G E N E R A L R E C O R P O R A T I O N

# General Re Corporation

General Re Corporation is a holding company for global reinsurance and related risk assessment, risk transfer and risk management operations. It owns General Reinsurance Corporation and National Reinsurance Corporation, together the largest professional property/casualty reinsurance group domiciled in the United States.

General Re also, directly and indirectly, owns or controls 78 percent of Kölnische Rückversicherungs-Gesellschaft AG (Cologne Re). The remaining shares are publicly traded on the Düsseldorf and Frankfurt stock exchanges. Cologne Re, formed in 1846, is the oldest reinsurance company in the world. From its 37 locations, Cologne Re does business in almost 150 countries. Together, General Re and Cologne Re aim to be the premier global reinsurer.

In addition, General Re writes excess and surplus lines insurance through General Star Management Company, provides alternative risk solutions through Genesis Underwriting Management Company, provides reinsurance brokerage services through Herbert Clough, Inc., manages aviation insurance risks through United States Aviation Underwriters, Inc., and acts as a business development consultant and reinsurance intermediary through Ardent Risk Services, Inc. General Re also operates as a dealer in the swap and derivatives markets through General Re Financial Products Corporation and provides specialized investment services to the insurance industry through General Re-New England Asset Management, Inc.

General Re Corporation is included in the Fortune 500 and Standard & Poor's 500. General Re is one of only five nongovernmental United States-based financial institutions with a AAA senior debt rating from Standard & Poor's, a major rating agency. General Re is traded on the New York Stock Exchange under the symbol GRN.

# Financial Highlights

| (in millions, except combined ratio and per share data) | 1997 | 1996 | Percent change |
|---|---|---|---|
| Total revenues | $ 8,251 | $ 8,296 | (0.5)% |
| Net premiums written | 6,545 | 6,661 | (1.7) |
| Property/casualty underwriting combined ratio: | | | |
| Consolidated | 100.6% | 100.5% | |
| North American | 99.2 | 99.1 | |
| International | 102.4 | 102.1 | |
| Net income | $ 968 | $ 894 | 8.3% |
| Per share: Basic | 12.04 | 11.00 | 9.5 |
| Diluted | 11.76 | 10.78 | 9.1 |
| After-tax income, before realized gains | 965 | 877 | 10.1 |
| Per share: Basic | 12.00 | 10.79 | 11.2 |
| Diluted | 11.72 | 10.57 | 10.9 |
| Invested insurance assets | 24,576 | 23,168 | 6.1 |
| Per share | 317.38 | 284.05 | 11.7 |
| Total assets | 41,459 | 40,161 | 3.2 |
| Shareowners' equity | 8,161 | 7,326 | 11.4 |
| Per share | 105.40 | 89.82 | 17.3 |

# Mission Statement

At General Re, our aim is to be the first choice provider of risk assessment and risk transfer solutions for our clients. We intend to anticipate and meet or exceed the needs and expectations of our clients worldwide. As we strive to be the best we can be, we are committed to an attitude of Continuous and Never-Ending Improvement. To us, being the "best" means being the most professional and consistently profitable company in our business. As we see it, being the best is the only way we can really serve the long-term interests of all our constituents — shareowners, clients, associates and communities.

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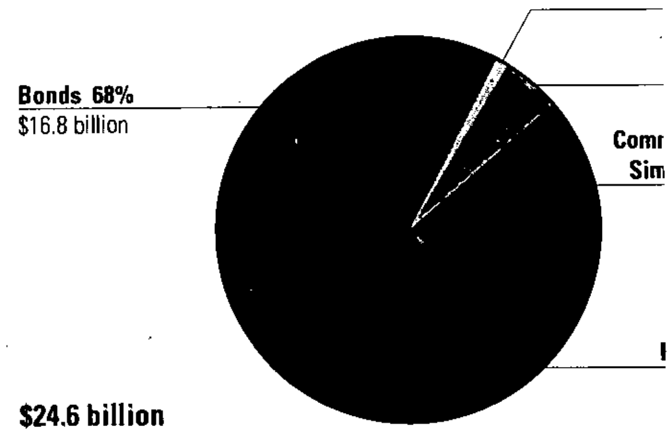
# Focusing on the

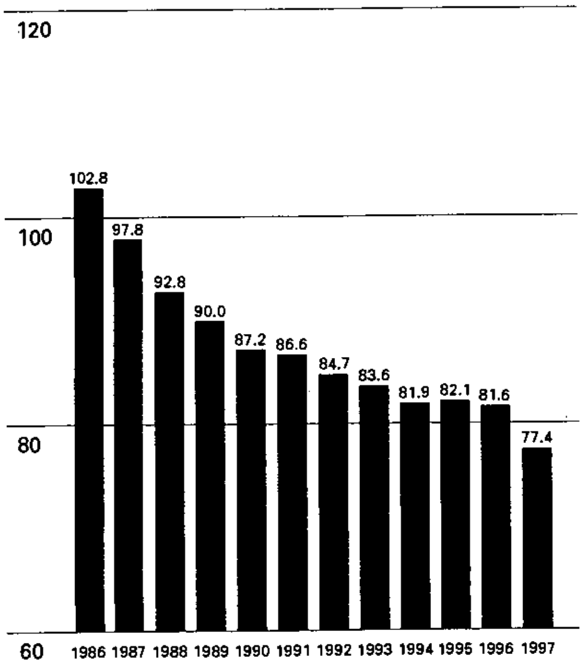
## Average Consolidated Combined Ratio

| | | |
|---|---|---|
| 5 | Years | 101.0% |
| 10 | Years | 101.4 |
| 20 | Years | 102.8 |
| 30 | Years | 102.2 |
| 40 | Years | 101.3 |
| 50 | Years | 100.4 |

## Invested Insurance Assets
*December 31, 1997*




## Shares Outstanding at Year End *(in millions)*




## Historical Data

| Year | Net Premiums Written | Invested Insurance Asse Total | Per Share | CA |
|---|---|---|---|---|
| 1947 | $ 25,368,000 | $ 48,295,000 | $ 0.55 | 1 |
| 1952 | 35,067,000 | 83,442,000 | 0.96 | 1 |
| 1957 | 45,751,000 | 112,055,000 | 1.29 | 1 |
| 1962 | 86,735,000 | 174,565,000 | 2.00 | 1 |
| 1967 | 141,205,000 | 295,784,000 | 3.40 | 1 |
| 1972 | 286,919,000 | 697,231,000 | 8.00 | 1 |
| 1977 | 610,163,000 | 1,468,202,000 | 16.85 | 1 |
| 1982 | 862,000,000 | 2,884,000,000 | 32.02 | 1 |
| 1987 | 2,365,000,000 | 6,945,000,000 | 70.98 | 1 |
| 1992 | 2,349,000,000 | 10,986,000,000 | 129.68 | 1 |
| 1997 | 6,545,000,000 | 24,576,000,000 | 317.38 | |

[1] *Basic Operating Earnings Per Share*
[2] *Continuing Operations*
[3] *Compound Annual Growth Rate to 1997*

# Fundamentals

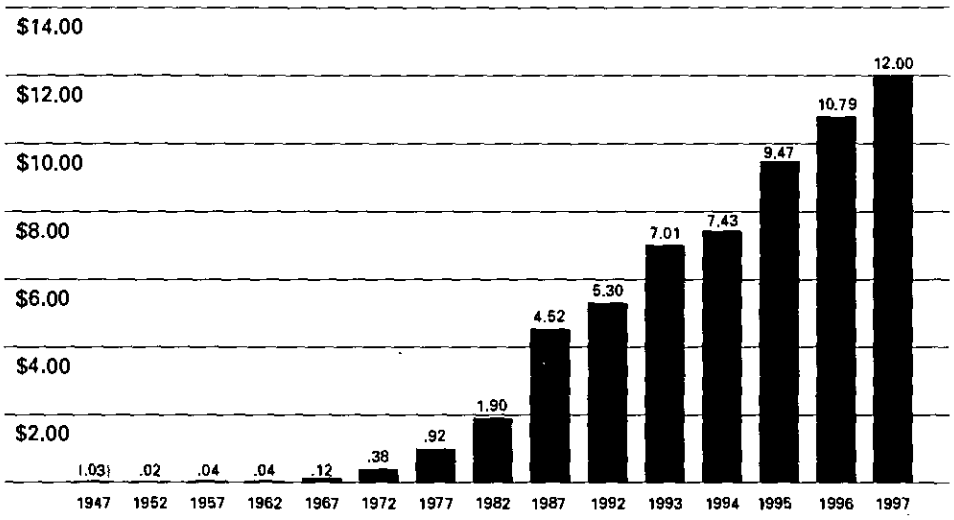
Other 1%
$0.2 billion

Short Term 5%
$1.2 billion

n Equities and
ar Investments 22%
$5.3 billion

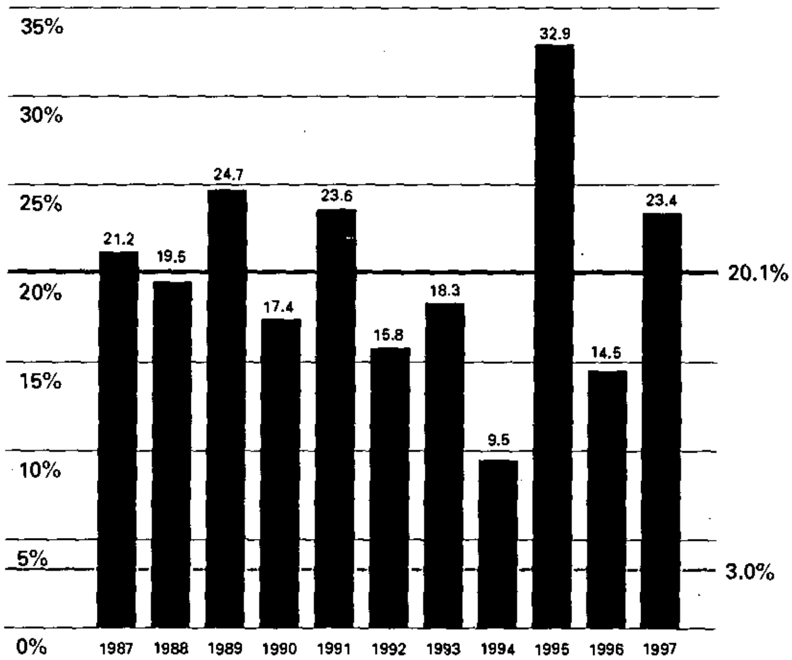
eferred Equities 4%
$1.1 billion

Operating Earnings Per Share[1,2]




| | Shareowners' Equity | | |
|---|---|---|---|
| t³ | Total | Per Share | CAGR³ |
| 5% | $ 16,709,000 | $ 0.19 | 13.5% |
| 3 | 26,565,000 | 0.30 | 13.9 |
| 8 | 40,776,000 | 0.47 | 14.5 |
| 6 | 66,662,000 | 0.77 | 15.1 |
| 3 | 104,022,000 | 1.19 | 16.1 |
| 9 | 244,965,000 | 2.81 | 15.6 |
| 8 | 445,434,000 | 5.11 | 16.3 |
| 5 | 1,139,000,000 | 12.64 | 15.2 |
| 2 | 2,563,000,000 | 26.20 | 14.9 |
| 6 | 4,227,000,000 | 49.90 | 16.1 |
| - | 8,161,000,000 | 105.40 | — |

Total Return on Equity




3.0% Average Inflation
20.1% Average Total Return on Equity

# To the Shareowners of General Re Corporation

Ron Ferguson
*Chairman and Chief Executive Officer*

Consistently favorable underwriting results, growth in invested insurance assets, strong after-tax investment returns and effective capital management made for a good year. The sum of these accomplishments was that General Re's franchise and value continued to grow.

During 1997, your company:

- Earned record operating income of $965 million ($12.00 per share) driven by favorable underwriting results in both our North American and international property/casualty operations, increased profitability in our global life/health business and higher investment income due to strong cash flows;
- Earned excellent total returns on our fixed income and common equity investment portfolios;
- Grew our GAAP shareowners' equity to $8,161 million ($105.40 per share), an increase of 17.3 percent on a per-share basis, as a result of strong operating income and substantial appreciation in the value of our fixed income and common equity investments;
- Increased our invested insurance assets to $24.6 billion ($317.38 per share), an increase of 11.7 percent on a per-share basis, over 1996;
- Distributed $1,038 million of cash to our shareowners through common dividends of $174 million and share repurchases of $864 million, buying back just under 6.0 percent of the shares outstanding at the beginning of the year;
- Solidified our leadership position in the North American property/casualty reinsurance market by developing a significant number of new client relationships, especially with regional and specialty insurers, and by building upon existing client relationships;
- Expanded our international operations, opening offices in Shanghai, São Paulo and Riga;
- Delivered a more comprehensive set of investment, financial and integrated risk management products and services through General Re-New England Asset Management and General Re Financial Products to a growing number of insurance clients; and,
- Continued to make good progress on each of our five strategic initiatives.

These excellent results were achieved in a competitive environment that tested our underwriting culture daily — and that continues to be challenging as we enter 1998 for both General Re and our clients around the globe. While the insurance industry reported record financial results during 1997, these good results were generally driven by relatively light catastrophe losses, continued favorable development of prior years' loss reserves and excellent investment returns.

**We end 1997 with favorable results, strong client relationships, an impeccable balance sheet, and the underwriting and financial expertise and confidence in our strategies to create opportunities and value from the challenges we and our clients face.**

These industry results masked continued deterioration in the industry's fundamental underwriting trends. Current insurance market conditions are characterized by:

- A very competitive environment fueled by excess capital, deregulation of certain markets, slowing demand for insurance in mature markets and a sometimes optimistic view of risk;
- Loss reserves that are under pressure due to recognition of favorable development on prior years' business, current accident year reserves that may not fully reflect market conditions and reduced provisions for latent injury and other mass tort losses;
- Weak, and in some cases negative, underwriting cash flow;
- Increasing expense ratios which put additional pressure on underwriting margins and earnings; and,
- Declining global interest rates, which make it difficult for insurers to "fund" underwriting losses with increased investment income.

