardless of when the incident occurred.

Acquisition costs are all expenses incurred by a reinsurer (including commissions) which are directly related to acquiring new business.

Statutory accounting principles are those required by statute and which must be followed by insurers and reinsurers in submitting their financial statements to state insurance departments. Such principles differ from generally accepted accounting principles in some important respects.

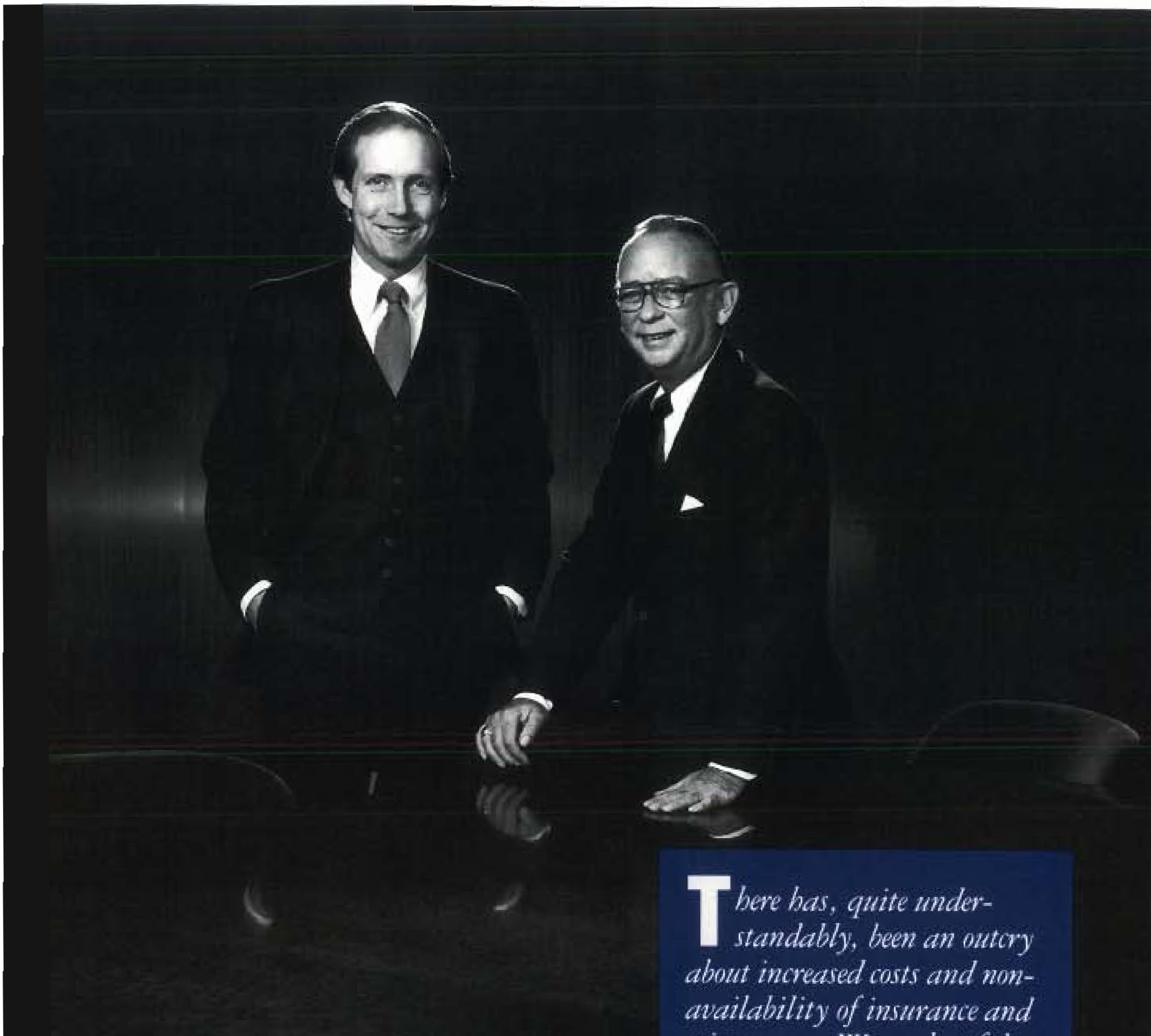
Financial Highlights

(in millions, except per share data)	1985	1984*	1983	1982	1981
Total revenues	$ 2,123.0	$ 1,665.3	$ 1,471.0	$ 1,330.6	$ 1,241.2
Consolidated net premiums written	$ 1,965.8	$ 1,429.7	$ 1,242.6	$ 1,107.1	$ 1,033.5
Combined underwriting ratio, domestic property-casualty reinsurance	110.79%	126.97%	107.13%	101.78%	99.09%
Operating income	$ 158.5	$ 65.7	$ 185.3	$ 207.7	$ 176.4
Per share	$ 3.38	$ 1.46	$ 4.11	$ 4.68	$ 4.04
Net income	$ 135.8	$ 156.3	$ 189.4	$ 203.6	$ 179.6
Per share	$ 2.90	$ 3.47	$ 4.20	$ 4.59	$ 4.12
Total assets	$ 6,689.4	$ 5,654.6	$ 5,001.4	$ 4,341.8	$ 3,838.7
Shareholders' equity	$ 1,794.2	$ 1,367.6	$ 1,316.5	$ 1,138.8	$ 968.4

All figures in this report for 1984 and prior have been restated to account for the effect of discontinued operations. See Note 3 to Notes to Consolidated Financial Statements.

*For the impact of the accounting change, see Note 2 to Notes to Consolidated Financial Statements.

Contents



Frank W. Munson, Chairman and Chief Executive Officer (Right)
Ronald E. Ferguson, President and Chief Operating Officer (Left)

There has, quite understandably, been an outcry about increased costs and non-availability of insurance and reinsurance. We are hopeful, and guardedly optimistic, that the attention of law-makers will be focused on the legal liability system which produces these costs.

As we review 1985, we see it as a year of substantial progress. While we did not reach our underwriting and financial objectives in 1985, we did record improvements, some quite dramatic, in virtually all measures of corporate performance. In addition to the welcome improvement in underwriting and financial results, 1985 brought us a strong demand for our traditional property-casualty reinsurance products. Last, but not least, during 1985 we initiated a number of activities and changes, described in this letter and elsewhere in this report, which we feel will be very important to the company as we identify and exploit the opportunities before us.

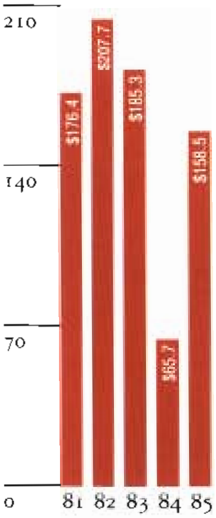
During 1985, the fruits of our reunderwriting and repricing efforts of the recent 24 months were finally manifest in a much better, though still unacceptable underwriting result. The combined underwriting-expense ratio for the year was 110.79 percent compared with the 126.97 percent recorded in 1984. This improvement reflects the underwriting and repricing efforts which have been underway at the reinsurance level for some time and, indirectly, the similar efforts being made by our clients in the insurance industry.

While every category of financial performance shows improvement, the analysis and interpretation of these results is more than a little involved. As will be explained more fully below and in other parts of this report, comparisons with 1984 results are complicated by an accounting change that was made in 1984, and are further complicated in 1985 (and in comparisons with 1984) by second quarter 1985 charges associated with some discontinued operations.

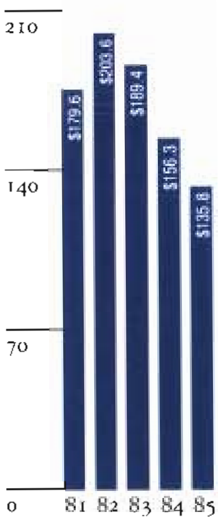
With that as prelude, we report that consolidated operating income from continuing operations was $158,500,000, or an increase of 141.4 percent over last year's operating income from continuing operations before the cumulative effect of an accounting change. On a per share basis, operating earnings for the year were $3.38 compared to last year's $1.46. Net income for the year was $135,800,000, or $2.90 per share, a decrease of 16.4 percent from last year's $3.47 per share, or $156,300,000. Unfortunately, the comparison of this year's net income and last year's net income is, on the face of it, not indicative of progress we've made in 1985.

Revenues for 1985 increased 27.5 percent to $2,123,000,000 compared to last year's $1,665,300,000. Worldwide premium volume from continuing operations was $1,965,800,000, an increase of 37.5 percent over 1984 premium volume of $1,429,700,000. The bulk of the premium volume growth is in our domestic property-casualty reinsurance operations, where premium volume increased 49.3 percent over 1984 and we posted a 70.6 percent

Operating Income
(in millions)



Net Income
(in millions)



increase in our traditional property-casualty reinsurance business. This remarkable increase in the property-casualty business reflects both substantial price increases as well as success in securing additional business from existing clients and new business from new clients.

In reviewing the performance for 1985, it will be useful to bear in mind several differences between the 1984 and the 1985 figures.

During 1984 we were able to tax effect underwriting losses at 39.4 percent. For 1985, we were able to tax effect underwriting losses to the extent of 25.1 percent.

The above reference to discontinued operations involves the sale of several U.K. companies which were the major elements of the Trident Group. The sale of Trident Life was completed in May, and Trident General in September. The sale of the last operating company of the group, Computel, was completed in early October. Charges related to these discontinued operations were made in the second quarter, and are reflected in the full year results. Prior years have been restated on a consistent basis.

A third factor that needs to be considered when comparing 1985 net income and 1984 net income is the cumulative effect of the accounting change of $80,500,000 or $1.78 per share that was recorded in the first quarter of 1984. This accounting change was discussed in considerable detail in the 1984 Annual Report and is reported on, in summary form, in the Notes to Consolidated Financial Statements which accompany this letter.

These three complicating factors make it difficult to compare and analyze net income from 1985 and 1984. More specifically, net income for 1985 was $135,800,000, or $2.90 per share, including a $28,500,000 loss, or $0.61 per share, from discontinued operations. This compares to net income in 1984 of $156,300,000 or $3.47 per share, which included earnings from discontinued operations of $6,500,000 or $0.15 per share, and the cumulative effect of the previously mentioned accounting change of $80,500,000 or $1.78 per share.

Comparison and analysis of the operating income from continuing operations for 1984 and 1985 is, in our view, a better indication of the company's performance. An even more dramatic and useful measure of our progress for 1985 can be found in data that are normally relegated to the back financial pages. Pretax operating income from continuing operations including equity in earnings of unconsolidated subsidiaries was $3.58 per share in 1985 compared to a loss of $0.75 last year. Next to the combined ratio improvement, the improvement in pretax operating income is perhaps the best indication of the progress made during 1985.

As noted, the combined loss and expense ratio for 1985 was 110.79 percent. This 1985 result is substantially better (we would guess about nine points better) than the competition but that's still not good enough. The combined ratio for 1985 reflects price increases, changes in terms and conditions, and the absence of major reassessments such as occurred in 1984 with the medical malpractice occurrence line of business.

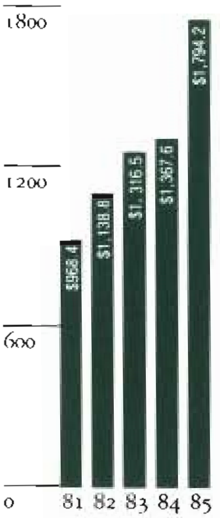
The fourth quarter 1985 underwriting results at 106.35 percent were unsatisfactory yet improved over the first three quarters of 1985 and significantly improved over the fourth quarter of 1984 combined ratio of 151.45 percent. Property reinsurance produced satisfactory underwriting results in 1985 while the liability lines continued to produce unsatisfactory, although improved, results. Pricing advances, or their equivalent, on both new and existing business continued during the year in keeping with our ongoing commitment to achieve underwriting profits for all lines of business.

Many of the factors which produced disastrous results for the primary insurance and reinsurance industries in 1983 and 1984 continue. As expected, there were a number of reinsurance and insurance failures and withdrawals in 1985. During 1985, we and our client companies were able to effect substantial price and underwriting corrections. The underlying problems, of course, cannot be solved solely by pricing and underwriting corrections. We continue to operate within a legal liability system which seems directed toward compensating every victim of accident or misfortune and, going beyond compensation, awards damages for pain and suffering and for punitive damages which are in many cases windfalls for the plaintiff and bonanzas for their attorneys.

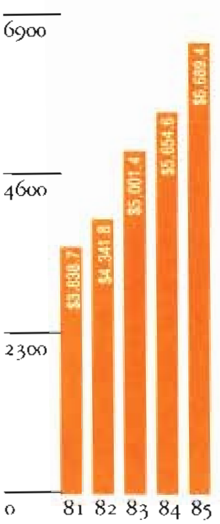
The price and underwriting corrections made by insurers are the medium through which the costs of this system are transmitted to the American public and to American industry. Insurers can't change this system, but they can help focus public attention on the costs of such a system. While the withdrawal of alien insurers and reinsurers from the U.S. liability market, and the failure of some insurers and reinsurers represents a short term opportunity for us, we believe it is unhealthy for the American public and for the American economy. There has, quite understandably, been an outcry about increased costs and non-availability of insurance and reinsurance. We are hopeful, and guardedly optimistic, that the attention of lawmakers will be focused on the legal liability system which produces these costs. There have been some reforms in selected areas, such as medical malpractice; however, we believe that a reevaluation and reform of the entire system is necessary and we will continue to urge and support such reforms.

Earnings of our life reinsurance operations were disappointing and were not much changed over 1984. We continue to post adverse experience for the ordinary life line. Lines other than ordinary life posted good results during 1985. We continue to see disintermediation, or withdrawal of funds, from permanent life insurance products to

Shareholders' Equity
(in millions)



Assets
(in millions)



aggressively priced term insurance products. This translates into higher-than-expected lapse ratios. These high lapse ratios in turn generated underwriting losses in the ordinary life lines as expense assumptions and mortality provisions proved to be inadequate.

The life insurance industry is trying to find ways to combat disintermediation and frequent term replacement and the attendant lapse problems. To the extent these industry efforts are successful, our results for this line of business will clearly benefit. It is, however, our intention, already undertaken, to carefully review our ordinary life reinsurance operations and to take corrective action. We expect to see improved results for this line of business and further develop our profitable specialty lines businesses.

Net investment income before taxes was $342,400,000 in 1985, an increase of 24.6 percent over the pretax investment income of $274,900,000 from continuing operations in 1984. The gain is primarily due to the investment of new cash, both that generated internally and that raised from the company's June 19th equity financing. Net investment income after taxes was $282,800,000, an increase of 12.8 percent over the 1984 figure. The company's investment tax rate rose from 8.8 percent in 1984 to 17.4 percent in 1985 as a larger percentage of the portfolio was invested in taxable securities.

Including $278,700,000 from an equity financing described below, new funds available for investment by the domestic companies were $798,200,000 in 1985, compared with $191,000,000 in 1984. Cash flow from the traditional risk business accelerated significantly during the latter part of the year, reflecting the rapid growth of that business.

As mid-year 1985 approached, it became apparent that we were facing strong and increasing demand for our property-casualty reinsurance. To prepare ourselves to accommodate this demand, which did in fact continue, indeed it got even stronger as the year played out, we made a careful study of our capital needs. This led to a decision to sell shares to the public — for the first time in our then 64-year history. Using the investment bankers Morgan Stanley & Co. Incorporated, Goldman, Sachs & Co., Salomon Brothers Inc., and The First Boston Corporation, we sold 3,450,000 shares on June 19th. The net proceeds of that offering, $278,700,000, were earmarked principally for the property-casualty reinsurance operations. At the time, this was the largest insurance company new issue and the amount raised was greater than the entire capital account of any of our competitors but one.

Shareholders' equity at December 31, 1985, amounted to $1,794,200,000 an increase of $426,500,000 during 1985 which includes the proceeds of the common stock offering in June, 1985.