At General Re, we responded to this challenging environment by maintaining our underwriting discipline and delivering value to our clients. Simply put, we steadfastly concentrated on the fundamentals of executing our business plan — one client at a time. We made no major strategic changes during the year; instead, our efforts were focused on performing well each and every day. We end 1997 with favorable results, strong client relationships, an impeccable balance sheet, and the underwriting and financial expertise and confidence in our strategies to create opportunities and value from the challenges we and our clients face.

1998 is likely to be a more difficult year for insurers and reinsurers. While General Re will not receive a "free pass", we are well positioned to meet the challenge. In time, the economic and strategic consequences of the deteriorating underwriting environment will be recognized. This recognition, coupled with slower investment income growth for the industry due to weak underwriting cash flow and lower investment yields, will inevitably lead to a renewed focus by the industry on underwriting and to growth opportunities for General Re.

*These then were the highlights and headlines, the rest is commentary....*

In the balance of this letter, I will discuss our 1997 results in greater detail and provide an update on our strategic initiatives. I will also explain how executing our business plan, in combination with continued progress on our strategic initiatives, creates value for our owners. Additionally, the vignettes which appear on pages 14 through 17 provide examples of how we create and deliver value to our clients.

## 1997 Results

General Re's consolidated combined ratio was 100.6 percent in 1997, reflecting a 99.2 percent combined ratio in our North American operations and a 102.4 percent combined ratio in our international operations.

General Re recorded operating income of $965 million, or $12.00 per share, in 1997, an 11.2 percent increase over last year's $10.79 per share. Net income, which includes $.04 per share of realized investment gains, was $12.04 per share in 1997.

Net premiums written were $6,545 million, a decrease of 1.7 percent from 1996. Adjusted for the effects of foreign exchange, net premiums written increased 2.8 percent.

The combination of operating cash flow and appreciation within the investment portfolio increased invested insurance assets to $24.6 billion at year end, an increase of $1.4 billion during 1997. On a per-share basis, General Re's insurance operations had invested assets of $317.38 at December 31, 1997, an increase of 11.7 percent over 1996.

Shareowners' equity increased by $835 million to $8,161 million, or $105.40 per share, as of December 31, 1997, an increase of 17.3 percent on a per-share basis. Our return on equity measured on an operating basis (includes operating earnings, but excludes realized and unrealized investment gains) was 16.9 percent. Our return on equity measured on a total-return basis (which includes the appreciation on investments) was 23.4 percent.

The acquisition of National Re was completed on October 3, 1996. Our 1997 results, therefore, included four quarters of National Re's results, while our 1996 results only included one quarter.

*Loss Reserves*

The integrity of our loss reserves is critical to both our underwriting results and maintaining a disciplined balance sheet. It is important that we get the loss reserves "right" on the risks that we have assumed — for the reserves are a vital part of the scorecard on our prior business, which, in turn, significantly influences our attitude and pricing on current business.

## Operating Results

### North American Property/Casualty Operations

Our North American property/casualty operations again achieved our goal of underwriting to a profit and reported a combined ratio of 99.2 percent in 1997. Underwriting to a combined ratio of less than 100 percent remains our most important operating objective.

Pretax operating income for North American property/casualty operations was $849 million in 1997, an increase of 14.4 percent compared to 1996. This growth in pretax operating income was due to our favorable underwriting results and growth in investment income.

North American property/casualty net premiums written were $3,058 million, down 0.7 percent from 1996. Adjusted for the acquisition of National Re, net written premiums declined approximately 5.3 percent. Our underwriting discipline in the face of a competitive market led to reduced premium writings during the last half of the year.

During 1997, we again had good growth with regional and specialty treaty clients, which generally have excellent local or product franchises. The ability of General Re to offer solutions and services beyond traditional risk transfer can be especially important to these clients. Our traditional portfolio business (which includes treaty and casualty program business) with regional and specialty clients grew 10.2 percent during 1997, and now comprises approximately 77 percent of our portfolio volume, up from approximately 65 percent in 1995. Offsetting this growth, our portfolio business with large national clients declined during

many of these companies increased the amount of risk that they retain. Although industry consolidation has recently received much attention and, at times, has adversely affected our premium volume, independent studies by credible insurance research organizations have concluded that the aggregate market share of the largest U.S. commercial lines insurance companies has not increased on a secular basis. These studies validate our belief that most classes of commercial lines insurance continue to be driven predominantly by underwriting knowledge and not scale. While consolidation activity may have cyclical impacts on our premium volume, we do not believe it will significantly affect our growth over longer periods of time.

### International Property/Casualty Operations

The combined ratio for international property/casualty reinsurance operations was 102.4 percent in 1997, compared to 102.1 percent in 1996.

Pretax operating income for international property/casualty operations was $315 million, a decrease of 1.3 percent from 1996. Adjusted for the effects of foreign exchange, pretax operating income for international property/casualty operations increased 4.0 percent in 1997. The general decline in global, and especially German, interest rates over the past three years has slowed the growth rate of our international property/casualty investment income.

International property/casualty net premiums written were $2,268 million in 1997, a decrease of 9.5 percent from 1996, and represented 35 percent of our total premiums. During 1997, the U.S. dollar appreciated significantly against the German mark.

At December 31, 1997, our global property/casualty net loss reserves were $13,441 million, up 0.3 percent from year-end 1996. Adjusted for the effects of foreign exchange, loss reserves increased approximately 4.0 percent. Our loss reserves for prior years' business continued to perform well. In 1997, favorable development on certain North American casualty lines of business was partially offset by strengthening reserves for environmental, asbestos and other latent injury and mass tort claims.

Net policy benefits for life/health reinsurance contracts at year end were $637 million, an increase of 21.7 percent over last year's reserves. This increase reflects the growth of our global life/health business during 1997.

*Cash Flow*

Cash flow available for investment from insurance operations during 1997 was $1.4 billion, with $931 million from North American property/casualty operations and $471 million from international property/casualty and global life/health operations. Cash flow available for investment continued to be strong despite slowing premium growth because of the relatively long duration of our liabilities, especially in our North American property/casualty operations.

*Investments*

Consolidated after-tax net investment income for the group reached $969 million, or $12.18 per share, an increase of 7.5 percent on a per-share basis. Adjusted for the effects of foreign exchange, after-tax net investment income per share increased 9.6 percent for the year.

**Global Life/Health Reinsurance Operations**

Our global life/health reinsurance operations, mainly conducted by Cologne Re, had premiums written of $1,219 million in 1997, an increase of 13.4 percent over 1996. Life reinsurance, which comprises 70.5 percent of the segment, grew 5.8 percent, while health reinsurance grew 36.5 percent. Adjusted for the effects of foreign exchange, global life reinsurance premiums increased approximately 16.0 percent in the year. Health reinsurance premiums are principally written in the United States and, therefore, are not significantly affected by changes in foreign exchange rates.

Pretax operating income from life/health reinsurance grew to $83 million, an increase of 56.7 percent over the $53 million recorded in 1996. The growth in earnings is principally due to improved underwriting margins in the United States life and health reinsurance operations and increased investment income due to good business growth during the past two years.

Our life reinsurance operations achieved strong revenue growth in the United States, France, Spain and Southeast Asia, while our health reinsurance operations continued to increase their franchise in the United States. The current composition of the life/health reinsurance operations' net premiums written is approximately 47 percent in North America, 21 percent in Germany, 17 percent in the rest of Europe and 6 percent in Asia, with the remaining 9 percent spread throughout the world.

Life and health insurance markets around the globe are evolving at a rapid pace. This evolution is shifting risks among various constituencies. Continued change in health care markets in many parts of the world, the blurring of occupational and non-occupational coverages, the privatization of certain social benefit systems in many countries, and the development of emerging markets present attractive opportunities for our life/health reinsurance operations. To capitalize on these opportunities, we have formed a task force of life/health reinsurance experts who are responsible for developing new products and risk management techniques that are responsive to changing client needs.

**Financial Service Operations**

Our financial service businesses include General Re Financial Products (GRFP), General Re-New England Asset Management (GR-NEAM), Herbert Clough, Ardent Risk Services and United States Aviation Underwriters.

Operating revenues for the financial service businesses were $300 million in 1997, an 11.7 percent increase over the $269 million reported in 1996. Pretax operating income was $105 million, a 4.8 percent increase over 1996. The increase in financial services revenues is primarily due to good growth at GRFP, which continued to build its product portfolio and marketing resources while at the same time growing its risk management capabilities.

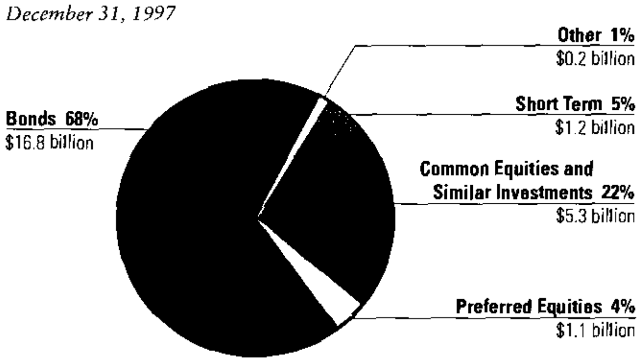
We are pleased with the results in our financial service operations, especially considering the significant investments in people and infrastructure that we made during the year at GRFP and GR-NEAM, and the disruption of global capital markets during the fourth quarter due to developments in Asia. While GRFP does not have significant exposure in non-Japan Asia, the disruption in these markets caused uncertainty and volatility in the global capital markets, which reduced the level of GRFP's business activity in the fourth quarter.

In our North American operations, after-tax net investment income was $682 million, or $8.57 per share, an increase of 11.0 percent on a per-share basis. Adjusted for the effect of adding the National Re portfolio, North American after-tax net investment income per share increased 9.6 percent for the year.

International after-tax net investment income, which was impacted by declines in global interest rates over the past three years and by changes in foreign exchange rates, was $225 million, or $2.83 per share, a decrease of 5.4 percent on a per-share basis. Adjusted for the effects of foreign exchange, international after-tax net investment income was essentially flat in 1997.

The total return in original currency on our consolidated insurance investment portfolios was 13.2 percent during 1997. Our investment portfolios performed in line with or better than their respective benchmark indices during the year.

**Invested Insurance Assets**
*December 31, 1997*




**$24.6 billion**

Consistent with our long-term management orientation and strong balance sheet, we allocate a significant portion of our insurance investment portfolio to common equities and similar investments. At December 31, 1997, we had $5.3 billion of common equities and similar investments, which represented 21.6 percent of our insurance investments and 70.0 percent of our shareowners' equity (excluding the unrealized appreciation on our fixed income securities). This allocation to common equities is approximately twice the allocation of the typical company within the U.S. property/casualty insurance industry. While we recognize that the returns on common equity investments are likely to be volatile year-to-year, we expect that over the longer term these investments will produce greater after-tax total returns than fixed income securities.

**Consistent with our long-term management orientation and strong balance sheet, we allocate a significant portion of our insurance investment portfolio to common equities and similar investments.**

*Shareowners' Equity and Capital Management Activities*

Shareowners' equity reached $8,161 million at the end of 1997, or $105.40 per share, an increase of $835 million, or 17.3 percent on a per-share basis, over 1996. This increase is mostly due to $965 million of operating earnings and an $835 million increase in after-tax unrealized appreciation in our investment portfolio, partially offset by $1,038 million of distributions to our shareowners in the form of common dividends ($174 million) and share repurchases ($864 million).

Our capital management philosophy is straightforward. We manage our capital to maximize shareowner value by:

- Earning attractive risk-adjusted total returns on our capital;
- Providing our clients with unquestionable security by having sufficient capital to fully support the risks we assume;
- Maintaining a reasonable "margin of safety" so that we can immediately respond to client needs and business opportunities; and,
- Retaining our "AAA" credit ratings — a valuable and increasingly scarce asset — as external validation of the quality of our promise.

Our first preference is to use our capital to grow our businesses. If, as has been the case in recent years, we generate more capital than we need to support our business, we return the excess capital to our owners by repurchasing our shares, provided that the market price of General Re's shares is less than our estimate of their intrinsic value.

During 1997, we repurchased 4,692,300 shares, or just under 6.0 percent of the shares outstanding at the beginning of the year. Share repurchases have been an integral part of our capital management strategy for over a decade. We believe share repurchases are an effective, flexible and valuable capital management strategy for General Re.

From the inception of our share repurchase plan in June 1987 through year-end 1997, we have repurchased over 31.8 million shares, or 31.0 percent of our then outstanding shares, for $3.2 billion, or an average price of $100.47 per share. These repurchases, net of shares issued in connection with acquisitions and employee benefit programs, reduced actual shares outstanding by 24.7 percent since June 1987. In December 1997, the Board of Directors authorized a new $750 million share repurchase program, this being the 11th program since the plan's inception.

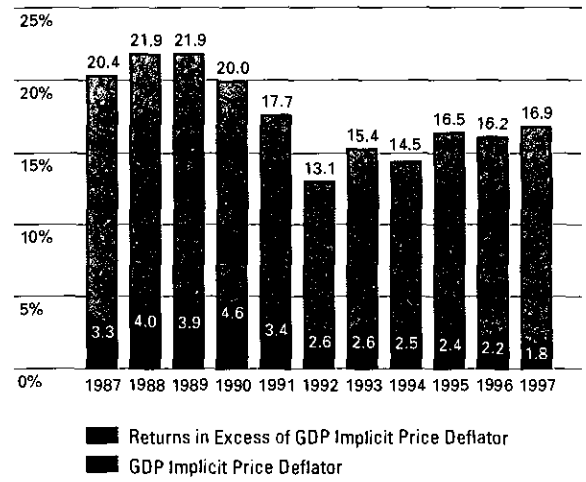
In February 1998, the Board of Directors declared a quarterly dividend of $.59 per share. At an annualized rate of $2.36 per share for 1998, this is an increase of 7.3 percent over 1997 common dividends of $2.20 per share. Our 1998 dividend marks our 22nd consecutive annual dividend increase. Dividends have been paid every year since 1934.

*Return on Equity*

We measure our return on equity two ways.