In a post year-end development, on February 4th, 1986, we filed a registration statement with the Securities and Exchange Commission for an offering of 2,500,000 shares of common stock again underwritten by Morgan Stanley & Co. Incorporated, Goldman, Sachs & Co., The First Boston Corporation, and Salomon Brothers Inc. The filing also made provision for a 15 percent over-allotment option to the underwriters resulting in a total filing of 2,875,000 shares. The underwriting of this issue was completed on February 11th and underwriters exercised the full amount of their option. Net proceeds to the company were $322,600,000, all of which were invested in our domestic property and casualty reinsurance operations to support growth in that part of our operations.

We are very grateful and enthusiastic about the support investors gave us in these two major stock offerings. We welcome our new shareholders and also thank our current shareholders for their continued support.

As you will have gathered from this long and, in parts, complicated report — a lot happened in 1985. First and most important, the reunderwriting, repricing, and hard work paid off — and the underwriting results improved, though we still have a way to go. Second, we saw (cultivated and were ready for) a strong demand for our products and services. Third, during the year we divested, closed down, or restructured a number of operations that were either a financial drain or a distraction from our principal business. Fourth, we implemented several organizational, structural, and system changes, all of which are designed to make for a more efficient handling of our business and produce a better product for our customers. Fifth, we simplified lines of underwriting authority and expanded our underwriting think tank. Sixth, we raised $278,700,000 of capital in June of 1985 and another $322,600,000 in February of 1986. These two highly successful stock offerings dramatically increase our real and perceived capacity to write reinsurance business in an era when clients have a weather eye on reinsurance company balance sheets.

We believe 1985 was a pivotal year, perhaps even a watershed year in the modern history of your company. During 1985, we enjoyed the support and interest of a growing roster of clients and shareholders. In addition, the men and women of General Re accomplished a great deal in 1985 and we are ready to seize the opportunities that we're certain lie before us. General Re has the best staff of reinsurance professionals in the world and they all did a first rate job in 1985.

FW Munson

Frank W. Munson, Chairman

R E Ferguson

Ronald E. Ferguson, President

March 3, 1986

In June the Corporation completed an underwritten offering totaling 3.45 million shares of common stock at a price to the public of $82.50. Net proceeds to the Corporation were $278.7 million, the bulk of the proceeds were contributed to the domestic property-casualty subsidiaries to support anticipated premium growth in those subsidiaries.

At the December meeting of the Board of Directors, Mr. Edward H. Malone was elected a member of the Board. Mr. Malone recently retired as Vice President of General Electric Company where he managed an investment portfolio of approximately $17 billion in assets.

Also in December, Mr. Ronald G. Anderson was named Vice President – Finance of the Corporation.

Subsidiary Company Changes

In General Reinsurance Corporation Ronald E. Ferguson was elected Chairman, replacing Frank W. Munson in that position. The Board of this subsidiary was reorganized to form an inside Board, and the following members were elected: John C. Etling, Ronald E. Ferguson, James E. Gustafson, Tom N. Kellogg, Kenneth J. LeStrange, Dallas W. Luby, Thomas J. McCarthy, Frank W. Munson, Richard J. Reynolds, Jr., and Robert O. Shepler.

Vice Presidential appointments made during the year include Raymond F. Dostal, Christopher P. Garand, George W. Lee, Michael E. Lyngaas, Timothy P. Mitchell, and Richard S. Skewes.

At Herbert Clough, Stephen L. Lunsford was elected President in May, in addition to his duties in the Treaty Marketing Department of General Reinsurance. Michael F. Clarke and George T. Derfus were appointed Senior Vice Presidents.

At North Star Reinsurance Corporation, two Senior Vice Presidents were named: James E. Roberts and David C. Smith.

At Reinsurance Corporation of Australasia Ltd., Paul J. Miller was advanced to Managing Director.

At General Reassurance Corporation, Richard W. Hadley and Stephen D. Poth were advanced to Vice President. Early in 1986, Oscar R. Scofield was appointed President of Fairfield Life Insurance Company.

In General Re Services Corporation Stephen P. Raye was elected Vice President.

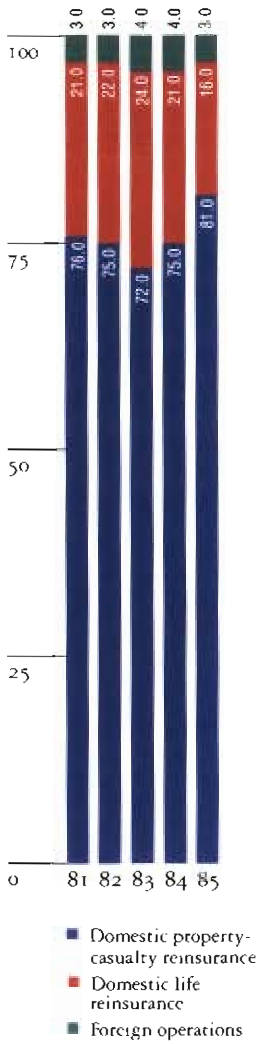
In November, General Re Corporation purchased 100 percent of the stock of The Monarch Insurance Company of Ohio. This company is licensed to write all lines of direct property-casualty insurance in forty-nine (49) states.

John C. Etling was elected President of the Monarch in November, and Kevin P. Brooks was named General Manager.

As mentioned in the letter to stockholders, we discontinued a number of activities which were outside our mainstream operations. The companies comprising the Trident Group were sold and North Star Syndicate, which was an underwriting member of the New York Insurance Exchange, withdrew from the Exchange. Negotiations for the sale of the Bermuda corporation, General Re Services Limited, were completed and regulatory approvals obtained, with the sale to be concluded January 1, 1986.

Group Operations

Consolidated Net Premiums Written
(as a percent of total)



General Re Corporation is a holding company with subsidiaries operating in the fields of reinsurance, insurance, and insurance services. The domestic reinsurance subsidiaries comprise the largest reinsurance operation domiciled in the United States and one of the largest in the world.

Subsidiaries domiciled in the United Kingdom, Switzerland, and Australia are engaged in the insurance and reinsurance business, while subsidiaries in Mexico and Spain serve as reinsurance brokers. Other subsidiaries and joint ventures in the United States provide insurance and reinsurance management services.

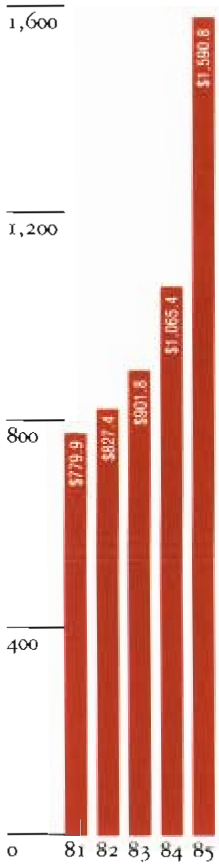
Companies of the Group operate from offices in 29 cities in the United States and Canada and from offices in 10 cities overseas. The Group has 2,185 employees worldwide, 2,056 of which are based in the United States. The worldwide number is reduced from the 2,807 reported last year principally as a result of the sale of the Trident Companies.

Consolidated Net Premiums Written (in millions)

	Domestic Property-Casualty Reinsurance	Domestic Life Reinsurance	Foreign Operations	Total
1985	$1,590.8	$320.1	$54.9	$1,965.8
1984	1,065.4	307.6	56.7	1,429.7
1983	901.8	294.1	46.7	1,242.6
1982	827.4	245.1	34.6	1,107.1
1981	779.9	219.1	34.5	1,033.5

Domestic Property-Casualty Reinsurance

Domestic Property-Casualty Reinsurance
Consolidated Net Premiums Written
(in millions)



1985 saw dramatic changes in the property-casualty insurance and reinsurance industries. After six years of steady deterioration in the quality of underwriting and loss reserving, companies began to reemphasize basic underwriting, pricing and loss reserving disciplines in the second quarter of 1984. As 1984 progressed, it became increasingly clear that it would be, by a wide margin, the worst year the industry had every experienced. Virtually every company in the industry initiated substantial changes in their pricing, underwriting, and reserving as well as a widespread review of policy forms. These changes continued and accelerated during the course of 1985.

These corrections were made, and continue to be made, at a time when the surplus of primary companies has been severely eroded by prior years' losses, and at a time when reinsurance availability and capacity have also been diminished by the erosion of surplus of reinsurers, by the insolvency of some reinsurers, and withdrawal from the market by others.

One of the results of this reordering of the market is an unprecedented demand for reinsurance, and a heightened awareness of the importance of the reliability of reinsurance. At General Re, we have marshalled all of our resources, talents, and efforts to counsel with old and new clients, and to quote and write new business where the companies' plans are, in our opinion, likely to produce a profit for the company and reinsurer.

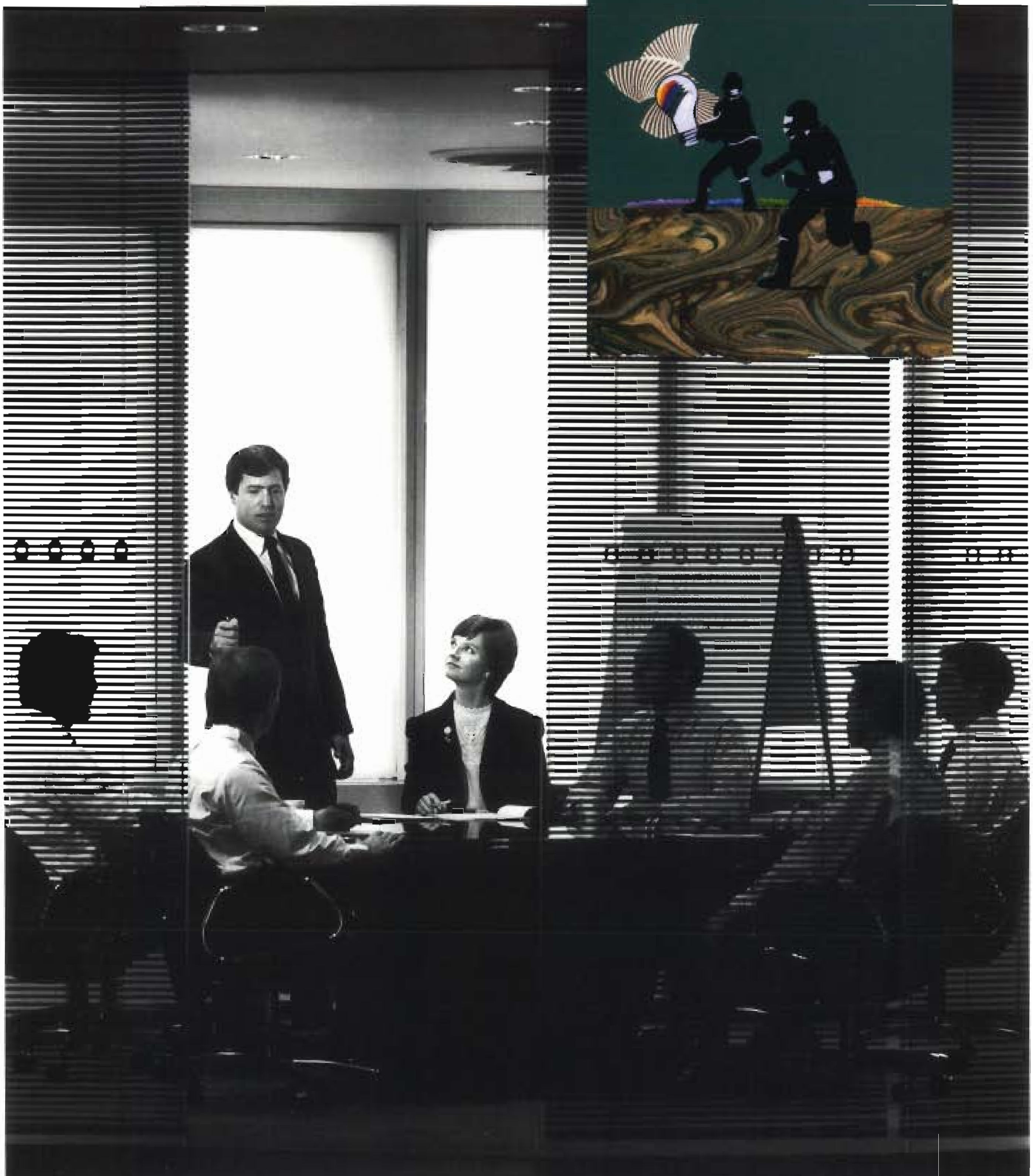
General Re's 1985 results reflect the reunderwriting and corrections in our own business, which we reported last year, and, to a lesser extent, our 1985 underwriting activities and the new business produced during the year. The full effect of our 1985 marketing and pricing activities will not be realized for several years.

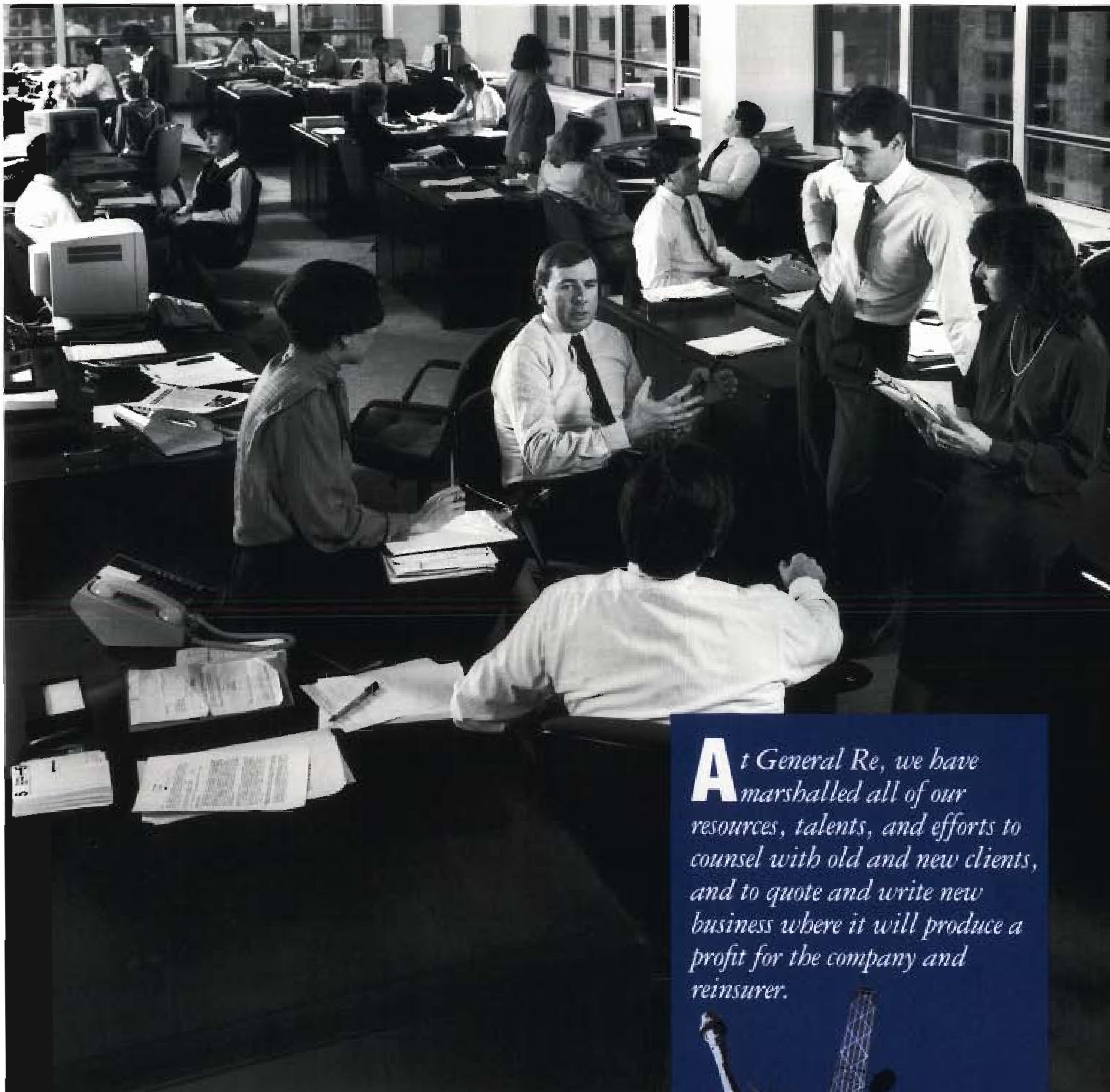
The combined ratio for domestic property-casualty operations of the group for 1985 is 110.79 percent, compared with 126.97 percent for 1984. Improvements were realized in virtually every line of business.