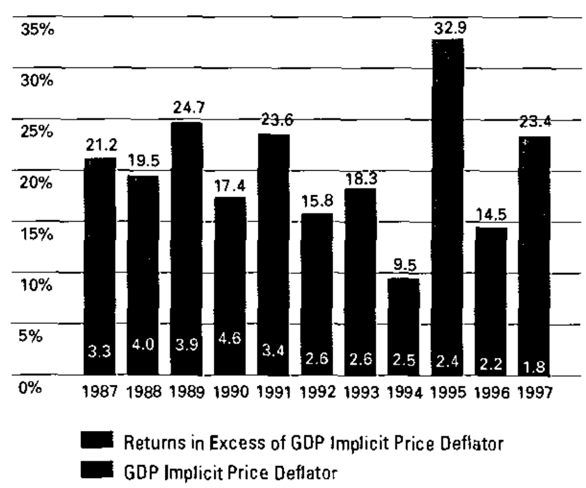
First, we measure our operating return on equity, which we calculate by dividing operating earnings by average shareowners' equity excluding the after-tax unrealized appreciation on our investments. During 1997, our operating return on equity was 16.9 percent and, over the past 10 years, it has averaged 17.4 percent.

**Operating Return on Equity**




Given our significant allocation to common equity investments and the fact that appreciation on our investments is not included in operating earnings, we also look at our total return on equity. Total return on equity is essentially calculated by adding the realized investment gains after taxes and the change in the after-tax unrealized appreciation in our investment portfolio to our operating earnings, and then dividing that total by average shareowners' equity. While total return on equity is more volatile than operating return on equity, it was 23.4 percent in 1997 and it has averaged 20.0 percent over the past 10 years.

**Total Return on Equity**



*Share Price Performance*

General Re shares performed well in 1997, producing a total return of 36.0 percent compared to a 33.4 percent total return on the S&P 500 index. After lagging the returns on the S&P 500 index during 1995 and 1996, we are pleased that our share price performance has begun to reflect our ability to both produce excellent operating results and grow General Re's value in a difficult insurance market.

## Creating Value

Our principal objective, as managers and stewards of General Re's business franchise, is to maximize the intrinsic value of General Re on a per-share basis.

The process of maximizing General Re's value starts with our business plan, which is described on page 64. Executing the business plan well is clearly what we focus on day-to-day. Over time, we seek to build a growing book of business that is underwritten to a profit (or, in the case of our financial service operations, to an attractive return on equity) by providing our clients with valued products and services.

This business plan, if executed well, creates significant value for our owners. Subject to our ability to add value and serve clients well, General Re's intrinsic value — and ultimately our share price — is driven by four economic variables:

### Progress on Strategic Initiatives

We made good progress on our strategic initiatives during 1997.

**Global Reinsurance Capability**

We continued to expand General Re's global reinsurance operations during the year. Since the early 1990s, we have grown our international business through a combination of organic growth, the acquisition of Cologne Re in 1994 and the formation of our global business units. Today, General Re has 1,275 reinsurance associates working outside of North America (approximately 671 in Germany and 604 in other locations). We conduct business 24 hours a day from offices in 61 cities in 31 countries on six continents. With approximately $3.0 billion of international reinsurance premiums and $2.0 billion of capital dedicated to our international operations, we have built a strong global company.

We continued to make progress in 1997 on introducing non-proportional, or excess reinsurance, to our international clients through both Cologne Re and our global facultative business units. We also launched a third global business unit designed to better serve clients who have global or multinational operations. Each of our global business units — property facultative, casualty facultative and multinational — enable us to deliver substantial risk capacity and highly technical underwriting advice at the local level while maintaining consistent underwriting standards.

Although international facultative premium growth was slowed by current market conditions and merger and acquisition activity, our global facultative operations added to their client base during the year, as more underwriters and companies are using excess facultative reinsurance for their most difficult or volatile risks. The story on page 17 provides an example of how *General & Cologne Re* helped one client transition from proportional to non-proportional reinsurance. (Together, General Re and Cologne Re transact reinsurance business as *General & Cologne Re*.)

Having developed our global reinsurance capability, we are now working towards making our global reinsurance operation completely seamless to our clients. We aim to leverage our best products and resources to deliver responsive and timely risk management solutions to each client regardless of location.

**Client-Focused Reinsurance Teams**

We seek long-term partnerships with each of our reinsurance clients. We develop these relationships through our team-based, client-focused marketing and underwriting operations which enable us to deliver all of General Re's knowledge, skills and experience to each client. In the current difficult market, our ability to anticipate our clients' needs and to respond in a timely manner with optimal solutions is a distinct competitive advantage.

During the year, we increased the number of our treaty clients, enjoying especially strong growth with local, regional and specialty insurance companies, and delivered expanded products and services to many existing clients. We also continued to evolve our business units to further enhance the efficiency of our decision making and our ability to respond to clients.

The National Re integration proceeded on schedule in 1997 and is now complete. We were able to achieve all of the cost, investment and capital management synergies that we expected at the time of the acquisition. More importantly, we are pleased with our retention of the National Re clients and people. We expect National Re will continue to create value for General Re by contributing to our growth with regional and specialty clients, which is vitally important to achieving our strategic goal of broadening our client reach.

During 1997, we also steadily increased the participation of General Re-New England Asset Management, General Re Financial Products and Herbert Clough associates on our client teams. The success of our team-based, client-focused organization and our significant investment in training during the past few years is beginning to be evidenced by the number of cross discipline opportunities that we have generated. One of these successes is illustrated in the story that appears on page 14.

- The cost of our liabilities and the efficiency of our organization;
- The growth of our invested insurance assets;
- The after-tax return on those assets; and,
- Effective capital management.

General Re has historically performed very well on each of these measures.

### *Cost of Liabilities and Organizational Efficiency*

The cost of General Re's liabilities is a function of our average combined ratio over time. We seek to produce attractive underwriting results each year, regardless of the insurance cycle. The table on the gatefold in the front of this report shows that over time we have underwritten, on average, to just over break-even, which is emblematic of both our underwriting skills and the value we provide our clients. During the most recent 10 years, General Re's average combined ratio for our North American operations is 100.7 percent, which is significantly better than our reinsurance industry competitors.

### *Growth of Invested Insurance Assets*

Favorable operating cash flow and good after-tax total returns on our investment portfolio have increased our invested insurance assets to $317.38

**Excellence in Investment, Integrated Risk and Capital Management**

During 1997, we committed significant additional resources to further grow our enterprise risk management expertise for property/casualty and life/health insurance companies. Through General Re-New England Asset Management (GR-NEAM), we delivered world-class investment, integrated risk and capital management services to an increasing number of clients.

GR-NEAM's leadership in comprehensive enterprise risk management for insurance companies has expanded both its presence and "share of mind" in the marketplace. GR-NEAM uses its technologies to provide clients with integrated solutions to the challenges facing senior insurance managers, such as:

- Enhancing investment results;
- Optimizing the trade-off between total return and current yield on investments;
- Quantifying the contributions of lines of business to overall profitability;
- Assessing the optimal level of leverage and overall risk;
- Examining the efficiency and efficacy of alternate reinsurance structures; and,
- Evaluating the risks and returns of potential acquisitions.

The successes that we and our clients have enjoyed by using GR-NEAM's expertise are reflected in our, and our clients', bottom line results. We look forward to working with more of our clients to enhance the value of their enterprises by using these technologies, just as we have used them to improve our own.

**Financial Risk Management and Capital Markets Expertise**

General Re Financial Products (GRFP) is a derivatives dealer that specializes in evaluating, structuring and managing financial risks. We founded GRFP in 1990 because we foresaw the possibility that insurance and capital markets could eventually converge in one form or another. We also wanted to develop broader financial risk management capabilities and capital markets expertise to better manage our own balance sheet and

During 1997, we made significant investments in GRFP to grow its product and risk management capabilities and strengthen its direct marketing resources. As a result of these investments, GRFP successfully developed and initiated three new businesses: match-funded investments, structured credit, and equity derivatives. In addition, GRFP significantly increased its fixed income and foreign exchange business and added to its growing client base.

The turmoil in global capital markets in the fourth quarter provided a real world, real time "stress test" of GRFP's controls and infrastructure. We were pleased by the excellent performance of our systems, our book of business and, most importantly, our associates during this period of market volatility.

In summary, during 1997 GRFP established good business momentum and made significant progress in building a high energy, performance-oriented risk management culture that will enable it to become a leading global specialist in derivatives, financial risk management and structured transactions.

**Continuous and Never-Ending Improvement**

We operate in a world in which the pace of change is continually accelerating. At General Re, we seek to grow our franchise by embracing a culture of Continuous and Never-Ending Improvement (CANEI) which enables us to openly and enthusiastically embrace rational change. Through CANEI, all associates are challenged to look beyond existing processes, boundaries and institutional "truths" to suggest and implement better methods of accomplishing our business objectives.

CANEI builds upon the core values and disciplines that have made General Re successful. Drawing upon the creative energy of each of our associates, CANEI enables us to connect more closely with clients, develop new ways to organize work within and across functions and eliminate redundant and low value-added efforts, thereby improving our bottom line results.

In 1997, we expanded our CANEI programs, increased the number of facilitators, and offered training in our change management methodologies to clients and business partners, an example of which appears on page 16.

**We seek to produce attractive underwriting results each year, regardless of the insurance cycle.**

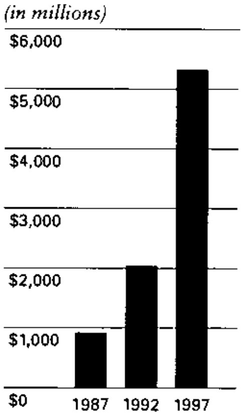
per share as of December 31, 1997. The 10-year compound annual growth rate of our invested insurance assets is 16.2 percent. Adjusted for the Cologne Re acquisition, the 10-year compound annual growth rate of our invested insurance assets per share is 12.0 percent, which is net of $1.5 billion of common dividends paid since 1987.

*After-Tax Investment Returns*

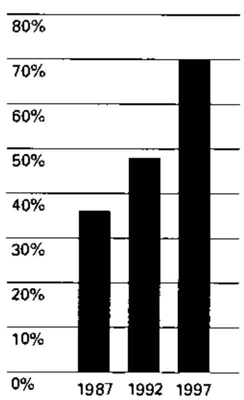
Consistent with our objective to maximize General Re's intrinsic value, we manage our investments on an after-tax total return basis, recognizing that a significant portion of our investments support our insurance liabilities and, therefore, are subject to appropriate liquidity, duration, currency, quality and other constraints. As noted earlier, 21.6 percent of our insurance assets are invested in common equities and similar investments. These investments represent 70.0 percent of our GAAP capital (excluding the unrealized appreciation on our fixed income portfolio). Our allocation to equities has increased over time, as illustrated in the following graphs:

Common Equity and Similar Investments

*(in millions)*




Common Equity and Similar Investments/ GAAP Capital*

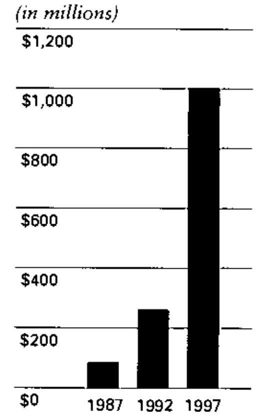



*Excludes unrealized appreciation on fixed income securities.

Equities are a tax-efficient investment for us. While we must record a liability for taxes on the unrealized appreciation in our common equity portfolio, these taxes are only paid when the underlying securities are sold. In the meantime, the funds remain invested and continue to earn returns for our owners. At the end of 1997, General Re's deferred tax liability resulting from the unrealized appreciation of our common equity investments was a little over $1.0 billion ($12.97 per share), up significantly over the last 10 years.

Deferred Tax Liability on the Unrealized Appreciation of Common Equity Investments

*(in millions)*




*Effective Capital Management*

The organic growth in General Re's value is further compounded by returning excess capital to our owners through share repurchases. Since 1987, we have been able to create significant additional value by repurchasing 31.8 million shares for $3.2 billion, or an average price of $100.47 per share. In the process, we have reduced our outstanding shares from 102.8 million as of December 31, 1986 to 77.4 million as of year end.

**While the concept of creating value for our owners is simple and straightforward, the real key is day-to-day execution, which is anything but simple or straightforward.**

Lastly, we would like each of our associates to think and act like an owner. Accordingly, since 1987, we have worked to closely align our associates' economic interests with that of our owners by providing them with a significant equity interest in General Re through our broad based stock option program and by matching their retirement savings with General Re convertible preferred shares in our ESSOP program. Consequently, we have created an ownership culture and mindset among our associates.

We estimate that General Re's 3,869 associates, in aggregate, presently own approximately 9 percent of our diluted shares.

While the concept of creating value for our owners is simple and straightforward, the real key is day-to-day execution, which is anything but simple or straightforward — it requires the proper balance of discipline and opportunism, courage and caution, common sense and creativity, and, finally, patience and a sense of urgency.

## Board Matters

In June 1997, Edward H. Malone retired from the Board of Directors after 12 years of service. During his tenure, Ed generously shared his knowledge and experience gained through a long and illustrious business career. A valued member of the Board, Ed was especially instrumental in helping us develop our investment management philosophy and practices. We are most grateful for Ed's numerous contributions, which will continue to add to General Re's value for many years into the future.

In February 1998, James S. Riepe was elected to the Board of Directors. Mr. Riepe is Vice Chairman of T. Rowe Price Associates, Inc. and serves as Chairman of the firm's marketing, retail and institutional service subsidiaries. Mr. Riepe is an experienced investment professional and a valuable addition to our Board of Directors. We look forward to working with him and receiving the benefits of his experience and expertise.

## In Summary

In summary, we had an excellent year in 1997. We met our goal of executing well and using our skills and knowledge to create value for our clients and owners.

I would like to express my sincere appreciation to all of our clients for giving us the opportunity to work with them, to our owners for their confidence in General Re, to our Board of Directors for their helpful guidance, counsel and support, and to all of our associates for their commitment and dedication to our goal of making General Re the premier global reinsurer and provider of related risk management solutions.