Net premiums written in 1985 totaled $1,590.8 million an increase of 49.3 percent over 1984. The increase in net written premiums reflects both price increases and new business. Net premiums written in traditional property-casualty risk business increased 70.6 percent from $833.2 million to $1,421.6 million. We are still not content with a combined ratio in excess of 100 percent, however, we have made substantial progress toward a satisfactory underwriting result.

General liability reinsurance continues to be the most difficult business to correct. This line is affected by jury awards, by novel theories of liability, and by court reinterpretation of contracts which take place after — sometimes many years after — the business is originally priced and underwritten.

Teamwork brings together the professional expertise, talents, and knowledge to assure quality service to our clients.





At General Re, we have marshalled all of our resources, talents, and efforts to counsel with old and new clients, and to quote and write new business where it will produce a profit for the company and reinsurer.

As a result, pricing and traditional risk underwriting may not be a sufficient answer to turn some general liability classes to an underwriting profit. During 1985 many reinsurers curtailed their assumption of liability reinsurance and some major alien insurers and reinsurers withdrew from the American market. Through careful underwriting and pricing aided by corrections at the primary insurance level, we have improved our results in this line. However, more work needs to be done.

We are fully supportive of the efforts of the Insurance Services Office in developing new general liability forms which include an overall aggregate policy limit, and their efforts to implement a claims-made form. We are encouraging client companies to implement this new form where appropriate. In the long run there will need to be modifications in the tort system and we support the Insurance Information Institute's tort reform campaign as well as other efforts in this area.

In 1984 we ceased accepting new medical malpractice business written on the occurrence form and initiated a program to convert current business to the claims-made form. That effort was completed in 1985 and, while we will continue to incur claims under the occurrence contracts written in prior years, we believe we have established appropriate (loss) reserves.

Property reinsurance, which had traditionally been profitable, produced unacceptable results in 1984. Corrective measures in this line are realized more quickly than in the casualty lines, and in 1985 property reinsurance both in the treaty and facultative areas was restored to a profitable basis. The number of natural disasters in 1985 was greater than in the preceding two years and was, we believe, closer to the norm for such events. Our companies' involvement in these losses was well within our normal expectations and overall profit levels were satisfactory.

Many of the factors which produced the disastrous liability underwriting losses of 1984 are still prevalent. The improvement in our underwriting result is attributable to the improved terms and premium levels which have been effected both at the primary insurance level and at the reinsurance level. While market conditions are much improved over 1984 we are continuing our efforts to review, reunderwrite, and reprice.

Last year, we reported that we had begun development of an innovative system for the placement and processing of facultative business called CONFER or COmmunications Network For Electronic Reinsurance. That system was implemented in 1985 and has exceeded our expectations. Our facultative staff in our branch offices, and in the head office, are now able to respond more quickly and accurately to client requests for quotations, confirmation of coverage, issuance of certificates and endorsements, and to devote more of their time to consultation with clients and to underwriting. It has enhanced the ability of our staff to respond to the unprecedented demand for reinsurance which materialized in 1985.

Our treaty marketing staff also had a successful year. In addition to serving the needs of our existing clients, we evaluated more than 95 proposals and wrote 31 new treaty accounts. Most new treaty business is effective January 1, 1986, and premiums attributable to that business are not reflected in the 1985 figures.

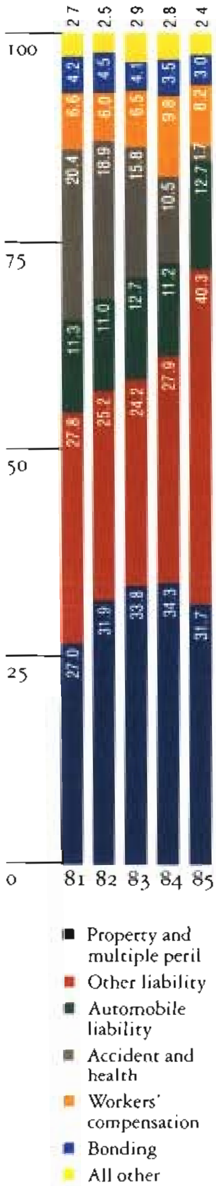
During 1985, we acquired The Monarch Insurance Company of Ohio, which is licensed in 49 states. This company, and Genstar which writes insurance on an excess and surplus lines basis, enables us to develop the specialized staff, procedures, and marketing methods necessary to serve the growing needs of the speciality markets countrywide.

We believe the strong demand for quality reinsurance — quality, in terms of security and service — will continue through 1986 and beyond, and we are well positioned to use this opportunity to continue our progress toward our long-term objective of underwriting profit.

Underwriting Record (dollars in millions)

	Net Premiums Written	Net Premiums Earned	Combined Ratio (percent)
1985	$1,590.8	$1,318.0	110.79
1984	1,065.4	980.7	126.97
1983	901.8	863.6	107.13
1982	827.4	819.3	101.78
1981	779.9	797.1	99.09

Domestic Property Casualty Net Premiums Written
(as a percent of total)



Domestic Life Reinsurance

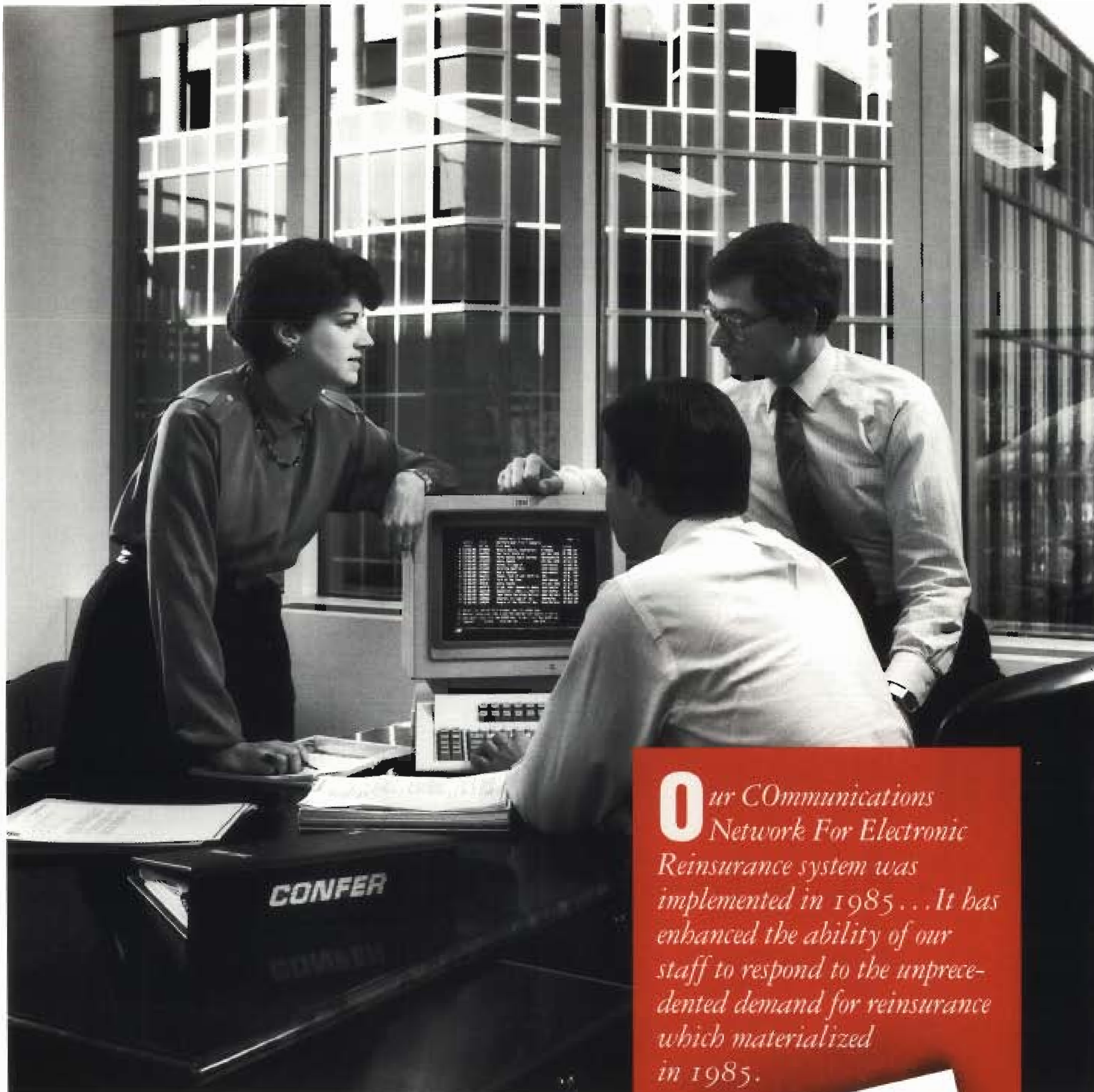
The marketplace we serve continues to change and General Reassurance Corporation has kept pace with these changes and remains one of America's premier life reinsurance companies.

Fortunately, the marketing of low premium term insurance has given way to universal life, and other interest-sensitive products which have been widely accepted by the consumer. These new products create new opportunities for General Reassurance.

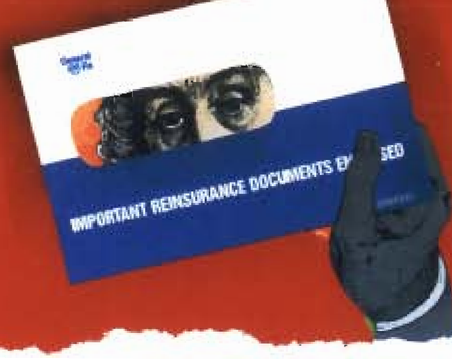
In 1985, 13.5 percent of the new ordinary life premium paid to General Re came from the reinsurance of universal life policies. It is important to note that these policies are less likely to lapse than the low-cost term plans which previously dominated the marketplace.

Reinsurance premiums for the ordinary life reinsurance line totaled $193.7 million in 1985, a gain of 7.2 percent over 1984. Lapse problems continued as policyholders sought and switched to low-priced term insurance. Mortality experience was poor though we saw some improvement. Unlike last year, AIDS claims had little adverse impact in 1985. They accounted for less than 1 percent of our ordinary life claims payout. Overall the ordinary life line produced an underwriting loss.

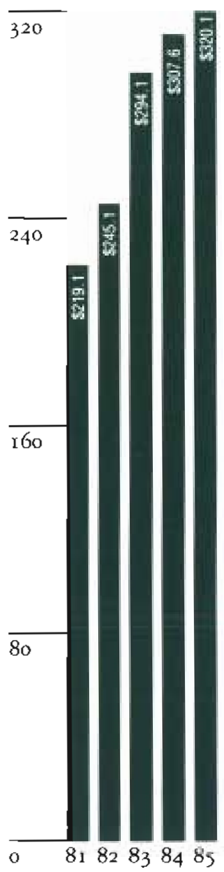
Our efforts to reestablish an underwriting profit in the ordinary life line are ongoing. Corrective actions include increased premiums, underwriting and administrative audits, and continued programs to review the profitability of



Our COmmunications Network For Electronic Reinsurance system was implemented in 1985...It has enhanced the ability of our staff to respond to the unprecedented demand for reinsurance which materialized in 1985.



Domestic Life Reinsurance
Consolidated Net Premiums Written
(in millions)



our treaties, and, in the end, terminating those which do not meet our standards.

We continue to strengthen our entire base of operations. Fairfield Life Insurance Company, a subsidiary of General Reassurance Corporation, is now licensed in 44 states and continues to write life reinsurance. In 1986 the company will write premiums in the primary market, as well as provide administrative services for other life companies on a fee basis.

New single premium immediate annuity (SPIA) premiums totaled $18.1 million for 1985, and this line of business contributed $1.1 million in underwriting profit for the year. This new segment of our business has grown steadily since it was launched three years ago.

The Group life and health business generated profits for the company again this year. Premiums in these lines reached an all-time high of $29.2 million in 1985, an 8.29 percent increase over the previous year. During the year, we developed a new voluntary group life manual which has been well received by our clients. Another highlight for our group clients is the new rehabilitation service that General Reassurance is offering. This service will help clients reduce claim payments to injured insureds by facilitating their return to a productive life.

International life reinsurance is a small but profitable part of our company. Our Mexican operations were not significantly hurt by the September earthquake. Losses are estimated at less than $0.3 million (U.S.). Damage to our office was slight and, remarkably, our staff resumed business the following day.

Our office in Madrid serves 13 Spanish life companies. With the entrance of Spain into the EEC, we believe that life insurance and life reinsurance activity will increase.

We moved into our new headquarters in Stamford last year. Working close to other General Re Group companies has already produced new business opportunities. Although the expenses of the move were felt in our 1985 results, we feel we are now in a position to benefit from these new facilities.

1985 was a very disappointing year in that we did not produce profitable underwriting results. It was, however, a year of growth and correction. Net premiums grew to $320.1 million, and life reinsurance in force reached $71.5 billion.

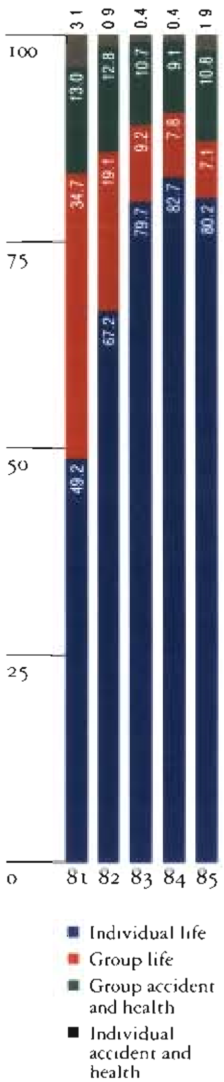
As we begin 1986, General Reassurance is again aiming to meet the needs of its clients in the still evolving life insurance industry. We look forward to improved results in 1986. We pledge our strong continuing effort to achieve underwriting profits.

Domestic Life Net Premiums Written and Operating Income (in millions)

	Net Premiums Written	Operating Income
1985	$320.1	$21.2
1984	307.6	23.6
1983	294.1	22.1
1982	245.1	39.3
1981	219.1	28.2

Foreign Operations

Domestic Life Net Premiums Written
(as a percent of total)



The foreign operations of General Re Corporation are staffed to provide complete reinsurance services in the markets outside of North America. The General Reinsurance Group operates 10 offices in seven countries.

In 1983 and 1984, our overseas subsidiaries had substantial premium increases in original currencies. In 1985 overseas subsidiaries' premium growth continued to a lesser extent; however, over a 10 percent depreciation of overseas currencies relative to the U.S. dollar caused a slight decline in General Re Group premium volume measured in U.S. dollars. The Home Office Overseas Department increased its premium volume substantially in 1985 as it did in 1984. The foreign premium volume of the subsidiaries and home office combined was $108.7 million in 1985 as compared with $92.0 million in 1984. Our overseas subsidiaries, together with the Home Office Overseas Department, produced an underwriting profit in 1985.