The experience, skills and efforts of General Re's people combined with our commitment to underwriting, our culture of Continuous and Never-Ending Improvement, our financial resources, and our increasingly diverse and growing global competencies allow us to look forward to the future with much optimism and confidence. There will be many challenges ahead which, with energy, perseverance and discipline, we will transform into excellent opportunities for General Re and our clients.

Respectfully submitted,

Ronald E. Ferguson

Ronald E. Ferguson
*Chairman and Chief Executive Officer*
*rferguson@genre.com*

**The Quality of the General Re Promise**

For General Re, like most financial service companies, the Quality of the Promise is what really counts in the long run. The quality of the General Re promise is strong and, thus, our future is bright. Bright because of the dedication and professionalism of all General Re associates, because of our underwriting, risk management, reserving and investment

**Value Proposition**

In the markets we serve, we intend to be the first choice provider of risk assessment and risk transfer solutions (products and services). We will bring to clients insights, advice and solutions that will help them achieve their business plans and goals. We will provide products and services in a manner that is "hassle free" to our clients.

# Adding Value

We have worked hard to develop and deliver a portfolio of risk analysis and risk management products ranging from traditional reinsurance and investment management to enterprise-wide risk management for insurance companies. We deliver all of these capabilities to our clients through client teams. As our clients grow and evolve, their needs may change — frequently they develop a need for a broader or more integrated approach to managing risk — and our relationship may grow to encompass more than the traditional reinsurance that created the foundation of our partnership.

For instance, we have a long-term traditional reinsurance relationship, which includes both treaty and facultative coverages, with a large international company that specializes in providing ocean marine coverages. For more than 10 years, both companies have benefited from the sharing of knowledge and resources that resulted from our close working relationship.

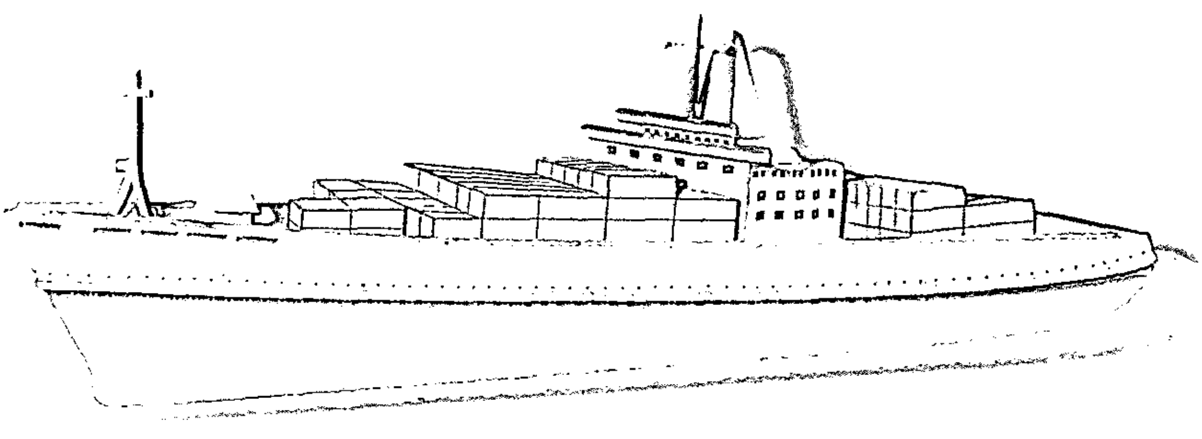
Our relationship is a partnership in which we have frequently assisted our client in developing and implementing strategic initiatives. In turn, we benefit from our client's deep market knowledge and long-term underwriting experience. In a recent annual report, our client stated:

"We have developed a particularly close relationship with one AAA-rated reinsurance company. Because of this relationship, we have found reinsurance solutions that we would otherwise not have been able to obtain. Such reinsurance solutions improve our competitiveness on the direct insurance side, which in turn benefits our customers."

In 1997, we expanded our already strong traditional reinsurance relationship with this client by introducing our colleagues at General Re-New England Asset Management (GR-NEAM). Through GR-NEAM, we have begun to provide an integrated package of enterprise risk and investment management services. These services help our client:

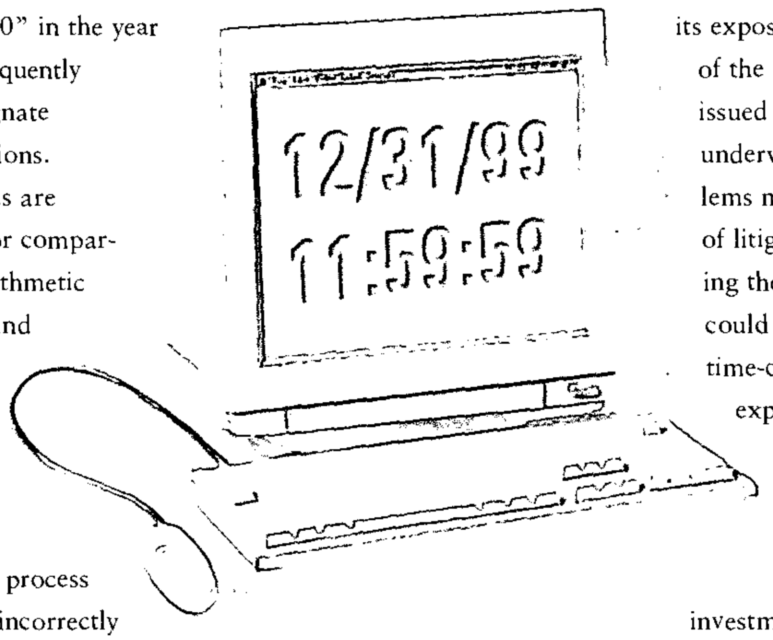
- Measure and more efficiently manage their asset, liability and underwriting risks;
- Determine their optimal risk profile;
- Understand the interdependencies of their underwriting, asset, tax and capital management strategies; and,
- Develop and implement an investment strategy that furthers and complements their business plan.

We believe that these services will help our client better manage its entire portfolio of risks and become an even more effective and profitable competitor. We look forward to continuing to grow our relationship with them.



# Evaluating Exposures

Companies in all industries are currently facing a potentially serious computer-related problem, most commonly known as the Year 2000 problem. The problem (also known as the "millennium bug" or "Y2K problem") arises because many computer programs were originally written with abbreviated date fields to conserve expensive computer memory. Commonly, only two digits were used to specify the year, so that, for example, "1971" became "71." In addition, the numbers "99" and "00" in the year field were frequently used to designate special functions.




Date fields are often used for comparisons and arithmetic operations, and a computer that cannot distinguish "00" as "1900" or "2000" may process information incorrectly or not at all. Without remediation, system failures may have a serious impact on business and society.

The insurance industry is exposed to the Y2K problem in its internal operations and from potential liabilities arising from insurance policies. It is foreseeable that in some countries and industries the necessary changeover to Y2K-compliant systems will be very difficult due to insufficient awareness, budget issues or because there are not enough systems specialists available to fix old software and hardware.

A potential consequence of Year 2000 problems is that insurance claims and lawsuits may be filed if losses occur as a result of a failure to identify and address Y2K exposures. These claims and lawsuits may involve software and hardware producers, suppliers, consultants, auditors, directors and other parties. A quantification of the insurance industry's potential exposure to Year 2000 losses is not yet possible, as policy wordings vary and legal interpretations of possible insurance coverage for losses are likely to differ from jurisdiction to jurisdiction. Therefore, each insurance company must assess and manage its exposure on the basis of the policies it has issued and the risks it has underwritten. Y2K problems may generate a lot of litigation, and resolving these coverage issues could be a burdensome, time-consuming and expensive task.

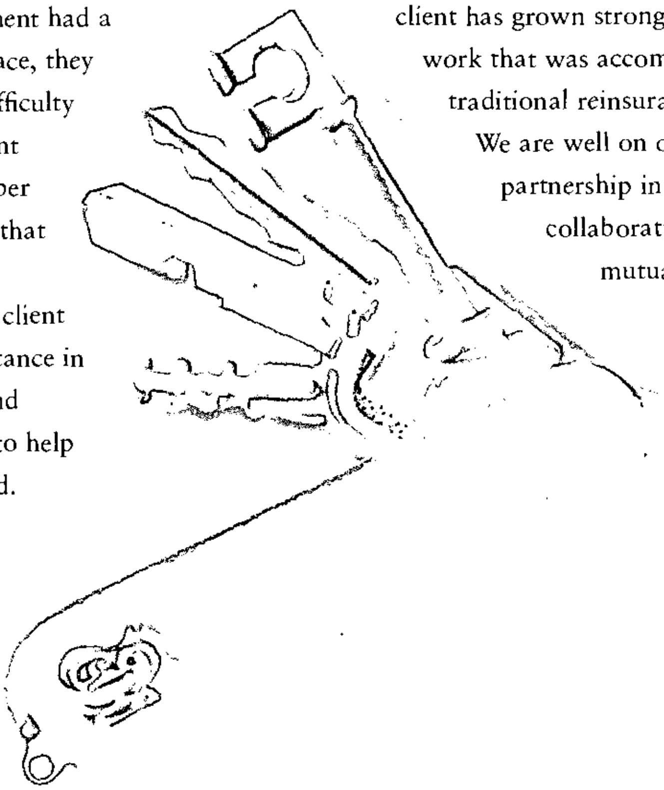
General & Cologne Re has made significant investments in understanding and evaluating the potential insurance exposures arising from Year 2000 problems. As we have built our knowledge about potential Year 2000 losses, we have shared our findings with our clients.

In 1997 we sponsored numerous Year 2000 seminars around the world. The seminars, which were led by members of the global casualty facultative team, were developed by associates from both the United States and Europe and attended by over 600 clients. The seminars, more of which are scheduled for 1998, have helped raise awareness of Year 2000 issues, especially outside the United States.

# Facilitating Change

We made good progress in 1997 on continuing to build our business franchise in North America through our client-focused teams. We were able ro solidify our leadership position by developing a significant number of new and expanded relationships, especially with regional and specialty clients, which generally have excellent local or product franchises. Our ability to offet solutions and services that go beyond traditional risk transfer can be especially important to these clients.

The relationship that grew over the past year with one client is particularly interesting. Our client, a regional company, selected General Re as its reinsurer in 1997. As part of helping them structure their reinsurance program, we gained an understanding of our client's long-term business plan. Although management had a strategic plan in place, they had experienced difficulty in making significant progress on a number of specific projects that were critical to the plan's success. The client asked for our assistance in developing tools and defining processes to help them move forward.



Facilitating change is an integral part of our culture of Continuous and Never-Ending Improvement (CANEI). We have developed a series of change management tools, and have trained many of our associates to apply them in our own CANEI efforts. We responded to our client's request by sending two of our trained facilitators to our client's offices to conduct a two-day workshop in which we helped them break through the barriers that had prevented them from making progress. We then followed up by inviting three of their associates to our offices for a CANEI facilitator training session.

Our client is now well on its way to completing the projects, and is very pleased to have new skills that can be used to imptove the speed and quality of their change efforts. The relationship between General Re and our client has grown stronger as a result of the work that was accomplished outside of the traditional reinsurance relationship.

We are well on our way to building a partnership in which we work collaboratively to ensure our mutual success.

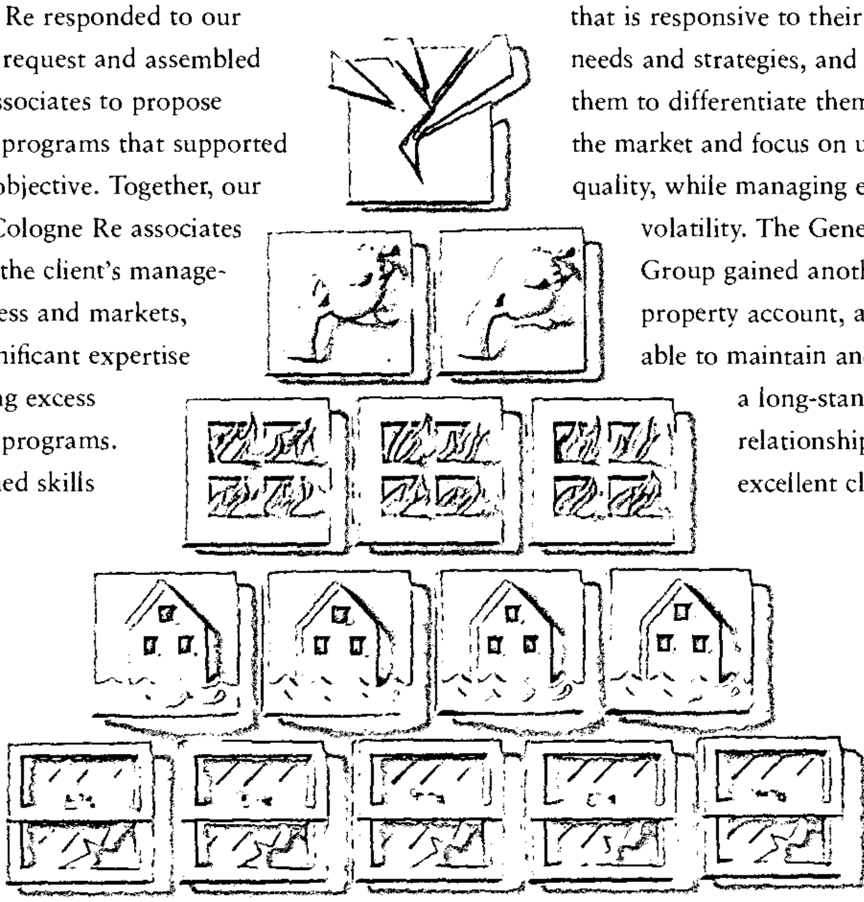
# Skill Plus Skill

In markets outside of North America, the United Kingdom and Australia, most reinsurance is written on a proportional basis. We expect that as our international clients become more focused on underwriting performance, financial returns and capital management, they will seek strategies, such as non-proportional reinsurance, that allow them to manage their risks and leverage their capital in different and potentially more efficient ways.

For example, in 1997 Cologne Re received a request from a client to help restructure its property reinsurance coverages from a proportional to a non-proportional basis. Cologne Re had a long-standing relationship with the client as their lead reinsurer, and over time had structured flexible yet stable reinsurance programs that supported the company's goals.

Cologne Re responded to our client's new request and assembled a team of associates to propose reinsurance programs that supported the client's objective. Together, our General & Cologne Re associates understood the client's management, business and markets, and had significant expertise in structuring excess reinsurance programs. Our combined skills allowed General & Cologne Re to propose solutions to our client which significantly stteamlined their property teinsurance programs by moving to an excess or non-proportional structure, while continuing to provide the desited level of protection. The excess structure allows our client to reduce reinsurance premiums and retain profitable business, while ceding their volatile, capital intensive exposures to us. At the same time, we expect that the new program will produce attractive returns over time for General & Cologne Re as the risks we have assumed are added to an already diversified portfolio of excess accounts.

This project was a "win" from the perspective of both our client and General & Cologne Re. The client benefits from a flexible, efficient, cost-effective reinsurance structure that is responsive to their current needs and strategies, and enables them to differentiate themselves in the market and focus on underwriting quality, while managing excessive volatility. The General Re Group gained another excess property account, and was able to maintain and strengthen a long-standing relationship with an excellent client.



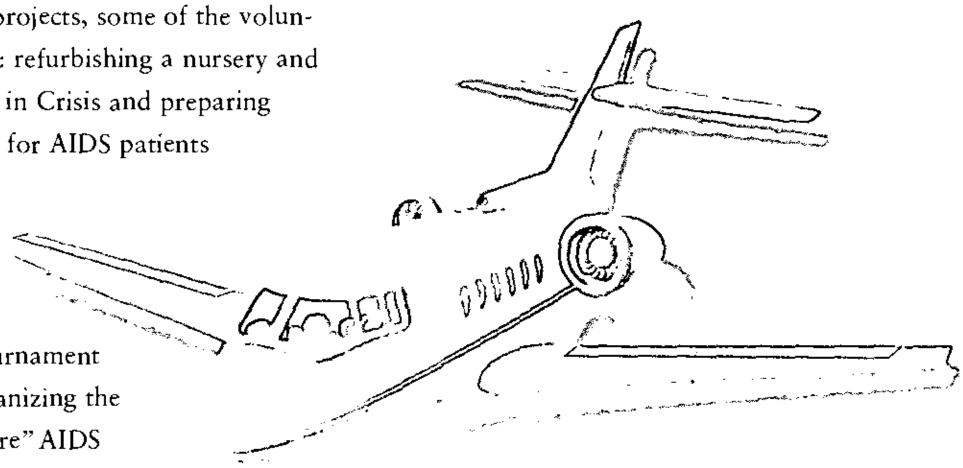
# Community Relations

Over the years, General Re has contributed to the success of many non-profit organizations, both financially and through sweat equity. In 1996, to celebrate our 75th anniversary, each North American branch location organized and participated in a local community service project. Many General Re associates, along with some of our clients, contributed to various worthwhile causes with great success.

In 1997, we continued the momentum of our community volunteer work across the United States. Aside from many home-building and refurbishment projects, some of the volunteer events included: refurbishing a nursery and teen center for Kids in Crisis and preparing home-cooked meals for AIDS patients at the McKinney House, both in Stamford; participating in a Special Olympic tournament in Kansas City; organizing the "Until There's a Cure" AIDS benefit in San Francisco; and creating the Youth Library in Toronto.

For many organizations, General Re's funding has been key. We were the lead donor for the new downtown Stamford campus of the University of Connecticut. For the past five years, General Re has funded the American Red Cross's HIV Program in Stamford, including their education, prevention and transportation programs. As the lead corporate donor of Yale-New Haven Hospital's Center for Outcomes Research and Evaluation, General Re's donations have enabled the program to purchase specialized computer equipment to assist them in evaluating the quality and efficiency of medical care from the patient's perspective.

General Re has also been a supporter of AirLifeLine, a national organization dedicated to flying people from their homes to hospitals as far as 900 miles away for specialized medical care, such as chemotherapy. When patients cannot afford the cost of their medical travel, AirLifeLine links them to pilots who donate their time as well as the entire expense of their missions. Since our support began, the number of missions flown has increased 44 percent, with over 2,400 missions flown in 1997.



General Re has long been a strong supporter of The Miami Project to Cure Paralysis, the world's largest, most comprehensive research center dedicated to finding effective treatments and, ultimately, a cure for paralysis resulting from spinal cord injury. Their comprehensive studies have revolutionized our understanding of spinal cord injury and have produced innovative treatment strategies, making surgery safer and diagnosis more accurate. Their many achievements represent hope for the millions of people worldwide affected by spinal cord injuries.

General Re is proud to be associated with these and the many other community-based organizations we support.

*Consolidated Operating Results*

## Comparison of 1997 with 1996

Net income of General Re Corporation and its subsidiaries ("General Re") was $968 million, or $12.04 per basic share, in 1997, an increase of 9.5 percent over the $11.00 per basic share earned in 1996. These results include after-tax realized gains of $.04 per basic share in 1997 and $.21 per basic share in 1996. Net income for 1997 on a diluted basis was $11.76 per share, an increase of 9.1 percent over $10.78 per share in 1996. The increase in 1997 earnings was primarily attributable to growth in investment income in the North American property/casualty operations, increased profitability in the global life/health operations, and higher trading revenues in the financial service operations. The North American property/casualty operations included the earnings from National Re Corporation and its subsidiaries ("National Re") for a full year in 1997, while General Re's 1996 operating results included the earnings of National Re only since its acquisition on October 3, 1996.

General Re's consolidated underwriting combined ratio was 100.6 percent in 1997, compared with 100.5 percent in 1996. Neither year was significantly affected by catastrophes.

Consolidated net premiums written in 1997 were $6,545 million, a decrease of $116 million or 1.7 percent, from $6,661 million in 1996. Adjusted for the effects of foreign exchange, 1997 consolidated net premiums written increased 2.8 percent over 1996. North American property/casualty premium volume was $3,058 million in 1997, compared with $3,081 million in 1996, a decrease of 0.7 percent. Adjusted for the timing of the National Re acquisition, North American property/casualty net premiums written decreased approximately 5.3 percent during 1997. Net premiums written in the international property/casualty reinsurance operations were $2,268 million in 1997, compared to $2,505 million in 1996. Adjusted for the effects of foreign exchange, international property/casualty premiums written decreased approximately 1.0 percent for the year. Net premiums written for the global life/health segment were $1,219 million for 1997, compared to $1,075 million in 1996.

Consolidated investment income was $1,288 million in 1997, compared with $1,205 million in 1996. Investment income for the North American property/casualty operations was $814 million in 1997, an increase of 11.8 percent over $727 million earned in 1996. Investment income for the international property/casualty operations decreased 6.3 percent to $369 million in 1997, compared with $394 million in 1996. The decline in global interest rates and the strengthening of the U.S. dollar, principally against the German mark, were the major factors in the decline of investment income. Adjusted for the effects of foreign exchange, international investment income would have been unchanged from 1996. The life/health operations earned investment income of $73 million in 1997, compared to $59 million in 1996. The financial service operations earned investment income of $32 million in 1997, compared with $25 million in 1996.

## Comparison of 1996 with 1995

In 1996, General Re's net income was $894 million, or $11.00 per basic share, an increase of 10.9 percent over the $9.92 per basic share earned in 1995. These results include after-tax realized gains of $.21 per basic share in 1996 and $.45 per basic share in 1995. The increase in 1996 earnings was primarily attributable to improved property/casualty underwriting results and growth in investment income in the North American and international property/casualty operations. Due to General Re's reporting of its international operations on a quarter lag, the 1996 results also benefited from a full year of results for Kölnische Rückversicherungs-Gesellschaft AG ("Cologne Re") and the related joint-venture company, General Re-CKAG Reinsurance and Investment S.à r.l. ("GR-CK"), compared to only three quarters in 1995.

General Re's consolidated underwriting combined ratio was 100.5 percent in 1996 compared with 101.0 percent in 1995. Both the North American and international property/casualty operations had an improved underwriting result compared with the prior year.

Consolidated net premiums written in 1996 were $6,661 million, an increase of $559 million or 9.2 percent, from $6,102 million in 1995. North American property/casualty premium volume was $3,081 million in 1996, compared with $2,964 million in 1995, an increase of 3.9 percent. North American property/casualty net premiums written in 1996 included approximately $89 million from National Re. Net premiums written in the international property/casualty reinsurance operations were $2,505 million in 1996, compared to $2,429 million in 1995. Net premiums written for the life/health operations were $1,075 million for 1996, as compared to $709 million in 1995.

Consolidated investment income was $1,205 million in 1996, compared with $1,017 million in 1995. The consolidation of a full year of Cologne Re in 1996 accounts for approximately $90 million of the $188 million increase in consolidated investment income in 1996. Investment income for the North American property/casualty operations was $727 million in 1996, an increase of 2.3 percent over $711 million earned in 1995. Investment income for the international property/casualty operations increased 59.5 percent to $394 million in 1996, compared with $247 million in 1995. The life/health operations earned investment income of $59 million in 1996, compared to $40 million in 1995. The financial service operations earned investment income of $25 million in 1996, compared with $19 million in 1995.

Pretax income discussed in each of the segment sections that follow is before minority interest deductions and goodwill amortization, both of which are deemed corporate expenses that have not been allocated to the segments.

North American Property/Casualty Operating Results

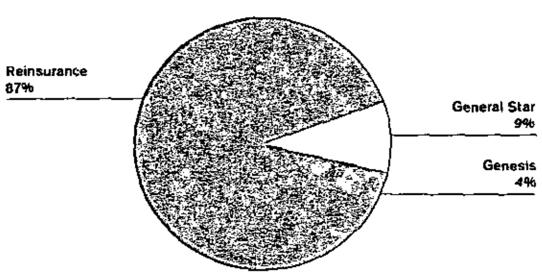
| Years ended December 31 *(in millions)* | 1997 | 1996 | 1995 |
|---|---|---|---|
| Income before taxes and realized gains/losses | $ 849 | $ 741 | $ 716 |
| Net premiums written | 3,058 | 3,081 | 2,964 |
| Net underwriting income | 23 | 27 | 13 |
| Loss ratio | 68.4% | 69.0% | 67.3% |
| Expense ratio | 30.8% | 30.1% | 32.3% |
| Underwriting combined ratio | 99.2% | 99.1% | 99.6% |
| Investment income | $ 814 | $ 727 | $ 711 |
| Net other income (loss) | 12 | (13) | (8) |

North American property/casualty pretax income in 1997, excluding realized gains/losses, increased 14.4 percent over 1996 primarily due to growth in investment income of $87 million and increased other income of $25 million. The growth of pretax investment income in the North American operations was due to higher invested assets in existing operations and investment income from National Re. The growth in investment income was adversely affected by (1) the shift in assets from taxable to tax-advantaged securities over the past few years in response to General Re's tax planning strategies; (2) the maturity and calls of higher yielding fixed income securities; and (3) the use of North American cash flow from operations to fund common dividends and share repurchases. The growth in other income was from increased financial reinsurance fees and lower corporate expenses.

The underwriting combined ratio is computed based on the relationship of losses and underwriting expenses to premiums earned. This ratio is General Re's principal indicator of underwriting performance, with less than 100 percent indicating an underwriting profit. In 1997, the combined ratio for the North American property/casualty segment was 99.2 percent, compared to 99.1 percent in 1996 and 99.6 percent in 1995. Underwriting results for each year from 1995 through 1997 were consistent with General Re's operating objective of achieving an underwriting profit and were not significantly affected by catastrophes.

On October 3, 1996, General Re acquired all of the outstanding shares of National Re, a North American property/casualty reinsurance group, in exchange for 4,023,901 shares of General Re's common stock and $313 million in cash, for a total cost of $900 million. National Re provides property and casualty reinsurance to insurers on a direct basis. In 1996, National Re's full-year gross premiums written were $364 million, of which approximately 70 percent was casualty business and 30 percent was property business. National Re's clients were predominantly small- to medium-sized, regional and specialty property/casualty insurers. Like General Re, National Re principally writes treaty and facultative reinsurance predominantly on an excess basis.

1997 Net Premiums Written




Net premiums written in 1997 for the North American property/casualty operations of $3,058 million decreased 0.7 percent from $3,081 million in 1996, as the effects of competitive market conditions offset the growth in premiums arising from the National Re acquisition. The pie chart to the left depicts the relative share of property/casualty premium by operating unit and the table below shows net premiums for the past three years by operating unit.

| Years ended December 31 *(in millions)* | 1997 | 1996 | 1995 |
|---|---|---|---|
| Reinsurance | $2,662 | $2,696 | $2,643 |
| General Star Companies (excess and surplus lines) | 270 | 256 | 210 |
| Genesis Companies (direct excess and alternative markets) | 126 | 129 | 111 |
| Total | $3,058 | $3,081 | $2,964 |

General Re's reinsurance business includes both portfolio and facultative premiums. Portfolio business includes reinsurance treaties and programs. Programs are similar to treaties in that they reinsure a group, or portfolio, of policies, but exhibit the higher risk volatility characteristics more often associated with facultative reinsurance, and accordingly are structured on a per policy rather than per occurrence basis. Net premiums written by the reinsurance operations declined by 1.2 percent in 1997. The decline in 1997 was primarily attributable to a competitive environment in both the primary and reinsurance markets, which together resulted in downward pressure on reinsurance rates and terms. General Re has continued to emphasize underwriting discipline in this competitive market.

In 1996 and 1997, the North American operations experienced favorable portfolio premium growth from regional and specialty insurance companies. In 1997, portfolio business with regional and specialty companies increased 10.2 percent due to organic growth and the acquisition of National Re. Regional company business has increased from approximately 65 percent to 77 percent of General Re's North American portfolio business. The decline in large company premium cessions has been primarily due to increased risk retentions and consolidation activity within this segment of the primary insurance industry.