General Reinsurance Limited

General Reinsurance Limited in London achieved substantial premium growth through its facultative operations and an underwriting profit throughout its operations, where we now have active client relationships with the majority of United Kingdom based insurers.

The increase in casualty facultative business was fueled by substantially reduced capacity by traditional treaty reinsurers. Our underwriters, in close liaison with home office, have been able to provide a combination of capacity and terms to responsibly react to insurers and insureds alike.

There was also an encouraging growth in property facultative lines, where our long term advocation of nonproportional methods continued to gain ground in a market where traditional share capacity is tightening. The marine account continued to grow profitably.

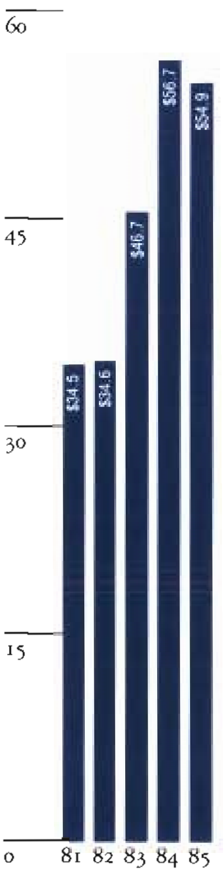
We also made progress in the difficult treaty environment, where our security will continue to be of growing importance in the future.

General Reinsurance Corporation (Europe)

General Reinsurance Corporation (Europe) provides treaty and facultative reinsurance services to insurance companies in Europe, the Middle East, and Africa. Consistent with the European reinsurance marketplace, General Re (Europe) accounts one year in arrears, so that its 1985 results reflect the 1984 underwriting year.

During 1985, original rating in the direct insurance markets failed on the whole to move up to profitable levels. Accordingly, the more stringent reinsurance terms implemented by the reinsurance community in 1984 con-

Foreign Operations
Consolidated Net Premiums Written
(in millions)



tinued. The continuing erosion of results as posted in the accounts of many reinsurers compelled insurance companies to evaluate anew their reinsurance security and to align themselves more closely with financially sound reinsurers.

General Manager Max E. Aeschbacher retired after serving this company since 1962. Pierre L. Ozendo, who had been with the Overseas Department in Stamford, was appointed General Manager and transferred to Zurich.

For the year General Re (Europe) expanded its client base and realized a satisfactory growth in volume. Again, operating results were satisfactory.

Reinsurance Company of Australasia

Reinsurance Company of Australasia Limited (RECOA) has its headquarters in Sydney. It offers complete treaty and facultative reinsurance throughout Australia and New Zealand by a network of four branches in addition to the head office.

RECOA had an underwriting loss in 1985 caused by a variety of natural catastrophes in the first part of the year and greater than anticpated loss activity in other segments. RECOA accounts one quarter behind and, therefore, the results included its last quarter of 1984 and first three quarters of 1985. Last year we noted the potential loss of workers' compensation business by the private insurance industry. In 1985, workers' compensation in Victoria was taken over by the State government. This has had the effect of reducing RECOA's premium growth for the year compared to the previous year. Nonetheless, traditional reinsurance premium growth, apart from workers' compensation, has continued to be strong in the facultative area, particularly in the liability lines where RECOA is best able to take advantage of the reduction in international reinsurance capacity.

RECOA is firmly entrenched as one of the leading reinsurers in its territory and has a solid reputation as an innovative, creative reinsurer for both treaty and facultative considerations and is, therefore, positioned to take advantage of any additional opportunities.

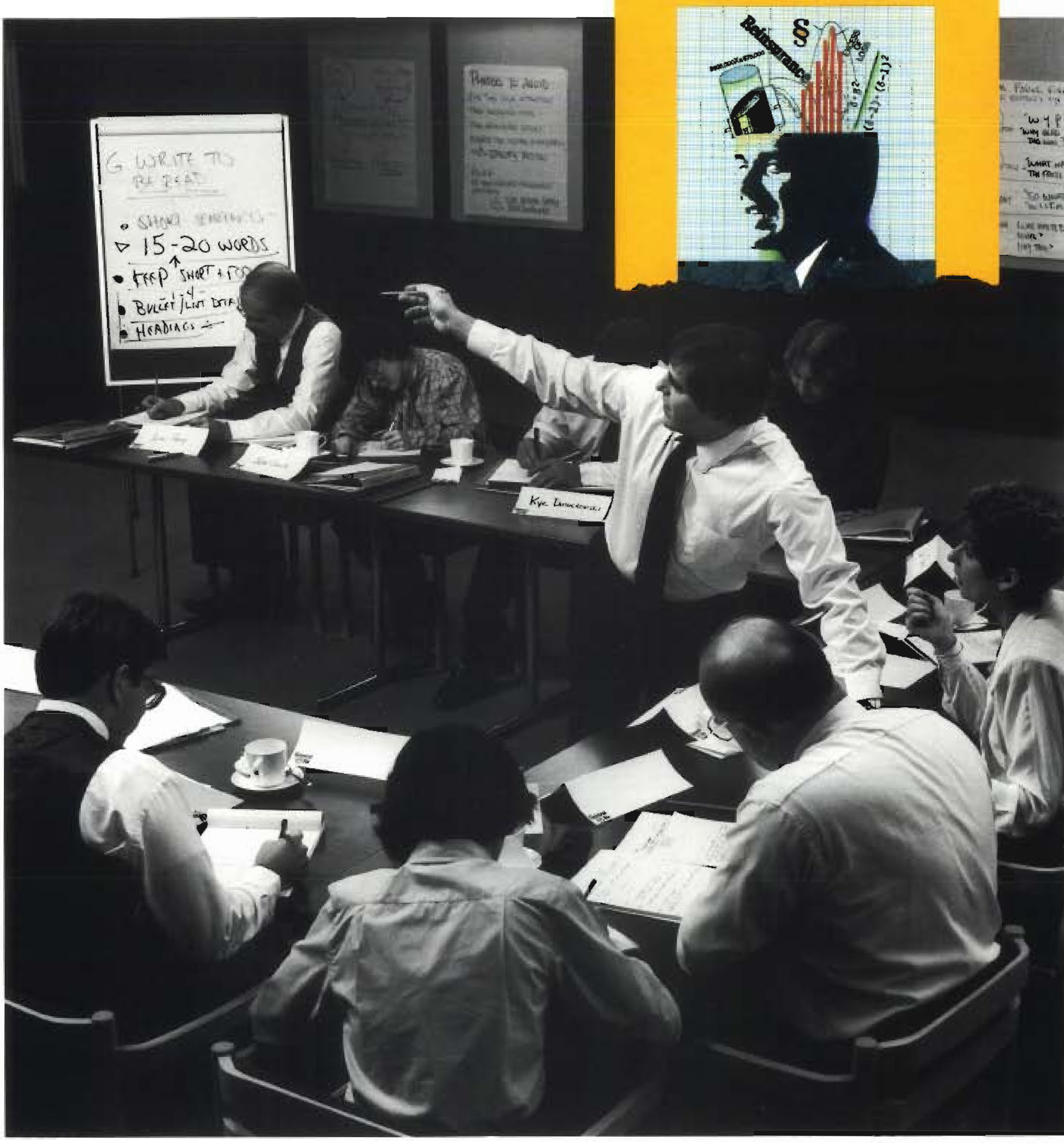
Overseas Subsidiaries
Net Premiums Written (in millions)

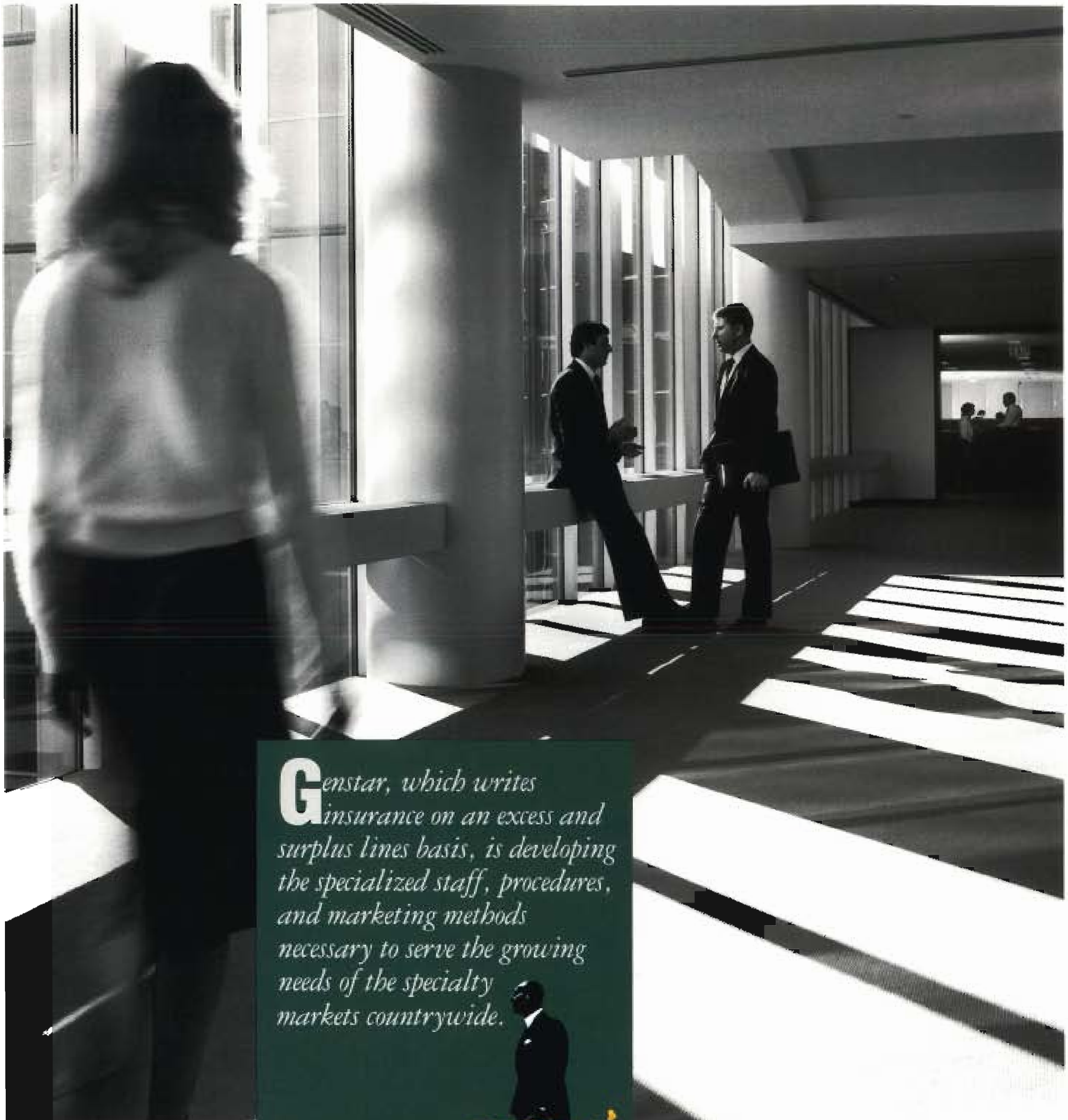
1985	$54.9
1984	56.7
1983	46.7
1982	34.6
1981	34.5

Japan

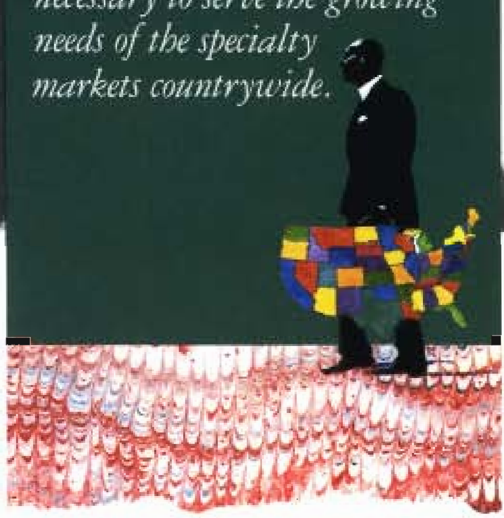
The Tokyo Liaison Office showed a small growth in its reinsurance portfolio, and underwriting continues to be profitable. This is an important reinsurance and retrocessional market for the General Re Group. We are encouraged by the advice sought by this market and the opportunity to provide such service and creative reinsurance solutions to ever complex situations.

In the dynamic business environment in which General Re works, the training and retraining of staff members is a top priority. The Human Resources Department was expanded to administer the new in-house training facility.

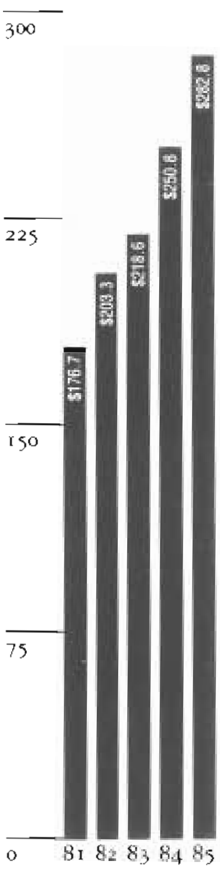




Genstar, which writes insurance on an excess and surplus lines basis, is developing the specialized staff, procedures, and marketing methods necessary to serve the growing needs of the specialty markets countrywide.



Net Investment Income (after taxes)
(in millions)



Home Office

The Home Office Overseas Department underwrites retrocessional business from General Re subsidiaries and non-affiliated sources and also underwrites reinsurance originating in Japan, Latin America, several European accounts, and American companies doing overseas business. We continually work with our overseas subsidiaries to provide reinsurance concepts, forms, and prices, as well as group capacity to fulfill the individual needs of the local markets. As in 1984, we were very encouraged by the growth of premium from non-affiliated sources.

Changes resulting from the changing U.S. liability market are monitored in the Home Office Overseas Department, as well as anticipating reinsurance opportunities that could develop for our overseas subsidiaries because of the substantial hardening of selected parts of the international reinsurance scene. We develop an underwriting policy taking into consideration socio-economic conditions applicable to those markets to formulate comprehensive underwriting guidelines on emerging lines for our subsidiaries.

Investments

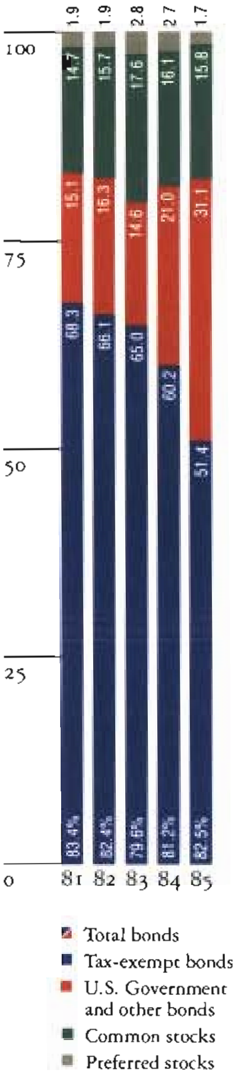
The Investment Group provides investment and portfolio management services to General Re and its subsidiaries. The principal objective is to generate maximum income and capital appreciation consistent with prudent risks, with due consideration for the liquidity requirements of the Corporation, the current and prospective tax circumstances, and the statutory and regulatory requirements applicable to the individual subsidiaries.

Net investment income before taxes was $342.4 million in 1985, an increase of 24.6 percent over the pretax investment income of $274.9 million from continuing operations in 1984. The gain is primarily due to the investment of new cash, both that generated internally and that raised from the company's June 19th equity financing. Net investment income after taxes was $282.8 million, an increase of 12.8 percent over the 1984 figure. The company's investment tax rate rose from 8.8 percent in 1984 to 17.4 percent in 1985 as a larger percentage of the portfolio was invested in taxable securities.

Including $278.7 million from the equity financing, new funds available for investment by the domestic companies were $798.2 million in 1985, compared with $191.0 million in 1984. Cash flow from the traditional risk business accelerated significantly during the latter part of the year, reflecting the rapid growth of that business.