The wholesale nature of reinsurance transactions periodically results in somewhat volatile premium trends between quarters and years. The addition or loss of a large contract may significantly affect General Re's premium growth, although large contracts generally have a smaller effect on earnings than on premium trends. General Re's treaty contracts usually include short-term cancellation provisions. During 1997, General Re's largest treaty, which had annualized net premiums written of approximately $250 million and contributed less than one half of one percent of General Re's 1997 net income, was terminated as of September 30, 1997 as a result of the cedent's decision to retain the related risk.

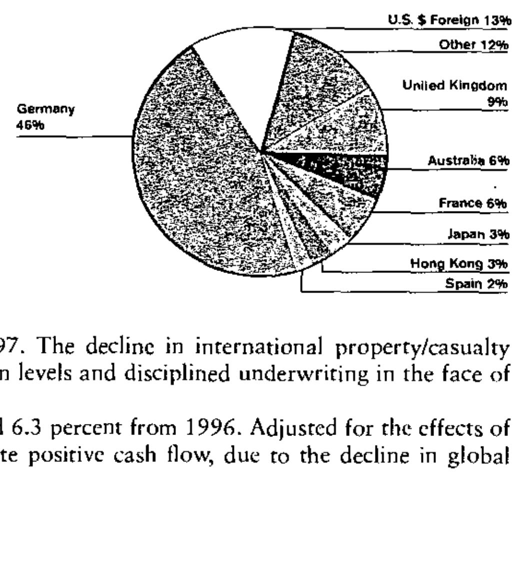
For the General Star operations, which primarily write excess, surplus and specialty insurance, net premiums written grew 5.3 percent in 1997 due to increased direct writings and higher retention levels. General Star has produced an underwriting profit for 13 consecutive years.

The Genesis operations provide direct excess insurance and reinsurance to companies with self-insurance programs. Net premiums written for Genesis decreased during the year by 2.2 percent from 1996 levels, principally due to a decline in specialty liability business.

International Property/Casualty Operating Results

| Years ended December 31 *(in millions)* | 1997 | 1996 | 1995 |
|---|---|---|---|
| Income before taxes and realized gains/losses | $ 315 | $ 320 | $ 200 |
| Net premiums written | 2,268 | 2,505 | 2,429 |
| Net underwriting loss | (55) | (53) | (63) |
| Loss ratio | 72.1% | 73.2% | 77.0% |
| Expense ratio | 30.3% | 28.9% | 25.8% |
| Underwriting combined ratio | 102.4% | 102.1% | 102.8% |
| Investment income | $ 369 | $ 394 | $ 247 |
| Net other income (loss) | 1 | (22) | 16 |

Income before taxes and realized gains/losses for the international property/casualty operations was $315 million in 1997, a decrease of 1.3 percent from 1996. The comparisons of 1997 to 1996 were affected adversely by the 11.5 percent strengthening of the U.S. dollar relative to the German mark, the most important currency in this segment. Adjusted for the effects of foreign exchange, income before taxes and realized gains/losses of the international property/casualty segment would have increased by approximately 4.0 percent.




International net premiums written were $2,268 million in 1997, compared with $2,505 million in 1996. The composition of international property/casualty premiums by currency presented in the chart to the right displays the geographic diversification of General Re's international business. The category labeled "Other" represents more than 100 currencies.

The reported decline in premiums was affected by a stronger U.S. dollar, which reduced international premiums when translated into U.S. dollars. Adjusted for the effects of foreign exchange, international property/casualty premiums written decreased approximately 1.0 percent in 1997. The decline in international property/casualty premiums was primarily due to higher ceding company retention levels and disciplined underwriting in the face of increased competition in European insurance markets.

International property/casualty investment income decreased 6.3 percent from 1996. Adjusted for the effects of foreign exchange, investment income was essentially flat, despite positive cash flow, due to the decline in global interest rates over the last few years.

Global Life/Health Operating Results

| Years ended December 31 *(in millions)* | 1997 | 1996 | 1995 |
|---|---|---|---|
| Income before taxes and realized gains/losses | $ 83 | $ 53 | $ 50 |
| Net premiums written | | | |
| Life | 859 | 812 | 542 |
| Health | 360 | 263 | 167 |
| Net underwriting income | 13 | 2 | 10 |
| Investment income | 73 | 59 | 40 |
| Net other income (loss) | (3) | (7) | 0 |

This segment includes the North American and international life/health operations of Cologne Re. During 1997, the life/health operations' income before taxes and realized gains increased by 56.7 percent primarily due to increased investment income derived from growth in the business, improved mortality experience in the North American individual life operations and improved health underwriting experience.

Net premiums written in 1997 were $1,219 million, an increase of 13.4 percent over 1996. Approximately 38 percent of General Re's life/health net premiums were written in Europe, another 47 percent were written in North America and the remaining 15 percent were written throughout the rest of the world. The segment experienced strong premium growth both in North America and internationally. The North American operation's growth was primarily in the individual life, group life and individual health segments. The international operation's growth was spread throughout continental Europe, the United Kingdom and Australia. Adjusted for the effects of foreign exchange, 1997 global life reinsurance premiums increased approximately 16.0 percent compared to 1996. Health reinsurance premiums written increased 36.5 percent in 1997 compared to 1996. This growth was primarily due to two new blocks of individual health reinsurance business written in the United States. Premium growth rates for global life/health operations for 1998 may be lower than those experienced in 1997.

Investment income for the global life/health operations was $73 million in 1997, compared to $59 million in 1996. The increase in investment income was due to the significant growth in premium volume and invested cash flow.

Financial Service Operating Results

| Years ended December 31 *(in millions)* | 1997 | 1996 | 1995 |
|---|---|---|---|
| Income before taxes and realized gains/losses | $105 | $100 | $100 |
| Total revenues | 300 | 269 | 250 |
| Net investment income | 32 | 25 | 19 |
| Other income | 73 | 75 | 81 |

The financial service operations include General Re's derivative products, insurance brokerage and management, investment management, reinsurance brokerage and real estate management operations. Pretax income for the financial service operations was $105 million and $100 million in 1997 and 1996, respectively. The 4.8 percent growth in pretax income was due to higher 1997 income in General Re's derivative products operations, General Re Financial Products Corporation and affiliates ("GRFP").

GRFP is a dealer in derivative products and offers a full line of interest rate, currency, credit and equity swaps, options and other derivative products. GRFP's gross trading revenue was $175 million in 1997, compared to $144 million in 1996 and $142 million in 1995. The growth in 1997 revenues was principally attributable to growth in GRFP's European fixed income and foreign exchange options business.

GRFP closely controls its derivatives operations and actively manages its open positions to limit its risk exposures. GRFP hedges its exposure to market risk (which includes foreign exchange, interest rate, credit spread, equity, swap spread, volatility, correlation, and yield curve risks) in connection with its dealer activities by purchasing or selling futures contracts, entering into forward foreign exchange contracts, purchasing or selling U.S. and foreign government securities or entering into offsetting derivative transactions.

### Assets/Investments

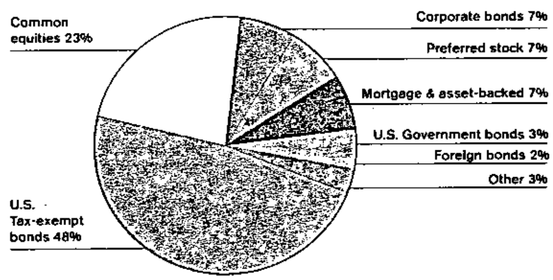
At December 31, 1997, total assets were $41,459 million, compared with $40,161 million at December 31, 1996. The $1,298 million growth in assets was attributable to an increase of $893 million in the total assets of the North American property/casualty operations and $755 million in the financial services segment, offset by a $350 million decrease in the international reinsurance operations due to foreign exchange.

At December 31, 1997, total insurance invested assets were $24,576 million, compared with $23,168 million at December 31, 1996, an increase of 6.1 percent. The $1,408 million increase in insurance invested assets was the result of an increase of $1,116 million in the North American property/casualty segment and an increase of $291 million in the international reinsurance operations. This increase was primarily the result of unrealized appreciation in the fixed income and common equity portfolios and operating cash flow, partly offset by common stock repurchases and dividend payments. The financial service operations had $2,780 million of invested assets at December 31, 1997, a decrease of $613 million compared to December 31, 1996. The $613 million decrease in financial services invested assets results from changes in the hedging needs and activities of GRFP.

Included in General Re's invested assets was $2,460 million and $1,625 million of unrealized appreciation, after deferred income taxes, at December 31, 1997 and December 31, 1996, respectively. The increase was due to the appreciation of equities and bonds held in the North American and the international operations.

### North American Property/Casualty Invested Assets

General Re's North American property/casualty investment portfolios are managed for both after-tax total return and after-tax investment income. These investment objectives recognize that a significant portion of the fixed income portfolio supports the claim and claim expense liabilities, and, therefore, is subject to appropriate liquidity, duration, currency, quality and other constraints. At December 31, 1997, total invested assets of the North American property/casualty operations were $15,995 million, a 7.5 percent increase over 1996 invested assets.




The composition of the North American property/casualty invested assets as a percentage of the total North American property/casualty portfolio at December 31, 1997 is shown in the pie chart to the left.

As in 1996, almost all newly generated cash flow in 1997 was used to pay dividends to shareowners and repurchase General Re's common stock. Within the portfolio, General Re continued to shift assets from taxable to tax-advantaged securities as part of its tax planning strategies. As new cash flow becomes available for investment, General Re anticipates it will be allocated to share repurchases and to those areas with the highest after-tax returns or income.

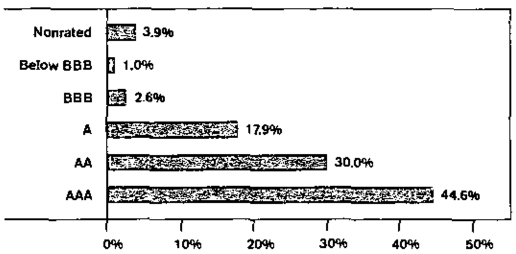
To minimize its exposure to shifts in interest rates, General Re balances, within a range, the duration of the fixed maturity investments (present-value weighted measure of average life) to match the duration of the property/casualty claim liabilities.

At December 31, 1997, the effective average maturity of the fixed-maturity portfolio was 11.5 years, compared to an estimated average life of 9.2 years for General Re's property/casualty claim liabilities. The duration of property/casualty assets was 4.8 years, compared with 4.5 years for the property/casualty claim liabilities. This compares with 1996 durations of 5.1 years and 4.5 years, respectively.

Included in fixed-maturity investments were mortgage-backed securities of $952 million (3.9 percent of consolidated insurance investments) and other asset-backed securities of $84 million (0.3 percent of consolidated insurance investments) at December 31, 1997. These securities have interest and principal repayment patterns that differ from typical fixed maturities, since their duration and ultimate yield are exposed to the effect of prepayments. Mortgage-backed securities are generally issued by quasi-federal agencies or federally supported institutions, which results in relatively low credit risk. Most of the mortgage-backed and other asset-backed securities are publicly traded and market values were obtained from an external pricing service.

At December 31, 1997, common equity investments in the North American portfolio totaled $3,695 million, representing 23.1 percent of the North American property/casualty investment portfolio. The North American common equity portfolio is well diversified and primarily consists of holdings in companies with large market capitalizations, which collectively have a calculated volatility approximating the Standard & Poor's 500 index. General Re has purchased futures contracts to hedge approximately 10 percent of the common equity portfolio as a means to achieve target asset allocations within the North American portfolio. To the extent that General Re's portfolio held the same securities as the futures contracts, related gains and losses on the futures contracts were treated as basis adjustments to those securities held. Otherwise, gains and losses on the futures contracts were not deemed to qualify for such hedge accounting treatment. Included in realized gains and losses for 1997 and 1996, respectively, were $57 million and $72 million of losses from these futures contracts, while $64 million and $53 million, respectively, of losses were recorded as basis adjustments for hedged equities and, accordingly, reduced shareowners' equity.

The North American investment portfolio includes nontraditional, private investments. These alternative investments, included in the balance sheet caption "Other invested assets" were $558 million (2.3 percent of consolidated insurance investments) and $435 million (1.9 percent of consolidated insurance investments) at December 31, 1997 and 1996, respectively. Most of these investments are interests in limited partnerships managed by outside professional managers. Over time, these investments are expected to provide a higher return than the overall North American property/casualty investment portfolio. This segment, however, also may entail a greater amount of risk, both in terms of limited liquidity and greater uncertainty of returns, compared to the rest of General Re's portfolio. General Re evaluates the fait value of these alternative investments on a quarterly basis by reviewing available financial information of the investee and performing other financial analyses in consultation with external advisors.




*Credit Quality*

Credit considerations are an important part of General Re's fixed-maturity investment strategy. The overall fixed-maturity portfolio continued to have an average credit rating of AA at December 31, 1997. The distribution of General Re's North American property/casualty fixed-maturity portfolio by credit quality is presented in the chart on the left. Management estimates that the credit quality of nonrated securities is the equivalent of A.

*Investment Returns*

Pretax yields on the North American property/casualty bond portfolios were as follows:

| December 31 | 1997 | 1996 | Change |
|---|---|---|---|
| Taxable | 7.57% | 7.62% | (5)bps |
| Tax-exempt | 6.00% | 5.95% | 5 bps |

During 1997 calls and maturities on grandfathered tax-exempt bonds were approximately $73 million and preferred equity calls were $251 million. The called bonds had an average yield of approximately 7.93 percent and the proceeds from the calls were reinvested at an avetage yield of apptoximately 5.40 percent. The preferred equities had an average yield of approximately 7.82 percent and the proceeds from the calls were reinvested at an average yield of approximately 7.20 percent.

Based on its current investment portfolio and the current yield curve, General Re presently anticipates additional calls and maturities through the end of 1998 of approximately $89 million for grandfathered tax-exempt bonds and $109 million for preferred equities, with average yields of approximately 7.40 percent and 8.15 percent, respectively. Reinvestment of these funds may occur at lower yields.