Given the company's 1985 underwriting losses and the ability to utilize additional taxable income, the major portion of new funds was invested in intermediate maturity taxable bonds. During 1985, $572.6 million of net U.S. treasury and other taxable bonds

Summary of Securities Owned
(as a percent of total)



was purchased by the property-casualty companies with an average maturity of 3.9 years and an average yield of 10.29 percent. At the end of the 1985, $676.1 million of intermediate taxable bonds was held by the property-casualty subsidiaries.

In 1985 overall net purchases of tax-exempt bonds were $120.6 million. Early in the year, $220.5 million of municipal bonds maturing within five years were switched into comparable maturity taxable bonds. In addition the tax-exempt bond holdings were reduced by $88.1 million as a result of the restructuring of a special financial treaty. During the second half of the year, the company resumed purchasing municipal bonds and $429.2 million of tax-exempt fixed income securities was bought. These bonds had an average yield of 9.34 percent and an average maturity of 18.2 years.

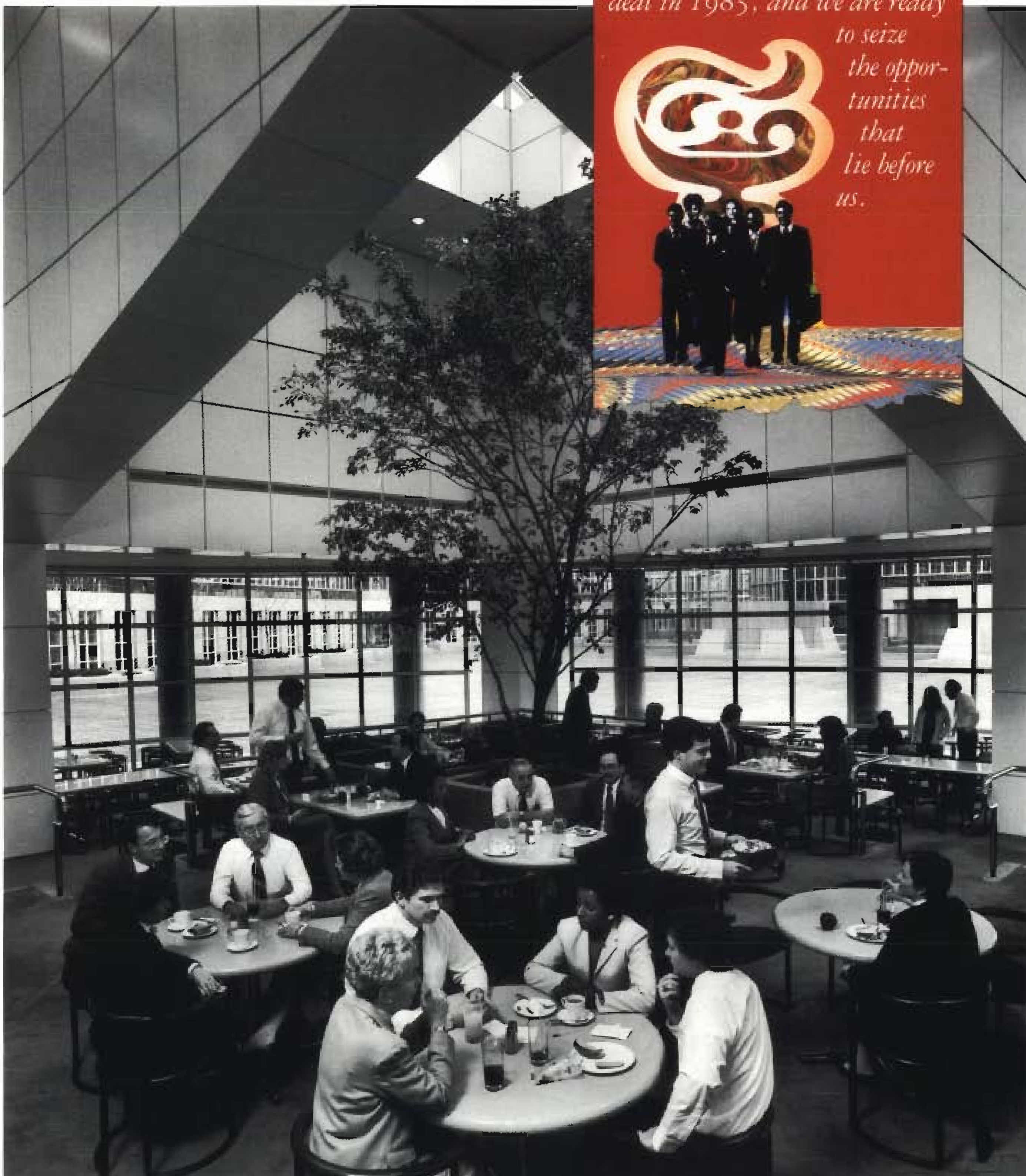
At the end of 1985, $2,357.1 million or 51.4 percent of the domestic companies' invested assets was in municipal bonds. Most of the tax-exempt bond portfolio are revenue issues of A-AA quality. The bond portfolio is structured toward a staggered maturity schedule extending out to 20 years that takes into consideration each company's maturing liabilities. At year-end 1985 the average maturity of the tax-exempt bond portfolio was 13.9 years, and for the total bond portfolio was 10.9 years, adjusted for probable early retirements.

Because of the combination of underwriting losses and the very rapid growth of premiums and reserves, we adopted a conservative policy regarding additional purchases of common stock. Net equity purchases were $7.9 million in 1985. At the end of 1985 the portfolio of publicly traded equities totaled $606.5 million, which was 33.8 percent of shareholders' equity and 55.8 percent of statutory surplus of the combined domestic insurance subsidiaries.

Other net purchases included $58.4 million of taxable bonds for the life companies, of which $18.2 million was related to single premium immediate annuities; $5.7 million of foreign bonds, mostly for deposit purposes; and $18.1 million of special investments, which are primarily insurance related businesses in which General Re has an equity interest. Holdings of treasury bills and money market securities for liquidity purposes rose $52.3 million, and were $176.7 million at the end of 1985.

Under domestic insurance accounting regulations, common stocks and the casualty companies' non-sinking fund preferreds are carried at market values and bonds and sinking fund preferreds at amortized values; therefore, fluctuations in the market value of bonds and sinking fund preferreds do not affect policyholders' surplus. The appreciation in market value of the common stock portfolio in 1985 amounted to $115.9 million or 24.4 percent, while the market value of the bond portfolio appreciated $219.5 million. At year-end, the market value of the bond account was $30.8 million below the carrying value of $3,782.4 million.

This was a pivotal year, perhaps even a watershed in the modern history of your company. The men and women of General Re accomplished a great deal in 1985, and we are ready to seize the opportunities that lie before us.



Summary of Securities Owned (domestic companies only) (in millions)

	1985	1984	1983	1982	1981
Bonds					
Short-term securities	$ 171.1	$ 140.5	$ 77.8	$ 153.8	$ 125.7
United States government	653.4	185.2	88.8	50.4	38.5
Tax-exempt	2,357.1	2,235.6	2,318.2	2,148.1	2,016.2
Other bonds					
Foreign	138.2	139.4	86.8	79.9	74.5
Other taxable	462.6	315.2	270.5	244.0	206.9
Total bonds	3,782.4	3,015.9	2,842.1	2,676.2	2,461.8
Preferred stocks					
With sinking fund	47.4	56.8	52.1	43.0	37.2
Without sinking fund	23.5	16.2	22.7	15.6	12.4
Convertible	5.0	26.2	24.6	4.1	6.1
Total preferred stocks	75.9	99.2	99.4	62.7	55.7
Common stocks					
Public utilities	40.1	24.7	12.7	11.8	6.7
Banks and insurance companies	85.8	67.1	66.6	56.9	60.8
Industrial and miscellaneous companies	493.7	402.1	444.5	355.0	286.8
Subsidiary companies, at net worth	108.6	103.5	103.8	84.5	79.0
Total common stocks	728.2	597.4	627.6	508.2	433.3
Grand total	$4,586.5	$3,712.5	$3,569.1	$3,247.1	$2,950.8

Investment Record (in millions, except per share data)

	Total Investments at Year-End	Net Investment Income before Taxes	Net Investment Income after Taxes	Applicable Tax Rate	Yield on Investments (1) Before Taxes	Yield on Investments (1) After Taxes	Per Share Net Investment Income after Taxes
1985	$4,675.1	$342.4	$282.8	17.41%	8.09%	6.68%	$6.03
1984	3,788.1	274.9	250.8	8.77	7.45	6.79	5.56
1983	3,596.3	231.7	218.6	5.65	6.76	6.37	4.85
1982	3,262.8	210.2	203.3	3.28	6.75	6.53	4.58
1981	2,965.8	191.3	176.7	7.63	6.71	6.20	4.05

(1) Computed on the mean of invested assets at beginning and end of year.

Sources of Investment Income (in millions)

	1985	1984	1983
Interest earned			
Taxable interest	$148.4	$ 64.9	$ 42.7
Tax-exempt interest	168.2	180.2	169.8
Total	316.6	245.1	212.5
Dividends			
Common	21.2	21.5	18.8
Preferred	10.3	9.2	8.6
Total	31.5	30.7	27.4
Total investment income	348.1	275.8	239.9
Expenses	5.7	.9	8.2
Net investment income	342.4	274.9	231.7
Applicable taxes	59.6	24.1	13.1
Net investment income, after taxes	$282.8	$250.8	$218.6

Consolidated Net Investment Authorizations (domestic companies only)

(in millions)	1985	1984	1983	1982	1981
Short-term securities	$ 52.3	$ 41.9	$ (73.8)	$ 29.2	$ 42.2
Foreign bonds	5.7	35.8	0.8	3.5	4.4
Other taxable bonds	631.0	182.3	35.5	27.2	33.2
Tax-exempt bonds	120.6	(62.9)	192.8	133.3	208.1
Preferred stocks	(4.8)	0.3	17.9	4.2	10.4
Common stocks	7.9	(30.1)	21.0	30.8	34.5
Foreign subs. & Spec. investments	17.9	13.1	27.6	11.7	14.4
	$830.6	$180.4	$221.8	$239.9	$347.2

Management's Analysis of Operations and Financial Condition

The financial statements in this report are consolidated as to General Re Corporation and all subsidiaries. During 1985 General Re sold the Trident Companies, which comprised several companies in the United Kingdom, for a total consideration of £47.9 million. The consolidated financial statements for 1984 and prior years have been restated to account for the effect of discontinued operations.

In the discussion of property-casualty operations, reference is made to "incurred loss." Under insurance accounting practice, losses incurred in a given accounting period means the sum of losses and loss adjustment expenses paid during the period (less salvage and recovery realized) and the increase or decrease in reserves for losses and loss adjustment expenses made during the same period. When an insurance company pays a loss with respect to which a reserve had been established, the reserve is taken down or, in the case of a partial payment, reduced. When an insurer resolves a contested claim for which a reserve had been established, the reserve is taken down. Where the amount paid corresponds exactly with the amount of a reserve established in a prior period, there would be no effect on "incurred loss." Where the amount paid is less than the amount of the related reserve (or when a disputed claim is resolved with no payment), there would be a decrease in "incurred loss," and vice versa.

The incurred loss figure reflects changes in the amount of case reserves (related to specific identified claims) and changes in reserves for claims "incurred but not reported." The latter, referred to as "IBNR" reserves are established by line of business and on the basis of past experience, and on the basis of informed judgment regarding probable future development.

It is important to recognize that the "incurred loss" reported by an insurer does not necessarily mean that the insurer has paid out that amount in claims. In 1985, the incurred loss of the domestic property-casualty companies was $1,109.5 million of which $649.6 million represented payments made in 1985, and $459.9 million represented increase in loss and loss expense reserves.

In certain lines of business, such as workers' compensation, malpractice, and products liability, there will customarily be a long period of time between the time reserves are established and the time claim payments are made. In some cases, the length of that period is not known and can only be estimated. In other cases, such as the weekly or monthly disability payments under workers' compensation insurance, the amount of the periodic payments is known, and the length of time over which they will be paid can be estimated with a high degree of accuracy.

In the case of these "tabular" reserves, the predominant practice among workers' compensation insurers is to employ a discount in the estimation of the reserve required to meet the insurers ultimate liability. Insurance regulators take these discounts into consideration in assessing the adequacy of the reserves. Prior to 1984 General Re had not employed such a discount.

Beginning with 1984, after discussion with regulators and with the Corporation's public accountants, General Re determined that with respect to tabular reserves in the workers' compensation line the employment of a discount is the more appropriate method of establishing reserves, and adopted that method. The amount of discount selected is 4.5 percent per year, which is used by a number of other insurers, and is regarded by regulators as conservative.

Comparison of 1985 with 1984

Worldwide net premiums written for 1985 were $1,965.8 million, an increase of $536.1 million or 37.5 percent over 1984. The domestic property-casualty companies' writings were $1,590.8 million, an increase of 49.3 percent, while traditional property and casualty lines of business increased 70.6 percent. This growth is due to substantial price increases on existing business, as well as new business from new and existing clients. Domestic life companies' writings were $320.1 million, an increase of 4.1 percent, and foreign subsidiaries' writings amounted to $54.9 million, a decrease of 3.2 percent.

Worldwide net investment income, after taxes, was $282.8 million for 1985, an increase of 12.8 percent over $250.8 million for 1984. This gain is primarily due to the investment of internally generated cash flow and the proceeds of the company's June common stock offering.

Net income is the total of operating income or loss and realized investment gains and losses, after provision for applicable taxes. Net income for 1985 was $135.8 million, or $2.90 per share, including a $28.5 million loss, or $0.61 per share, from discontinued operations. This compares to net income in 1984 of $156.3 million or $3.47 per share, which included earnings from discontinued operations of $6.5 million or $0.15 per share, and the cumulative effect of the previously mentioned accounting change of $80.5 million or $1.78 per share.

Comparison of 1984 with 1983

Worldwide net premiums written for 1984 were $1,429.7 million, an increase of $187.1 million or 15.1 percent over 1983. The domestic property-casualty companies' writings were $1,065.4 million, an increase of 18.1 percent, while traditional property and casualty lines of business increased 24.9 percent. Domestic life companies' writings were $307.6 million, an increase of 4.6 percent, and foreign subsidiaries' writings amounted to $56.7 million, an increase of 21.4 percent.

Worldwide net investment income, after taxes, was $250.8 million, for 1984, an increase of 14.7 percent over $218.6 million for 1983. This gain came from additional investment of $191.0 million from cash flow and returns on investment funds at rates that, while high by most standards, were substantially lower than those prevailing in 1983.

Net income is the total of operating income or loss and realized investment gains and losses, after provision for applicable taxes. For 1984, net income came to $156.3 million, or $3.47 per share compared with $189.4 million, or $4.20 per share, in 1983.

Comparison of Underwriting Results — 1985, 1984, 1983

Property-casualty underwriting results are expressed in terms of the combined ratio comprising the sum of the ratio of incurred losses and loss expenses to premiums earned and the ratio of underwriting expenses to premiums written. The combined ratios for the domestic property-casualty companies for 1985, 1984, and 1983 were 110.79 percent, 126.97 percent, and 107.13 percent respectively. Our reunderwriting and repricing efforts of the last two years are reflected in the improved underwriting results recorded in 1985. Poor underwriting results over the 1983-85 period reflects the weak industry pricing structure which existed in the early 1980's, and an escalation in losses due in large measure to expanding theories of liability and inflation in the amount of liability awards.

Liquidity and Capital Resources

The Corporation continues to utilize short-term commercial paper in order to provide additional financial flexibility. Commercial paper offered by the corporation has been rated AI + by Standard and Poor's and Prime I by Moody's.

In April 1985 the company issued $100 million of 11.5 percent notes due in 1992. The net proceeds of the sale of such notes was used to retire the bulk of the company's commercial paper.

Several issues of commercial paper were marketed at favorable rates, and, at year-end, the amount outstanding was $17.8 million.

Other Analysis

Additional details and analysis of operations will be found in the preceding sections of this report. Supplementary information regarding the effects of inflation will be found in the section following the audited financial statements.

Selected Financial Data

(in millions, except per share data)	1985	1984*	1983	1982	1981
Total revenues	$ 2,123.0	$ 1,665.3	$ 1,471.0	$ 1,330.6	$ 1,241.2
Premiums earned	$ 1,694.9	$ 1,340.4	$ 1,200.0	$ 1,099.0	$ 1,044.4
Net investment income	$ 342.4	$ 274.9	$ 231.7	$ 210.2	$ 191.3
Operating income	$ 158.5	$ 65.7	$ 185.3	$ 207.7	$ 176.4
Per share	$ 3.38	$ 1.46	$ 4.11	$ 4.68	$ 4.04
Net income	$ 135.8	$ 156.3	$ 189.4	$ 203.6	$ 179.6
Per share	$ 2.90	$ 3.47	$ 4.20	$ 4.59	$ 4.12
Dividends per share	$ 1.56	$ 1.44	$ 1.28	$ 1.08	$ .88
Total assets	$ 6,689.4	$ 5,654.6	$ 5,001.4	$ 4,341.8	$ 3,838.7
Long-term obligations	$ 116.1	$ 17.3	$ 18.3	$ 18.7	$ 18.6

All figures in this report for 1984 and prior have been restated to account for the effect of discontinued operations. See Note 3 to Notes to Consolidated Financial Statements.

*For the impact of the accounting change, see Note 2 to Notes to Consolidated Financial Statements.

Financial Reporting Responsibility

The management of General Re Corporation has the primary responsibility for maintaining the integrity of the financial information included throughout this annual report and for assuring that such information presents fairly the financial position of General Re Corporation and its operating results. The accompanying financial statements have been prepared in conformity with generally accepted accounting principles. Financial information presented elsewhere in this annual report is consistent with these accompanying financial statements.

In preparing the financial statements of the Corporation, it is necessary, in many instances, to rely on informed judgments and statistical and actuarial estimates in the accounting process. The nature of the reinsurance business creates the need for such judgments and estimates as to final settlement of claim liabilities or other transactions that are not yet complete as of the date of the financial statement. These projections represent the best estimates and judgment of management, and they are constantly reviewed in order to evaluate their appropriateness.

The accounting systems and internal accounting controls of the Corporation are designed to provide assurance that transactions are executed in accordance with management's authorization, that the financial records are reliable for preparing financial statements and maintaining accountability for assets, and that assets are safeguarded against losses from unauthorized use or disposition. Qualified personnel throughout the organization maintain and monitor these internal accounting controls on an ongoing basis. In addition, the Corporation's Internal Audit Department systematically reviews the adequacy and effectiveness of the controls and reports thereon.

Coopers & Lybrand, our independent certified public accountants, have examined the financial statements of the Corporation, and their report is included in this section of the annual report. The auditors have full access to each member of the management in conducting their examinations. Such examinations are conducted in accordance with generally accepted auditing standards and include a review of internal controls, tests of transactions, and other auditing procedures as they consider necessary to express opinions on the financial statements.

The Audit Committee of the board of directors, which is composed solely of non-management directors, oversees the management's discharge of its financial reporting responsibilities. The Committee meets periodically with management, our internal auditors, and representatives of Coopers & Lybrand to discuss auditing and financial reporting matters. In addition, the independent certified public accountants meet with the Audit Committee to discuss the results of the examination and are given an opportunity to present their opinions, without management's presence, concerning the quality of the Corporation's financial reporting. Both the internal and independent auditors have, at all times, free access to and meet regularly with the Audit Committee. Also, the Audit Committee has periodically engaged the services of an actuarial firm in order to enable the Committee to compare the reserve liabilities established by management with the estimates of an independent consultant.

Consolidated Statement of Income

Year ended December 31 (in millions, except per share data)	1985	1984*	1983*
Premiums and Other Revenues			
Premiums:			
Net premiums written	$1,965.8	$1,429.7	$1,242.6
Increase (decrease) in unearned premiums	270.9	89.3	42.6
Premiums earned	1,694.9	1,340.4	1,200.0
Net investment income	342.4	274.9	231.7
Other income	85.7	50.0	39.3
Total revenues	2,123.0	1,665.3	1,471.0
Expenses			
Claims, benefits, and claim expenses	1,329.4	1,145.2	856.0
Policy acquisition costs	440.5	403.6	328.4
Other operating costs and expenses	188.6	151.8	118.9
Total expenses	1,958.5	1,700.6	1,303.3
Income			
Operating income (loss) before income taxes, cumulative effect of accounting change, and equity earnings	164.5	(35.3)	167.7
Federal and foreign income taxes:			
Current	6.9	5.3	3.1
Deferred	2.5	(104.9)	(19.3)
Income tax expense (benefit)	9.4	(99.6)	(16.2)
Equity in earnings of unconsolidated subsidiaries	3.4	1.4	1.4
Operating income	158.5	65.7	185.3
Cumulative effect of accounting change — Note 2	—	80.5	—
Operating income and cumulative effect of accounting change	158.5	146.2	185.3
Realized gains (losses) on investments — Note 5	5.8	3.6	(2.6)
Income from continuing operations and cumulative effect of accounting change	164.3	149.8	182.7
Discontinued operations: — Note 3			
Income (loss) from operations of Trident Group	(5.7)	6.5	6.7
Realized loss on disposal of Trident Group net of tax of $9.5	(22.8)	—	—
	(28.5)	6.5	6.7
Net income	$ 135.8	$ 156.3	$ 189.4
Per Share Data			
Average shares outstanding	46,871,915	45,085,477	45,080,376
Operating income	$ 3.38	$ 1.46	$ 4.11
Cumulative effect of accounting change	—	1.78	—
Operating income and cumulative effect of accounting change	3.38	3.24	4.11
Realized investment gains (losses), net of Federal income taxes	.13	.08	(.06)
Discontinued operations	(.61)	.15	.15
Net income per share	$ 2.90	$ 3.47	$ 4.20

The accompanying notes are an integral part of these financial statements.

*See Note 3.

Consolidated Balance Sheet

December 31 (in millions)	1985	1984*
Assets		
Investments:		
Fixed maturities, at amortized cost (market: 1985, $3,714.4; 1984, $2,744.1)	$3,741.9	$3,026.1
Equity securities, at market (cost: 1985, $410.7; 1984, $391.7)	669.8	553.2
Short-term investments, at amortized cost	263.4	208.8
Total investments	4,675.1	3,788.1
Cash	40.1	16.4
Investment in unconsolidated subsidiaries	43.4	59.7
Accrued investment income	96.0	77.3
Accounts and notes receivable	767.4	853.5
Reinsurance recoverable on paid losses	69.0	81.2
Deferred policy acquisition costs	361.6	301.7
Land and buildings at cost (net of accumulated depreciation: 1985, $8.0; 1984, $7.4)	34.5	34.7
Other assets	602.3	442.0
Total assets	$6,689.4	$5,654.6
Liabilities		
Claims and claim expenses	$2,972.5	$2,578.5
Future policy benefits	312.2	302.7
Other life policy claims and benefits	83.7	84.1
Unearned premiums	711.1	448.9
Other reinsurance balances	454.4	548.3
Mortgage and notes payable	133.9	152.4
Federal and foreign income taxes:		
Current	8.5	5.0
Deferred (unrealized appreciation: 1985, $70.2; 1984, $43.6)	106.1	70.8
Other liabilities	112.8	96.3
Total liabilities	4,895.2	4,287.0
Shareholders' Equity		
Capital (shares authorized: 80.0, issued and outstanding: 1985, 48.5; 1984, 45.1; par value $.50 each)	24.3	22.6
Paid-in capital	279.6	2.6
Unrealized appreciation of investments (net of Federal income tax: 1985, $70.2; 1984, $43.6)	188.0	117.3
Currency translation adjustments	(24.8)	(39.3)
Retained earnings	1,327.1	1,264.4
Total shareholders' equity	1,794.2	1,367.6
Total liabilities and shareholders' equity	$6,689.4	$5,654.6

The accompanying notes are an integral part of these financial statements.
*See Note 3.

Consolidated Statement of Shareholders' Equity

(in millions, except per share data)	Common Stock Shares	Common Stock Amount	Additional Capital	Unrealized Appreciation (Depreciation)	Currency Translation Adjustments	Retained Earnings	Total Shareholders' Equity
Year ended December 31, 1983:							
Balances, beginning of year	45.0	$22.5	$ —	$ 95.0	$(20.0)	$1,041.3	$1,138.8
Issuance of shares	.1	.1	2.6	—	—	—	2.7
Net income	—	—	—	—	—	189.4	189.4
Change in unrealized appreciation (depreciation) of investments	—	—	—	46.2	—	—	46.2
Change in currency translation	—	—	—	—	(2.9)	—	(2.9)
Dividends to stockholders (per share $1.28)	—	—	—	—	—	(57.7)	(57.7)
Balances, end of year	45.1	22.6	2.6	141.2	(22.9)	1,173.0	1,316.5
Year ended December 31, 1984:							
Net income	—	—	—	—	—	156.3	156.3
Change in unrealized appreciation (depreciation) of investments	—	—	—	(23.9)	—	—	(23.9)
Change in currency translation	—	—	—	—	(16.4)	—	(16.4)
Dividends to stockholders (per share $1.44)	—	—	—	—	—	(64.9)	(64.9)
Balances, end of year	45.1	22.6	2.6	117.3	(39.3)	1,264.4	1,367.6
Year ended December 31, 1985:							
Issuance of shares	3.4	1.7	277.0	—	—	—	278.7
Net income	—	—	—	—	—	135.8	135.8
Change in unrealized appreciation (depreciation) of investments	—	—	—	70.7	—	—	70.7
Change in currency translation	—	—	—	—	14.5	—	14.5
Dividends to stockholders (per share $1.56)	—	—	—	—	—	(73.1)	(73.1)
Balances, end of year	48.5	$24.3	$279.6	$188.0	$(24.8)	$1,327.1	$1,794.2

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Changes in Financial Position

Year ended December 31 (in millions)	1985	1984*	1983*
Source of Funds			
Net income	$ 135.8	$ 156.3	$ 189.4
Other increases (decreases) not requiring outlay of cash:			
Claims, benefits, and claim expenses	393.6	301.1	124.7
Unearned premiums and future policy benefits	271.7	125.0	100.8
Other reinsurance balances	(93.9)	149.9	195.7
Other liabilities	10.6	49.9	64.7
Accounts receivable and other assets	(57.1)	(423.7)	(214.2)
Deferred policy acquisition costs	(59.9)	(30.6)	(50.3)
Federal and foreign income taxes	12.2	(28.5)	(22.7)
Depreciation and other accruals, net	(22.9)	(8.9)	(4.9)
Funds provided from operations	590.1	290.5	383.2
Sales of:			
Short-term investments	3,555.4	2,209.3	2,298.5
Fixed maturities	848.1	711.3	322.3
Equity securities	65.3	93.1	16.2
Increases from stock issued	278.7	—	2.6
Total source of funds	$5,337.6	$3,304.2	$3,022.8
Application of Funds			
Purchases of:			
Short-term investments	$3,609.0	$2,256.1	$2,242.9
Fixed maturities	1,551.3	882.9	577.3
Equity securities	124.3	92.2	84.9
Additions (disposals) to property and equipment and other invested assets	(43.8)	10.6	60.2
Dividends to stockholders	73.1	64.9	57.7
Increase (decrease) in cash balance	23.7	(2.5)	(.2)
Total application of funds	$5,337.6	$3,304.2	$3,022.8

The accompanying notes are an integral part of these financial statements.
*See Note 3.

Notes to Consolidated Financial Statements

1 Accounting Policies

The Corporation's consolidated financial statements have been prepared on the basis of generally accepted accounting principles.

The following is a description of the significant accounting policies and practices employed by the Corporation:

a) The consolidated financial statements include the Corporation and its subsidiary companies. All significant intercompany transactions have been eliminated.

b) Fixed maturities are valued at amortized cost, and equity securities are included at their market values. Changes in market values of equity securities net of related deferred income taxes are reflected as unrealized appreciation or depreciation directly in shareholders' equity. Realized gains or losses on sales or maturity of investments, determined on the basis of identified cost, are included in net income. Investment income is recognized when earned.

c) Property-casualty premiums are taken into income over the terms of the related reinsurance contracts or policies. Unearned premium reserves are therefore established to cover the unexpired portion of premiums written. Such reserves are computed by pro rata methods based on statistical data or reports received from ceding companies. Premium adjustments on deposit contracts and audit premiums are accrued on an estimated basis throughout the policy term.

d) Life premiums are taken into income over the premium paying period. Life reserves reflect the experience in regard to expected mortality, yields on invested funds, and withdrawals.

e) Acquisition costs ($152.3 million and $101.5 million at December 31, 1985, and 1984, respectively) for the property-casualty companies, consisting principally of commissions and brokerage expenses incurred at policy issuance, are deferred by major product groups and amortized over the period in which the related premiums are earned, generally one year. Anticipated losses and loss expenses, based on historical and current experience, and anticipated investment income are considered in determining the acquisition costs to be deferred.

The costs of acquiring new life insurance business, principally commissions, certain policy issuance, underwriting and marketing expenses, all of which vary with and all directly related to the production of new business, are deferred and amortized over the anticipated premium paying period of the policies in force. The deferred policy acquisition costs were $209.3 million and $200.2 million at December 31, 1985 and 1984, respectively.

Policy acquisition costs deferred in 1985, 1984, and 1983 were $500.4 million, $434.2 million, and $379.6 million. The amounts amortized to income in 1985, 1984, and 1983 were $440.5 million, $403.6 million, and $328.4 million.

f) Deferred charges ($114.9 million and $120.5 million at December 31, 1985 and 1984, respectively) for the property-casualty companies, arising under certain reinsurance contracts, are amortized over the periods in which the related anticipated income is earned.

g) The provision for claims and claim expenses is based on reports and individual case estimates received from ceding companies. A provision is included for losses and loss adjustment expenses incurred but not reported on the basis of past experience. The method of making such estimates and for establishing the resulting reserves are continually reviewed and updated, and any adjustments resulting therefrom are reflected in income currently. Tabular workers' compensation reserves were $198.7 million and $164.2 million at December 31, 1985 and 1984, respectively, after being discounted using an interest rate of 4½% (Note 2). Accordingly, losses and loss expenses are charged to income as incurred. Anticipated salvage and subrogation recoverable are accrued.

h) Life reserves have been computed based upon assumed investment yields, mortality, and withdrawal rates anticipated at the time the policies were issued. These assumptions vary by characteristics of the plan of insurance, year of issue, policy duration, age of insured, and other appropriate factors. Interest rates range from 2.5 percent to 15.3 percent.

i) Deferred income taxes have been provided in respect of all timing differences between financial income and taxable income.

j) Per share data are based on the weighted average shares outstanding during each year.

k) Revenue and expense accounts in foreign currency are translated at the rate of exchange at the transaction date. Assets and liabilities are translated at the rate of exchange in effect at the close of the period. Gains or losses resulting from translating foreign currency financial statements are accumulated in a separate component of shareholders' equity until the entity is sold or substantially liquidated. Gains or losses resulting from foreign currency transactions (transactions denominated in a currency other than the entity's functional currency) are generally included in net income. Net gains (losses) resulting from foreign currency transactions during 1985, 1984, and 1983 were $6.6 million, $(.3) million and $(.3) million, respectively.

l) The Corporation maintains pension plans, the costs of which are funded as they accrue.

m) The costs of buildings, airplanes, automobiles, and furniture and equipment are charged against income over their estimated service lives. Leasehold improvements are amortized over the remaining terms of the leases. Depreciation is computed principally on the straight-line method. Estimated service lives used in providing for depreciation are 18 months to 60 years. Maintenance and repairs are charged to expense as incurred.