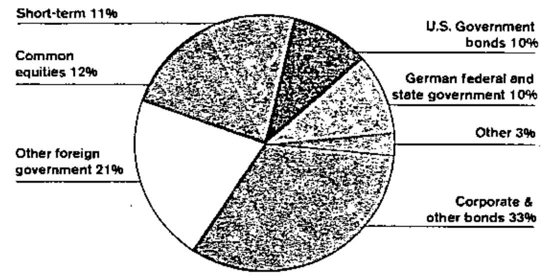
Pretax total return for North American investments was 12.6 percent in 1997, compared with 7.1 percent in 1996 and 18.9 percent in 1995. Almost all investment sectors recorded higher returns in 1997 than in 1996, primarily due to lower interest rates and higher common equity values in 1997. The total pretax returns on the North American investment portfolio by major asset class were as follows:

| Years ended December 31 | 1997 | 1996 | 1995 |
|---|---|---|---|
| Short-term securities | 5.9% | 5.6% | 6.0% |
| Taxable bonds | 9.8 | 3.6 | 17.5 |
| Tax-exempt bonds | 9.0 | 3.9 | 15.1 |
| Foreign bonds | 5.6 | 9.5 | 13.7 |
| Common equities | 32.3 | 22.6 | 37.9 |
| Foreign equities | 7.5 | 18.5 | 9.2 |
| Preferred equities | 11.5 | 9.1 | 17.6 |

The total after-tax return for the North American investment portfolio was 12.1 percent in 1997 and 6.0 percent in 1996.

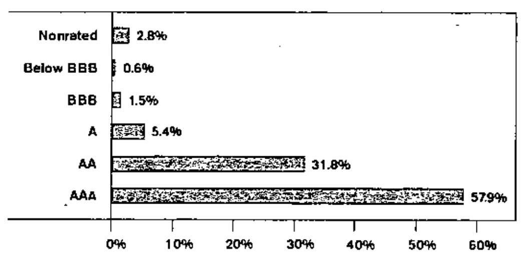
General Re's international property/casualty and life/health reinsurance operations held invested assets of $8,581 million at December 31, 1997, an increase of $291 million from December 31, 1996. These portfolios include $6,851 million of Cologne Re's investments, $1,334 million in wholly owned international operations' investments and $396 million of GR-CK investments. Most of the international invested assets are managed internally.

General Re's international investment portfolios are managed for both after-tax total return and after-tax investment income, taking into consideration the duration and currency structure of the operations' reinsurance liabilities. The investment objectives of each individual subsidiary within the segment are determined by specific investment guidelines which consider the different legal and tax requirements in their respective jurisdictions.



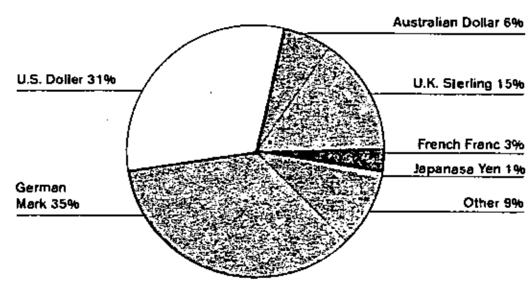

The composition of the international investment portfolio by major asset class at December 31, 1997 is presented in the chart to the right. The composition of the international investment portfolio did not change significantly from the prior period with slightly over 85 percent of the portfolio invested in fixed income securities. The fixed income investment policy is increasingly focused on earning a stable yield spread relative to Government bond markets by concentrating on the management of credit risk.

To minimize its exposure to shifts in interest rates, General Re's international operations balance, within a range, the duration of the fixed maturity investments to match the duration of their claim liabilities. The international operations write a greater portion of their business in property lines of business than General Re's North American operations and, accordingly, invest in shorter duration securities as part of their program to match asset and liability durations. The sharing of investment income under certain reinsurance agreements also lowers the duration of the international operations' liabilities. At December 31, 1997, the average duration of the fixed income portfolio including short-term securities was 3.5 years.




The fixed income portfolio of the international operations consists of high credit quality securities. Substantially all bonds were investment grade; the average rating of the portfolio was above AA. The table to the left presents the credit ratings of fixed-maturity securities held in the international investment portfolios. The common equity portfolio was well diversified with holdings principally from the major stock markets in Europe, the United States and Japan. The real estate portfolio of $161 million was internationally diversified with principal holdings in Germany. The relatively high share of short-term investments in the portfolio is due to the need to hedge investment crediting provisions in certain deposit contracts.

The currency structure of the international investment portfolio is globally diversified according to the currency of the underlying reinsurance liabilities. General Re hedges its currency risk by seeking to match its assets and liabilities by currency. The composition of the international operation's invested assets by currency is presented in the chart to the right.



The gross liability for claims and claim expenses, which provides for estimated future payments arising from current and prior property/casualty reinsurance transactions, amounted to $15,797 million and $15,977 million at December 31, 1997 and 1996, respectively. The decrease in the liability of $180 million during 1997 was due to a decrease of $83 million in the North American property/casualty segment and a decrease of $97 million in the international property/casualty segment. The decline in the North American property/casualty gross liability for claims and claim expenses was due to slower premium growth and commutation activity. Adjusted for the effects of foreign exchange, the international liability for claims and claim expenses increased approximately 8.0 percent. In addition to the gross liability for property/casualty claim and claim expenses, General Re had a gross liability for policy benefits for life/health contracts of $907 million and $751 million at December 31, 1997 and 1996, respectively.

The gross liability and reinsurance recoverable for claims and claim expenses were based on General Re's analysis of reports and individual case estimates received from ceding companies. The liability and related recoverables, which include an amount estimated by General Re for claims and claim expenses incurred but not reported ("IBNR"), are evaluated continuously by management, annually by General Re's independent accountants in conjunction with their audit and periodically by independent consulting actuaries at the discretion of the Board of Directors. Any resulting adjustments are included in the current period's income.

Consolidated net claims and claim expenses for 1996 and prior accident years experienced favorable development of $168 million in 1997. Net claims and claim expenses for 1996 and prior accident years for the North American operations experienced favorable development of $178 million in 1997. The net favorable loss development was due to favorable development on casualty lines of business, partially offset by losses related to environmental, asbestos and other mass tort claims. Net claims and claim expenses for 1996 and prior accident years for the international operations, adjusted for the effects of foreign exchange, had adverse development of $10 million in 1997. The net adverse loss development for the international operations was primarily related to strengthening of reserves for certain casualty business. Due to customary lags in underwriting activity reports from European ceding companies, there may be correlated development of premium and losses in the international property/casualty operations. These premiums are not included in the reserve development discussed above.

Included in General Re's liability for claims and claim expenses are liabilities for environmental and latent injury damage claims. These claims are principally related to claims arising from remediation costs associated with hazardous waste sites and bodily injury claims relating to asbestos products and environmental hazards. These amounts include provisions for both reported and IBNR claims. The table below presents the three-year development of the balance sheet liability for environmental and latent injury claims:

| *(in millions)* | 1997 | 1996 | 1995 |
|---|---|---|---|
| Gross liability, beginning of year | $1,989 | $1,756 | $1,478 |
| Reinsurance recoverable | 635 | 498 | 382 |
| Liability, net of reinsurance, beginning of year | 1,354 | 1,258 | 1,096 |
| Amount incurred during year | 227 | 179 | 298 |
| Less: amount paid during year | 145 | 108 | 136 |
| Acquisition of National Re in 1996 | — | 25 | — |
| Liability, net of reinsurance, end of year | 1,436 | 1,354 | 1,258 |
| Reinsurance recoverable | 611 | 635 | 498 |
| Gross liability, end of year | $2,047 | $1,989 | $1,756 |

General Re continuously estimates its liabilities and related reinsurance recoverable for environmental and latent injury claims and claim expenses. While most of its liabilities for such claims arise from exposures in North America, General Re has also provided for international environmental and latent injury exposures. Environmental and latent injury exposures do not lend themselves to traditional methods of loss development determination and therefore reserves related to these exposures may be considered less reliable than reserves for standard lines of business (e.g., automobile). The estimate for environmental and latent injury losses is composed of four parts: known claims, development on known claims, IBNR and direct excess coverage litigation expenses. General Re's estimate for IBNR is based on fitted curves of estimated future claim emergence; this estimate is less reliable than the estimated liability for reported claims. The effect of joint and several liability on the severity of claims and a provision for future claims inflation have been included in the loss development estimate.

General Re has established a liability for litigation costs associated with coverage disputes arising out of direct excess insurance policies (rather than from reinsurance assumed). Such coverage litigation expenses are estimated using an actuarial estimate of actionable items and their projected costs. General Re paid $6 million in such costs during 1997, and, as of December 31, 1997, the liability for future litigation costs related to coverage disputes for environmental and latent injury claims was $96 million (included in the table above). As coverage disputes are tried and verdicts rendered, General Re expects that the settled case law will result in a downward trend in future direct excess litigation expenses. Because reinsurance contracts generally contain arbitration clauses which control disputes between the ceding company and the reinsurer, General Re does not expect the future litigation costs associated with reinsurance disputes to be material.

Comprehensive environmental laws have been enacted in many foreign countries, generally imposing sanctions in the form of cleanup cosrs, civil damage awards, fines and/or imprisonment. Changes in environmental regulations and environmental verdicts may affect future claim development.

The liability for environmental and latent injury claims and claim expenses is management's best estimate of future claim and claim expense payments and recoveries which are expected to develop over the next several decades. General Re continuously monitors evolving case law and its effect on environmental and latent injury claims. Changing government regulations, newly identified toxins, newly reported claims, new theories of liability, new contract interpretations and other factors could significantly affect future claim development. While General Re has recorded its current best estimate of its liabilities for unpaid claims and claim expenses, it is reasonably possible that these estimated liabilities, net of estimated reinsurance recoveries, may increase in the future and that the increase may be material to General Re's results from operations, cash flows and financial position. It is not possible to estimate reliably the amount of additional net loss, or the range of net loss, that is reasonably possible.

General Re discounts certain liabilities associated with workers' compensation claims. Current statutory rules allow the discounting of "tabular reserves" as defined and allow discounting of nontabular reserves if permitted by the insurer's state of domicile. As of December 31, 1997, General Re recorded $1,658 million in claim liability discount, of which $1,047 million relates to tabular reserves and $611 million relates to nontabular reserves for medical costs associated with tabular reserve claims. The domiciliary insurance department has confirmed that General Re may discount both its tabular reserves and the medical expenses associated with such tabular reserves at 4.5 percent per year.

Catastrophe losses may have a significant effect on the insurance and reinsurance industry. General Re has exposure to windstorm, hail, earthquake and other catastrophic events, all of which are managed through several measures, including underwriting controls, occurrence caps on certain property treaties, modeling and monitoring its accumulations and imposing zonal limits. In addition, General Re uses its retrocessional programs to limit its net losses from catastrophes.

## Financial Services Assets and Liabilities

The asset and liability positions of the financial service operations fluctuate based on ongoing derivatives transactions and related risk management activities. The purchase of U.S. and foreign government securities (fixed maturities at fair value), which are primarily financed through collateralized repurchase agreements (securities sold under agreements to repurchase), and the "short" sale of U.S. and foreign government securities (securities sold but not yet purchased), whose proceeds are invested in reverse repurchase agreements (securities purchased under agreements to resell), contribute to the short-term fluctuations in the operations' total assets and liabilities, while generally not having any material effect on common shareowners' equity. During 1997, invested assets of these operations decreased $613 million to $2,780 million. Securities purchased under agreements to resell (an asset) increased $903 million in 1997. Securities sold under agreements to repurchase (a liability) decreased $955 million in 1997 to $1,030 million. Securities sold but not yet purchased represent obligations of General Re to deliver the specified security at the contracted price, thereby creating a liability to repurchase the security in the market at prevailing prices. Accordingly, General Re's ultimate obligation to satisfy the sale of securities sold but not yet purchased may exceed the amount recognized in the balance sheet. The liability for securities sold but not yet purchased increased $321 million in 1997 to $1,190 million at December 31, 1997.

## Value at Risk

As a global reinsurance and financial services company, General Re is subject to market risk arising from the potential change in the value of its various financial instruments. These changes may be due to fluctuations in interest and foreign exchange rates, and changes in credit spreads and in equity prices. The level of market risk is influenced by many factors, such as volatility, correlation and liquidity. Potential gains or losses from changes in market conditions can be estimated through statistical models that attempt to predict within a specified confidence level the "value at risk" based on historical price and volatility movements. For example, if historical probabilities indicate that the change in the value of a fixed income security would not be expected to exceed $1 million with a 95 percenr probability within a given time period, then the security's value at risk at a 95 percent confidence level for that period is $1 million.

*Market and Interest Rate Risk: Reinsurance Operations*

The major components of market risk affecting the reinsurance operations are interest rate, foreign currency and equity risk. The reinsurance operations have fixed income investment portfolios with a value of $16,847 million at December 31, 1997 that are subject to changes in value due to changes in market interest rates. In addition, certain mortgage-backed and asset-backed securities are exposed to accelerated prepayment risk generally caused by interest rate movements. Should interest rates decline, mortgage holders are more likely to refinance existing mortgages at lower rates. Acceleration of repayments could adversely affect future investment income, if reinvestment of the cash received from repayments is in lower yielding securities.

In addition to interest rate risk, General Re's common equity portfolio of $4,748 million at December 31, 1997 is subject to changes in value based on changes in equity prices, predominately from the United States and European equity markets. General Re's U.S. and European common equity portfolios are highly correlated with the S&P 500 and Eurotop 100 indices, respectively. The unrealized change in value of the equity portfolios would be included net of deferred taxes in shareowners' equity. To hedge a portion of its exposure to movement in the value of its North American equity portfolio, General Re entered into futures contracts which had a notional value of $379 million at December 31, 1997.

General Re's reinsurance operations have exposure to movements in various currencies around the world, particularly the German mark, British pound and Australian dollar. Changes in currency exchange rates primarily affect the international components of General Re's balance sheet, income statement and statement of cash flows. This exposure is somewhat mitigated by the fact that General Re's reinsurance premiums and invested assets are partially offset by claims incurred and claim liabilities, respectively, denominated generally in the same currency.