2 Accounting change

In 1984, the Corporation's domestic property-casualty companies adopted the practice of discounting tabular workers' compensation claims for statutory and generally accepted accounting purposes using an interest rate of 4½%. The Corporation believes that discounting such claims is preferable since it more closely matches revenue and expense, is more in accord with economic reality, and represents a method commonly used in the industry. The effect of the change in 1984 was to increase operating income by $13.5 million, or $.30 per share, exclusive of the cumulative effect on prior years recorded in 1984 of $80.5 million or $1.78 per share. Pro forma amounts for accounting periods prior to 1984 were not determinable. See Note 13.

3 Discontinued Operations

During 1985, the Corporation sold the Trident Companies which comprises several direct writing companies in the United Kingdom for a total consideration of £47.9 million. The sale of the Trident Companies resulted in a loss (including foreign exchange loss) from discontinued operations of $28.5 million. The foreign exchange loss on the sale was $19.6 million. Revenues for the Trident Companies were $177.1 million, $187.9 million, and $167.2 million for the years ending 1984, 1983, and 1982, respectively. The consolidated financial statements for 1984 and prior have been restated to account for the effect of discontinued operations.

4 Information about the Corporation's Operations

1985 (in millions)	Property-Casualty	Life	Overseas Subsidiaries	Consolidated
Net premiums written	$1,590.8	$ 320.1	$ 54.9	$1,965.8
Premiums earned	$1,318.0	$ 320.4	$ 56.5	$1,694.9
Net investment income	282.2	41.8	18.4	342.4
Other income	85.0	—	.7	85.7
Total revenues	1,685.2	362.2	75.6	2,123.0
Claims, benefits, and claim expenses	1,109.5	175.9	44.0	1,329.4
Policy acquisition costs	288.9	139.0	12.6	440.5
Other operating costs and expenses	160.4	19.2	9.0	188.6
Total expenses	1,558.8	334.1	65.6	1,958.5
Operating income before income taxes and equity earnings	$ 126.4	$ 28.1	$ 10.0	$ 164.5
Identifiable assets December 31, 1985	$5,421.1	$1,045.1	$ 223.2	$6,689.4

1984 (in millions)	Property-Casualty	Life	Overseas Subsidiaries	Consolidated
Net premiums written	$1,065.4	$ 307.6	$ 56.7	$1,429.7
Premiums earned	$ 980.7	$ 312.5	$ 47.2	$1,340.4
Net investment income	218.7	42.8	13.4	274.9
Other income	50.1	—	(.1)	50.0
Total revenues	1,249.5	355.3	60.5	1,665.3
Claims, benefits, and claim expenses	938.3	174.5	32.4	1,145.2
Policy acquisition costs	259.8	132.9	10.9	403.6
Other operating costs and expenses	128.8	17.2	5.8	151.8
Total expenses	1,326.9	324.6	49.1	1,700.6
Operating income (loss) before income taxes, cumulative effect of accounting change, and equity earnings	$ (77.4)	$ 30.7	$ 11.4	$ (35.3)
Identifiable assets December 31, 1984	$4,462.1	$ 936.7	$ 255.8	$5,654.6

1983 (in millions)	Property-Casualty	Life	Overseas Subsidiaries	Consolidated
Net premiums written	$ 901.8	$ 294.1	$ 46.7	$1,242.6
Premiums earned	$ 863.6	$ 294.1	$ 42.3	$1,200.0
Net investment income	186.3	34.0	11.4	231.7
Other income	38.7	—	.6	39.3
Total revenues	1,088.6	328.1	54.3	1,471.0
Claims, benefits, and claim expenses	650.1	179.1	26.8	856.0
Policy acquisition costs	215.6	101.4	11.4	328.4
Other operating costs and expenses	99.4	15.2	4.3	118.9
Total expenses	965.1	295.7	42.5	1,303.3
Operating income before income taxes and equity earnings	$ 123.5	$ 32.4	$ 11.8	$ 167.7
Identifiable assets December 31, 1983	$4,001.6	$ 801.2	$ 198.6	$5,001.4

Interest charges on intercompany loans eliminated in consolidation are not reflected in the above data.

The Corporation and its domestic subsidiaries operate principally as property-casualty and life reinsurers. The property-casualty segment includes the operations and assets of the wholly owned reinsurance broker, aviation insurance underwriting manager, service company and realty corporations, which are immaterial. The overseas subsidiaries operate principally as property-casualty reinsurers.

5 Investments

Securities of $198.4 million at December 31, 1985, were on deposit with various state or governmental insurance departments to comply with insurance laws.

Gains or losses on fixed maturities and equity securities were as follows:

1985 (in millions)	Fixed Maturities	Equity Securities	Total
Realized investment gains (losses)	$ (7.1)	$ 17.7	$ 10.6
Federal income taxes	(2.0)	6.8	4.8
Net realized investment gains (losses)	$ (5.1)	$ 10.9	$ 5.8
Increase (decrease) in unrealized appreciation	$ 254.5	$ 97.3	$ 351.8
Provision for deferred Federal income taxes	—	26.6	26.6
Net increase (decrease) in unrealized appreciation	$ 254.5	$ 70.7	$ 325.2

1984 (in millions)	Fixed Maturities	Equity Securities	Total
Realized investment gains (losses)	$ (15.0)	$ 19.5	$ 4.5
Federal income taxes	(4.2)	5.1	.9
Net realized investment gains (losses)	$(10.8)	$ 14.4	$ 3.6
Increase (decrease) in unrealized appreciation	$ 40.0	$ (32.8)	$ 7.2
Provision for deferred Federal income taxes	—	(8.9)	(8.9)
Net increase in unrealized appreciation	$ 40.0	$ (23.9)	$ 16.1

1983 (in millions)	Fixed Maturities	Equity Securities	Total
Realized investment gains (losses)	$ (22.4)	$ 19.2	$ (3.2)
Federal income taxes	(5.9)	5.3	(.6)
Net realized investment gains (losses)	$ (16.5)	$ 13.9	$ (2.6)
Increase (decrease) in unrealized appreciation	$ 86.3	$ 62.8	$ 149.1
Provision for deferred Federal income taxes	—	16.6	16.6
Net increase (decrease) in unrealized appreciation	$ 86.3	$ 46.2	$ 132.5

Unrealized appreciation in equity securities at December 31, 1985, included gross unrealized gains of $267.8 million and gross unrealized losses of $9.6 million.

Investment income for the years ended December 31, 1985, 1984, and 1983 was as follows:

(in millions)	1985	1984	1983
Interest and dividends on fixed maturities	$290.7	$245.0	$221.0
Interest on short-term investments	27.6	16.3	18.0
Dividends on equity securities	25.8	22.8	21.7
Miscellaneous interest, net	4.0	(8.3)	(20.8)
Total investment income	348.1	275.8	239.9
Investment expenses	5.7	.9	8.2
Net investment income	$342.4	$274.9	$231.7

6 Federal and Foreign Income Taxes

a. Income tax expense (benefit):

For the years ended December 31

(in millions)	1985			1984			1983		
	United States Federal	Foreign	Total	United States Federal	Foreign	Total	United States Federal	Foreign	Total
Current tax expense (benefit)	$ —	$ 6.9	$ 6.9	$ —	$ 5.3	$ 5.3	$ 1.7	$ 1.4	$ 3.1
Deferred tax expense (benefit)	2.5	—	2.5	(103.1)	(1.8)	(104.9)	(18.9)	(.4)	(19.3)
	$ 2.5	$ 6.9	$ 9.4	$(103.1)	$ 3.5	$ (99.6)	$(17.2)	$ 1.0	$(16.2)

The provision for Federal income tax expense (benefit) is as follows:

	1985	1984	1983
Operations	$ 9.4	$ (99.6)	$(16.2)
Cumulative effect of change in accounting	—	68.5	—
Realized capital gains	4.8	.9	(.6)
Discontinued operations	9.5	—	—
	$ 23.7	$ (30.2)	$(16.8)

b. Sources of timing differences and tax effect of each were as follows:

(in millions)	1985	1984	1983
Deferred policy acquisition costs	$ 24.6	$ 11.5	$ 12.2
Life reserves	(.4)	(5.0)	2.2
Property-casualty loss reserves	19.3	11.6	—
Net utilization/reversal of N.O.L. and foreign tax credit benefits	(52.6)	(135.7)	(41.0)
Net deferred charges	(3.6)	16.6	3.6
Other items	15.2	(3.9)	3.7
Deferred tax expense (benefit)	$ 2.5	$(104.9)	$(19.3)

Federal and foreign income taxes in the Consolidated Statement of Income give effect to permanent differences between financial and taxable income. Accordingly, the Corporation's effective income tax rate is less than the statutory rate on ordinary income. The reasons for the lower effective tax rate are as follows:

(in millions)	1985 Amount	1985 Percent of Pretax Income	1984 Amount	1984 Percent of Pretax Income	1983 Amount	1983 Percent of Pretax Income
Income taxes computed on pretax financial income	$ 75.7	46.0	$(16.2)	46.0	$ 77.1	46.0
Increase (reduction) in taxes resulting from:						
Tax-exempt bond interest	(79.2)	(48.1)	(82.1)	232.6	(77.9)	(46.5)
85 percent dividend received deduction	(11.8)	(7.2)	(10.7)	30.3	(10.0)	(6.0)
Consolidated subsidiary taxed at life insurance Federal tax rates	(4.1)	(2.5)	(2.3)	6.5	(2.6)	(1.5)
Tax benefits of operating losses not utilized	32.5	19.8	17.7	(50.2)	—	—
Consolidated overseas subsidiaries taxed at foreign rates	(1.9)	(1.2)	(1.3)	3.7	(2.9)	(1.7)
Miscellaneous	(1.8)	(1.1)	(4.7)	13.3	.1	—
Actual provision for income taxes	$ 9.4	5.7	$(99.6)	282.2	$(16.2)	(9.7)

Federal income taxes have been determined on the basis of a consolidated tax return for all domestic companies in the Group. The tax basis operating losses are combined for both property-casualty and life companies.

At December 31, 1985, the Corporation has $741.3 million tax loss carry forwards available to offset taxable income which will expire 1997-2000.

The deferred tax expense (benefit) is determined on a consolidated basis. The operating losses of the property-casualty operations are reduced by life operations income limited to 35 percent of the lesser of available life gains or property-casualty losses.

The deferred tax liability at December 31, 1985, includes deferred taxes for timing differences expected to reverse beyond 15 years for the domestic subsidiaries, foreign subsidiaries and charges recorded directly to shareholders' equity.

The tax amounts for the domestic life reinsurer have been computed under the different laws in effect for each of the three years in the period ended December 31, 1985. The 1985 and 1984 tax provision includes a tax credit of $1.0 and $2.7 million respectively due to the fresh start provision for life insurers in the 1984 Tax Reform Act.

The 1984 income tax expense (benefit) includes utilization of $62.4 million of tax credits resulting from the change in accounting (Note 2) of which $14.0 million and $48.4 million were recorded in the third and fourth quarters.

Federal income taxes have not been provided on undistributed income of overseas subsidiaries, which is considered permanently reinvested. Such amounts are not considered significant at December 31, 1985.

Investment tax credits are accounted for using the "flow through" method which are not material.

7 Mortgage and Notes Payable

GRC Realty Corporation, a wholly owned subsidiary, has a $16.1 million, 25-year mortgage agreement with a group of institutional lenders at an interest rate of 7.70 percent payable through 1998, which is guaranteed by General Reinsurance Corporation.

General Re Corporation has issued short-term commercial paper totaling $17.8 million at December 31,1985. The Corporation has $60.0 million of lines of credit available to support the issuance of commercial paper at year-end 1985.

On April 25, 1985, General Re Corporation issued $100.0 million of 11½% notes. Interest is payable annually on April 25 with the principal due April of 1992.

Interest costs for 1985 and 1984 were $12.2 million and $1.7 million. In 1984 and 1983 interest costs of $9.1 million and $6.0 million were capitalized as a component of the cost of land and building.

8 Sale and Leaseback of Corporate Headquarters

In November 1984 the Corporation entered into a sale and leaseback agreement for its recently constructed corporate headquarters building. The proceeds from this sale were $130.0 million consisting of $2.6 million in cash and a $127.4 million note. On February 1, 1985, the Corporation received cash of $30.2 million reducing the unpaid principal balance to $97.2 million payable in 25 annual installments at 13⅜%.

Concurrent with the sale, the Corporation leased back the building from the purchaser under a 25 year operating lease with annual rentals of $13.6 million with renewal options for an additional 50 years. The Corporation has the option to buy back the building at the expiration of the lease, or, under certain conditions, prior to the expiration of the lease.

The gain on the sale has been deferred and is amortized over the duration of the lease.

9 Employee Benefits

a) Substantially all of the employees of the Corporation and its subsidiaries are covered by several separate pension plans. The total pension expense for 1985, 1984, and 1983 was $4.2 million, $4.9 million, and $5.2 million, respectively.

The amount of accrued pension expense for the year is funded by the Corporation in annual contributions to the pension plans. The actuarial present value of accumulated plan benefits to participants of the Corporation's domestic defined benefit plans and the net assets available for those benefits are as follows:

January 1 (in millions)	1985	1984
Actuarial present value of accumulated plan benefits:		
Vested	$23.7	$20.5
Nonvested	3.6	3.3
Total	$27.3	$23.8
Net assets available for benefits	$49.6	$43.2

In determining the actuarial present value of accumulated plan benefits, the assumed rates of return ranged from 7 to 9 percent in 1985 and in 1984.

The Corporation provides certain health care and group life insurance to retirees. The expense is incurred on a year-to-year basis which is immaterial.

b) The Corporation's domestic subsidiaries have an Employee Savings Plan. Corporation contributions were $1.5 million in 1985, $1.4 million in 1984, and $1.1 million in 1983.

c) The Corporation's domestic subsidiaries have an annual Incentive Plan under which cash awards may be made to eligible employees, and the Corporation has a Performance Share Plan under which awards may be paid in cash, in shares of the Corporation's common stock, or in a combination of cash and shares. Awards under both Plans are made at the discretion of the Board of Directors. In 1985, 1984, and 1983 awards totaling $1.6 million, $(2.0) million, and $5.3 million were charged to operations.

d) In July 1985, the Corporation adopted a Long-term Compensation Plan (the Plan) which provides for the granting of incentive and nonqualified stock options to key executive and managerial employees. The Plan provides that the exercise price of the options granted may not be less than the fair market value of the Corporation's common stock on the date the options are granted. The options are exercisable cumulatively 20% each year commencing one year from the date of grant, and expire ten years from the grant date.

The Plan permits the granting of stock appreciation rights (SAR's) in connection with options granted under the Plan. SAR's permit the optionee to surrender an exercisable option for an amount equal to the excess of the market price of the common stock over the options price when the right is exercised. During 1985, 210,720 options were granted with SAR's attached to 40,700 options.

Grant Date	Options	Exercise Price
July, 1985	112,850	$ 83.75
December, 1985	97,870	$102.75

At December 31, 1985, 1,289,280 shares were available for future grants under the 1985 plan. None of the options granted in 1985 are exercisable at December 31, 1985.

10 Commitments and Contingencies

The estimated liability for claims, benefits, and claim expenses and the provision for unearned premiums and future policy benefits are after deductions for reinsurance with insurance companies other than affiliates. In the unlikely event that all or any of the reinsuring companies might be unable to meet their obligations to the General Re Group of companies under the existing reinsurance agreements, then the companies would be liable for such defaulted amounts. The Corporation has never suffered a significant loss because of such defaults. The approximate amounts deducted from liabilities, income and expense for reinsurance ceded to other companies were as follows:

Reinsurance Ceded (in millions)	1985	1984	1983
Liabilities			
Claims, benefits, and claim expenses	$271.6	$188.9	$163.7
Unearned premiums and future policy benefits	145.0	131.6	100.3
Income and expense			
Premiums written	$378.4	$272.7	$247.3
Claims, benefits, and claim expenses	292.5	205.3	102.1
Policy acquisition costs	88.5	84.7	126.7

The Corporation and its subsidiaries lease office space and data processing equipment under non-cancellable leases expiring in various years through 2010. Several of the leases have renewal options with various terms and rental rate adjustments. Rental expense for the years 1985, 1984 and 1983, were $19.6 million, $9.7 million and $7.8 million, respectively. The minimum annual rental commitments at December 31, 1985 were as follows:

1986	$19.0
1987	17.8
1988	16.8
1989	15.6
1990	14.2
Subsequent to 1990	272.8
	$356.2

Future minimum rental payments have not been reduced by $18.5 million sub-lease rental on non-cancellable leases.

The Corporation has an investment in FGIC Corporation (FGIC) which is accounted for on the equity basis and has a carrying value of $40.9 million at December 31, 1985. The Corporation has an outstanding commitment to invest an additional $31.7 million in FGIC based on FGIC's capital needs. FGIC and its subsidiary, Financial Guaranty Insurance Company, provide financial guaranty insurance.

The Corporation's domestic property-casualty companies reinsure financial guarantees. The reinsurance exposure is $134.0 million and the unearned premium is $1.1 million at December 31, 1985. The premiums are earned proportional to the coverage provided and loss reserves are established when defaults occur or when there is knowledge of a potential default.

11 Dividends and Statutory Financial Data

Cash dividends of $1.56, $1.44 and $1.28 per share were declared and paid during the years 1985, 1984, and 1983, respectively.

The Corporation has 10.0 million shares of authorized preferred stock, $100 par value, of which none have been issued.

The Corporation is the ultimate controlling person in the General Re Group insurance holding company system which includes insurance companies that are subject to the insurance holding company acts of Delaware, Connecticut, and various other states. These laws require the filing of registration statements by the insurance company members of the system and regulate transactions between the holding company and affiliated insurance companies to the extent that such transactions must be fair and reasonable and assure the maintenance of the insurance companies' policyholders' surplus in relation to liabilities and financial needs.

These laws also subject extraordinary dividends and other extraordinary distributions to insurance company shareholders to regulatory approval. Dividends or distributions in a twelve-month period exceeding the greater of 10 percent of an insurance company's policyholders' surplus or net investment income or, in the case of life insurers, net gain from operations for the prior calendar year are generally considered extraordinary, requiring such approval. There may also be legal restrictions on the amounts of dividends payable by overseas subsidiaries to their stockholders.

Under the Group structure, the Corporation is dependent upon the ability of its operating insurance and non-insurance subsidiaries for the transfer of funds in the form of loans, advances, or cash dividends. The insurance subsidiaries' combined net investment income for 1985 and policyholders' surplus at December 31, 1985 and 1984 on a statutory basis, were $271.4 million, $1,087.7 million and $710.7 million, respectively. Statutory gains (losses) from operations for the three years ended December 31, 1985, were $22.2 million, $(100.1) million, and $110.2 million. The non-insurance subsidiaries generally may pay dividends from available surplus or, if none, out of profits for the current and preceding fiscal years. On a combined generally accepted accounting principles (GAAP) basis, their surplus at December 31, 1985, and profits for 1985 and 1984 were $54.7 million, $19.6 million, and $13.9 million, respectively.

12 Translation of Foreign Currencies

Following is an analysis of the changes in equity adjustment from foreign currency translation:

(in millions)	1985	1984
Balance, beginning of year	$(39.3)	$(22.9)
Aggregate adjustment resulting from translation of financial statements into U.S. dollars, and gains and losses on intercompany balances	15.1	(19.8)
Income taxes relating to translation adjustment	.6	(3.4)
Balance, end of year	$(24.8)	$(39.3)

13 Unaudited Quarterly Financial Data

Summarized quarterly financial data, in millions of dollars except for per share data, for the three years ended December 31, 1985, follows:

1985 Three Months Ended	March 31	June 30	September 30	December 31
Premiums written	$422.4	$402.9	$543.8	$ 596.7
Premiums earned	380.4	375.2	441.5	497.8
Net investment income	82.9	77.9	90.4	91.2
Expenses	450.4	445.8	504.6	557.7
Net income	29.8	3.8	45.6	56.6
Net income per share	$ .66	$ .09	$ .94	$ 1.17
Dividends per share	.39	.39	.39	.39
Stock price range*				
High	$75.25	$85.13	$92.00	$105.00
Low	61.13	73.75	79.13	80.75

1984 Three Months Ended	March 31	June 30	September 30	December 31
Premiums written	$333.6	$344.7	$340.0	$ 411.4
Premiums earned	301.6	329.0	307.9	401.9
Net investment income	63.2	64.5	70.1	77.1
Expenses	363.9	375.7	389.3	571.7
Operating income (loss)	30.9	40.4	26.4	(32.0)
Cumulative effect of accounting change	80.5	—	—	—
Net income (loss)	114.1	42.5	26.9	(27.2)
Per Share				
Operating income (loss)	$ .68	$ .90	$ .59	$ (.71)
Cumulative effect of accounting change	1.78	—	—	—
Net income (loss)	2.53	.95	.59	(.60)
Amounts previously reported				
Net income	$ 30.4	$ 39.3	$ 23.3	$ —
Net income per share	.67	.88	.51	—
Dividends per share	.36	.36	.36	.36
Stock price range*				
High	$66.75	$62.63	$64.88	$ 66.00
Low	54.38	51.75	46.50	58.25

*Closing price, New York Stock Exchange

1983 Three Months Ended	March 31	June 30	September 30	December 31
Premiums written	$281.9	$302.1	$328.3	$330.3
Premiums earned	266.0	301.8	298.6	333.6
Net investment income	56.1	57.9	57.7	60.0
Expenses	282.0	313.9	319.8	387.6
Net income	52.0	54.5	48.0	34.9
Net income per share	$ 1.15	$ 1.21	$ 1.07	$ .77
Dividends per share	.32	.32	.32	.32
Stock price range*				
High	$73.00	$68.63	$63.75	$68.88
Low	52.63	57.75	53.75	61.00

*Closing price, New York Stock Exchange

The above quarterly data has been restated to reflect the discontinued operations of the Trident Group which was disposed of during the quarter ended June 30, 1985. See Note 3.

14 Subsequent Events

In February, the Corporation sold 2.875 million shares of common stock in an underwritten public offering at a price to the public of $114.50 per share and net proceeds to the Corporation of $322.6 million.

The Board of Directors proposed a two-for-one split in the common stock subject to stockholder approval at the annual meeting.

Auditors' Opinion

To the Board of Directors and Stockholders of
General Re Corporation
Stamford, Connecticut

We have examined the consolidated balance sheets of General Re Corporation and subsidiaries as of December 31, 1985 and 1984 and the related consolidated statements of income, shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of General Re Corporation and subsidiaries as of December 31, 1985 and 1984 and the consolidated results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1985 in conformity with generally accepted accounting principles consistently applied during the period except for the change in 1984, with which we concur, in the method of accounting for tabular workers' compensation reserves as described in Note 2 to the financial statements.

Coopers & Lybrand

New York, February 4, 1986,
except Note 14 as to
which the date is
February 19, 1986.

Supplementary Information Regarding The Effects of Inflation

The following table presents selected financial information regarding the effects of price changes for the years 1981 through 1985 which are adjusted to give recognition to the changes in purchasing power of the dollar since 1967. Since the Corporation does not have significant holdings in inventory, property, plant and equipment, adjustments for current costs have no material effect on the income from continuing operations adjusted for general inflation. Therefore, the information is expressed in terms of constant dollars by application of the change in the consumer price index in each of the last five years using 1967 as a base year when the consumer price index was 100. The information in the table is expressed in terms of the purchasing power of 1967 dollars which is a change from prior years when amounts were expressed in terms of average current year dollars.

	Years ended December 31,				
(In millions, except per share data)	1985	1984	1983	1982	1981
Premiums and other revenues					
As reported	$2,123.0	$1,665.3	$1,471.0	$1,330.6	$1,241.2
In constant dollars	658.9	535.2	492.9	460.2	455.6
Income from continuing operations and cumulative effect of accounting change					
As reported	164.3	149.8	182.7	204.7	178.5
In constant dollars	51.0	48.2	61.2	70.8	65.5
Income from continuing operations and cumulative effect of accounting change per share[1]					
As reported	3.51	3.32	4.05	4.61	4.09
In constant dollars	1.09	1.07	1.36	1.59	1.50
Net assets at year-end					
As reported	1,794.2	1,367.6	1,316.5	1,138.8	968.4
In constant dollars	548.0	433.5	433.8	389.5	344.0
Gain (loss) in purchasing power of net monetary assets (avg. current year $)	(50.7)	(40.9)	(36.5)	(34.9)	(73.8)
Cash dividends declared per share[1]					
As reported	$ 1.56	$ 1.44	$ 1.28	$ 1.08	$ .88
In constant dollars	.48	.46	.43	.37	.32
Market price per share at year-end[1]&[2]					
As reported	100.13	63.75	68.50	63.75	40.38
In constant dollars	30.58	20.21	22.57	21.80	14.34
Consumer price index (1967 = 100)					
Average	322.2	311.1	298.4	289.1	272.4
End of year	327.4	315.5	303.5	292.4	281.5

[1]Adjusted for two-for-one stock split in 1982

[2]Closing price, New York Stock Exchange.

Officers

Chairman and Chief Executive Officer
Frank W. Munson

President and Chief Operating Officer
Ronald E. Ferguson

Senior Vice Presidents and Group Executives
John C. Etling
Robert O. Shepler

Vice President, Investments
Jerry S. Wilbourn

Vice President, General Counsel and Secretary
Edmond F. Rondepierre

Vice President, Finance
Ronald G. Anderson

Vice President, International
Philip W. Ness, Jr.

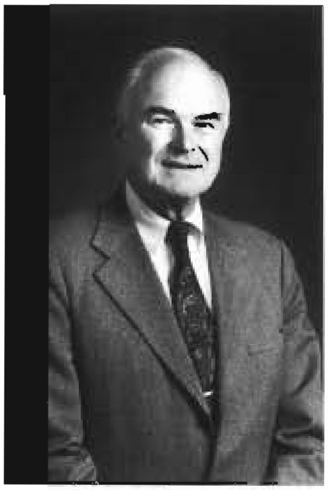
Vice President, Administration
Michael R. Zucchini

Treasurer
Louis J. Forgione

Assistant Treasurer
James L. Morgan

Contents

Board of Directors



John C. Bierwirth (A)
Chairman of the Board
Grumman Corporation

Howard W. Blauvelt (E,F,N,C)
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Conoco Inc.

Jean Pierre Bruderer
Retired Executive Vice President
Electrowatt Ltd.

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President
Harvard Management Company Inc.

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Retired Vice Chairman
International Business Machines Corporation

Reginald H. Jones (E,F,N,C)
Retired Chairman of the Board
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Edward H. Malone
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General Electric Company

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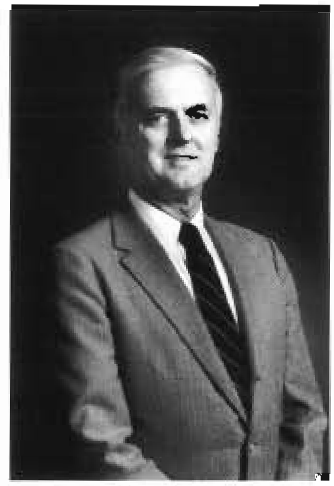
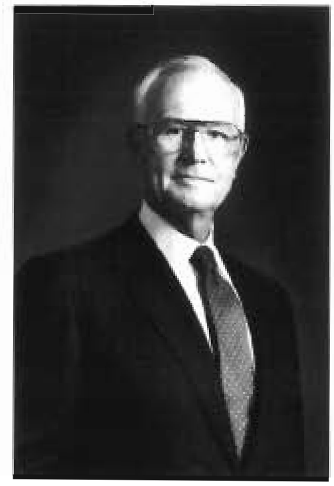
Executive Vice President
Richard K. Mellon and Sons

John C. Etling (F)
President
General Reinsurance Corporation

Ronald E. Ferguson (F)
President
General Re Corporation

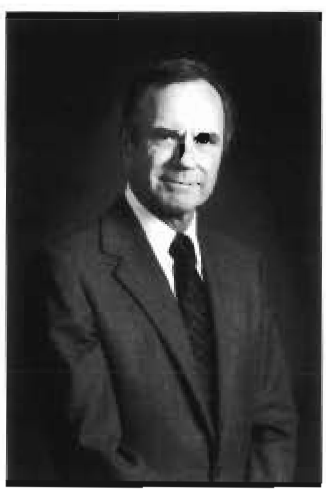


Graham O. Harrison (F,A)
Vice President and Chief Investment Officer
Howard Hughes Medical Institute



Harold J. Hudson, Jr. (E,F)
Retired Chairman of the Board
General Re Corporation

Frank W. Munson (E,F,N)
Chairman of the Board
General Re Corporation



Nathan R. Owen (E,F,N,C)
Retired Chairman of the Board
General Signal Corporation

Charles S. Sanford, Jr. (F,A,C)
President
Bankers Trust Company

(E) *Executive Committee*
(F) *Finance Committee*
(A) *Audit Committee*
(N) *Nominating Committee*
(C) *Compensation Committee*

General Reinsurance Corporation

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James E. Gustafson
Tom N. Kellogg
Kenneth J. LeStrange
Dallas W. Luby
Thomas J. McCarthy, Jr.
Frank W. Munson
Richard J. Reynolds, Jr.
Robert O. Shepler

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Liaison Office

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Home Office

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The Monarch Insurance Company of Ohio

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Paul M. Rumely

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General Reassurance Corporation

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Cecil M. Williams

Senior Vice President and Chief Actuary
William W. Zeilman

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P. James Housholder
Jeffery M. Jackson
James H. Masline
James L. McIntyre
Stephen D. Poth
Paul R. Whalen
Jerry S. Wilbourn

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William E. Huckabee, M.D.

Vice President and Staff Actuary
Frank W. Klinzman

Vice President, Comptroller and Treasurer
James L. Morgan

Vice President, General Counsel and Secretary
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Vice President and Chief Underwriter
Gerald Taylor

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Mexico

Fairfield Life Insurance Company

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President
Oscar R. Scofield

Vice President and Medical Director
William E. Huckabee, M.D.

Vice President, General Counsel and Secretary
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Vice President
Jerry S. Wilbourn

Treasurer and Second Vice President
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Switzerland

Reinsurance Company of Australasia Limited

Managing Director
Paul J. Miller

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Brisbane
Melbourne
Perth

General Reinsurance Group, Servicios Comerciales, S.A.

Director General
Antonio Artime Gonzalez

Serrano Jover 5,6° A
Madrid 8, Spain

Corporate Headquarters

Financial Centre
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Stamford, CT 06904-2351
(203) 328-5000

Annual Meeting

The annual meeting of stockholders will be held at 9:30 a.m. on May 27, 1986, at the corporate headquarters.

Additional Information

Both the Annual Report on Form 10-K as filed with the Securities and Exchange Commission and a Schedule of Investments of the domestic companies are available to stockholders on request by writing to Joan R. Burns at the corporate address.

Stock Listing

The common stock of General Re Corporation is traded on the New York Stock Exchange under the symbol GRN. At the end of 1985, there were 2,344 stockholders of record.

Stock Transfer Agent, Dividend Disbursing Agent, and Registrar

The Bank of New York
90 Washington Street
New York, NY 10015

Design: Jack Hough Associates, Inc. Norwalk, CT
Photography: Jeff Smith
Illustration: Francois Colos