Value at risk estimates are presented in the table below and represent the potential change in the value of General Re's invested assets after tax, which, to the extent unrealized, would be included directly in shareowners' equity. These estimates exclude any potentially offsetting effect resulting from movements in the economic value of General Re's liabilities, most importantly, loss reserves and minority interest. The estimates shown in the table were calculated using Monte Carlo simulation involving 5,000 stochastic paths with a 95 percent confidence level based on weekly correlations and volatilities observed for 1993–1997. Mean assumptions included no change in weekly interest and foreign exchange rates and an 8 percent annual appreciation for the common equity portfolio. General Re's total value at risk includes a diversification benefit since interest rate, equity and currency risks are only partially correlated. The overall after-tax value at risk for General Re at December 31, 1997 was as follows:

| *(in millions)* | |
|---|---|
| Interest rate risk | $ 80 |
| Equity risk | 82 |
| Foreign exchange risk | 47 |
| Diversification benefit | (73) |
| Total | $136 |

*Market and Interest Rate Risk: Financial Services*

General Re's financial service operations are subject to market risk principally through GRFP. GRFP monitors its market risk on a daily basis across all swap and option products by calculating the effect on operating results of potential changes in market variables over a one-week period, based on historical market volatility, correlation data and informed judgement. This evaluation is done on an individual trading book basis, against limits set by individual book, to a 95 percent probability level. GRFP sets market risk limits for each type of risk, and for an aggregate measure of risk, based on a 99 percent probability that movements in market rates will not affect the results from operations in excess of the limit over a one-week period. Risk is measured primarily by Monte Carlo simulations to obtain the required degree of confidence. GRFP's 1997 aggregate weekly market risk limit across all trading books increased from $10 million to $15 million from April 1997 onward, consistent with the growth in GRFP's business. In addition to these daily and weekly assessments of risk, GRFP prepares periodic stress tests to assess its exposure to extreme movements in various market risk factors.

The table below shows the highest, lowest and average value at risk, as calculated using the above methodology, by broad category of market risk to which GRFP is exposed. The table also shows the highest, lowest and average profit and loss over a one-week period. There was no one-week period during the year in which reported profit or loss exceeded the risk limit.

| | 1997 | | | | 1996 |
|---|---|---|---|---|---|
| *(in millions)* | Interest Rate | Foreign Exchange Rate | Equity | All Risks | All Risks |
| Value at Risk | | | | | |
| Highest | $11 | $6 | $5 | $13 | $11 |
| Lowest | 6 | 3 | 0 | 7 | 7 |
| Average | 9 | 4 | 2 | 10 | 9 |

For 1997 and 1996, respectively, the largest weekly pretax gains were $5 million and $4 million, respectively, while the largest weekly pretax loss was $3 million in both years. The average effect of these risks on income was neutral.

GRFP evaluates and records a fair-value adjustment against trading revenue to recognize counterparty credit exposure and future costs associated with administering each contract. The expected credit exposure for each trade is initially established on the trade date and is determined through the use of a proprietary credit exposure model that is based on historical default probabilities, market volatilities and, if applicable, the legal right of setoff. These exposures are continually monitored and adjusted due to changes in the credit quality of the counterparty, changes in interest and currency rates or changes in other factors affecting credit exposure. The fair value allowance for counterparty credit exposures and future administrative costs on existing contracts was $93 million and $77 million at December 31, 1997 and 1996, respectively. Since inception, GRFP has not experienced any credit losses.

## Year 2000 Issues

Companies with automated systems generally are facing the problem that certain computer programs may experience software malfunctions with the advent of the Year 2000. Since many business software programs use only two digits to specify the year, rather than four, such programs would likely treat "00" associated with the year 2000 as the year 1900.

General Re has a project under way to modify its internal mainframe, server and personal computer hardware and software applications that may be affected by the Year 2000 change. In addition, General Re is reviewing the related initiatives of its principal vendors and other important third-party relationships. Both internal and external resources have been engaged to modify General Re's computer systems for Year 2000 compliance. Included in consolidated operating results was approximately $6 million and $1 million for the cost of these procedures in 1997 and 1996, respectively. An additional $13 million is the anticipated cost to complete the modifications.

In addition to its own computer systems and third-party relationships, General Re may also have exposure in its property/casualty operations to claims asserted under certain insurance policies for damages caused by companies' failure to address their Year 2000 computer problem. General Re has made significant investments in understanding and evaluating the potential insurance exposures arising from Year 2000 problems. A quantification of the insurance industry's or General Re's potential exposure to Year 2000 losses is not yet possible, as policy wordings vary and legal interpretations of possible insurance coverage for losses are likely to differ from jurisdiction to jurisdiction.

## Shareowners' Equity

Common shareowners' equity at December 31, 1997 was $8,161 million, or $105.40 per basic share, an increase of 17.3 percent over $89.82 per basic share at December 31, 1996. The increase was primarily due to net income of $968 million, an increase in after-tax unrealized investment gains of $835 million, a decrease in unrealized foreign currency translation losses of $11 million and the reissuance of common stock of $48 million under employee compensation and benefit plans, partially offset by common share repurchases of $864 million and common and preferred stock dividends of $184 million. Common shareowners' equity at December 31, 1996 increased 11.2 percent over the $6,587 million at year-end 1995.

A summary of General Re's cash flow by business segment was as follows:

| Years ended December 31 *(in millions)* | 1997 | 1996 | 1995 |
|---|---|---|---|
| Operating activities: | | | |
| North American ptoperty/casualty | $ 827 | $ 930 | $ 985 |
| International property/casualty and life/health | 627 | 740 | 740 |
| Financial services | 14 | 8 | 49 |
| Consolidated operating cash flow | 1,468 | 1,678 | 1,774 |
| Investing activities: | | | |
| Notth American property/casualty | (218) | 93 | (848) |
| International property/casualty and life/health | (286) | (826) | (936) |
| Financial services | (498) | (13) | 21 |
| Cash used for acquisitions | — | (313) | — |
| Cash obtained in acquisitions | — | 3 | — |
| Consolidated investing cash flow | (1,002) | (1,056) | (1,763) |
| Financing activities: | | | |
| North American property/casualty | (594) | (733) | (149) |
| Intetnational property/casualty | (318) | 88 | 162 |
| Financial setvices | 433 | 130 | (8) |
| Consolidated financing cash flow | (479) | (515) | 5 |
| Consolidated change in cash | $ (13) | $ 107 | $ 16 |

Cash flow ftom operations was $1,468 million in 1997, compared with $1,678 million in 1996, and $1,774 million in 1995. The decline was principally due to claim commutation activity, foreign exchange and generally lower underwriting cash flow. North American property/casualty financing cash flows include General Re's share repurchases and dividends to shareowners. During 1996, General Re utilized $313 million in cash for the acquisition of National Re.

General Re's property/casualty and life/health operations enter into contracts that are recorded as deposits. Cash flows from these transactions, which are included in financing activities, can be volatile from year to year, but generally do not have a material effect on consolidated net income. During 1998, General Re expects approximately $300 million of deposits to mature. The effect of these maturities is not likely to be material to the financial position or results from operations of General Re.

General Re's financial service operations have issued various debt instruments in connection with their match-funded investment operations. The obligations and related investments have been swapped into variable rate U.S. dollar LIBOR instruments.

Dividends paid to General Re common and preferred shareowners were $185 million, $174 million and $172 million in 1997, 1996 and 1995, respectively. General Re used $864 million, $735 million and $35 million to repurchase 4,692,300 shares, 4,989,000 shares and 235,200 shares of its common stock in the years ended December 31, 1997, 1996 and 1995, respectively. Through December 31, 1997, General Re has used $3.2 billion to repurchase 31,825,800 shares of its common stock since the inception of its repurchase program in 1987. On December 10, 1997, General Re's Board of Directors authorized $750 million of share repurchases, in addition to the standing authority to repurchase shares in anticipation of shares to be issued under various compensation plans. The December 1997 repurchase authorization had $696 million of remaining capacity as of December 31, 1997. On February 11, 1998, the Board of Directors declared a regular quarterly dividend of $.59 per share on the common stock of General Re. This represents an increase of 7.3 percent over the $.55 per share dividend paid in prior quarters during 1997 and the 22nd consecutive year in which General Re has increased its dividend.

## Credit Ratings

At December 31, 1997, General Re had $275 million of senior debt outstanding, of which $150 million was issued by General Re Corporation and is rated AAA by Standard & Poor's and Aa1 by Moody's, and $125 million was issued by National Re and is rated AA by Standard and Poor's and Aa2 by Moody's. General Re Corporation issues commercial paper to provide additional financial flexibility for its operations. Commercial paper offered by General Re Corporation has been rated A1+ by Standard & Poor's and Prime 1 by Moody's. At December 31, 1997, $689 million of commercial paper was outstanding, all of which was used by the financial service operations for various funding needs.

General Re has $1.8 billion of available lines of credit which provide financial flexibility and support for its commercial paper program. The credit lines consist of a 364-day facility of $800 million and a five-year credit facility for the remaining $1 billion. The credit agreements with the banks require General Re to maintain a minimum consolidated tangible net worth, as defined, of $2.7 billion. All available lines of credit were unused at December 31, 1997 and 1996.

On December 18, 1997 General Re Corporation and General Re Funding Corporation ("GRFC") established a $1 billion European Medium Term Note Program. Notes issued under the program by GRFC will be guaranteed by General Re Corporation and will be primarily used for match-funded transactions. The program allows for issuance of debt with maturities up to 30 years and denominated in a number of major currencies. With certain exceptions, the instruments may not be offered, sold or delivered in the United States or to U.S. persons. There were no notes outstanding under the program at December 31, 1997. Notes issued under the European Medium Term Note Program are expected to be rated AAA by Standard & Poor's and Aa1 by Moody's.

GRC, General Star and Genesis have a claims-paying ability rating of AAA by Standard & Poor's and are rated A++ by A.M. Best Company, a leading insurance industry rating agency. GRC has a financial strength rating of Aaa by Moody's. Each of these ratings represents the highest category for the respective rating agency. Cologne Re has a claims-paying ability rating of AAA by Standard & Poor's and an A+ rating from A.M. Best Company. National Re has a claims-paying ability rating of AA+ by Standard & Poor's and is rated A+ by A.M. Best.

## New Accounting Standards

See Note 2 to the consolidated financial statements on page 42 for a discussion of new accounting standards.

## Safe Harbor Disclosure

In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 (the "Act"), General Re sets forth below cautionary statements identifying important factors that could cause its actual results to differ materially from those that might be projected, forecasted or estimated in its forward-looking statements, as defined in the Act, made by or on behalf of General Re in press releases, written statements or documents filed with the Securities and Exchange Commission, or in its communications and discussions with investors and analysts in the normal course of business through meetings, phone calls and conference calls. Such statements may include, but are not limited to, projections of premium revenue, investment income, other revenue, losses, expenses, earnings (including earnings per share), cash flows, plans for future operations, common shareowners' equity (including book value per share), investments, financing needs, capital plans, dividends, plans relating to products or services of General Re and estimates concerning the effects of litigation or other disputes, as well as assumptions for any of the foregoing and are generally expressed with words such as "believes," "estimates," "expects," "anticipates," "plans," "projects," "forecasts," "goals," "could have," "may have" and similar expressions. General Re, as a matter of policy, does not make any specific projections as to future earnings nor does it endorse any projections regarding future performance that may be made by others.

Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause General Re's results to differ materially from such forward-looking statements and include, but are not limited to, the following: 1) Changes in the level of competition in the North American and international reinsurance or primary insurance markets that affect the volume or profitability of General Re's property/casualty or life/health businesses. These changes include, but are not limited to, changes in the intensity of price competition, the entry of new competitors, existing competitors exiting the market and the development of new products by new and existing competitors; 2) Changes in the demand for reinsurance, including changes in ceding companies' risk retentions, and changes in the demand for excess and surplus lines insurance coverages in North America and changes in the demand for financial service operations' products, including derivatives offered by GRFP; 3) The ability of General Re to execute its strategies in its property/casualty, life/health and financial service operations; 4) Catastrophe losses in General Re's North American or international property/casualty businesses; 5) Adverse development on property/casualty claim and claim expense liabilities related to business written in prior years, including, but not limited to, evolving case law and its effect on environmental and other latent injury claims, changing government regulations, newly identified toxins, newly reported claims, new theories of liability, such as possible Year 2000 computer-related losses, or new insurance and reinsurance contract interpretations; 6) Changes in inflation that affect the profitability of General Re's current property/casualty and life/health businesses or the adequacy of its property/casualty claim and claim expense liabilities and life/health policy benefit liabilities related to prior years' business; 7) Changes in General Re's property/casualty and life/health businesses' retrocessional arrangements; 8) Lower than estimated retrocessional or reinsurance recoveries on unpaid losses, including, but not limited to, losses due to a decline in the creditworthiness of General Re's retrocessionaires or reinsurers; 9) Increases in interest rates, which cause a reduction in the market value of General Re's fixed income investment portfolio and its common shareowners' equity; 10) Decreases in interest rates causing a reduction of income earned on new cash flow from operations and the reinvestment of the proceeds from sales, calls or maturities of existing investments; 11) Decline in the value of General Re's common equity investments; 12) Changes in the composition of General Re's investment portfolio; 13) Changes in mortality or morbidity levels that affect General Re's life/health business; 14) Credit losses on General Re's investment portfolio; credit and market losses on GRFP's portfolio of derivatives and other transactions; 15) Adverse results in litigation matters, including, but not limited to, litigation related to environmental, asbestos and other potential mass tort claims; 16) Gains or losses related to changes in foreign currency exchange rates; and 17) Changes in General Re's capital needs.

In addition to the factors outlined above that are directly related to General Re's businesses, General Re is also subject to general business risks, including, but not limited to, adverse state, federal or foreign legislation and regulation, adverse publicity or news coverage, changes in general economic factors and the loss of key employees.

# Eleven-Year Summary of Selected Financial Data

| *(in millions, except per share amounts and ratios)* | 1997 | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|
| **Consolidated** | | | | | |
| Total revenues | $ 8,251 | $ 8,296 | $ 7,210 | $ 3,837 | $ 3,560 |
| Net premiums written[6] | 6,545 | 6,661 | 6,102 | 3,001 | 2,524 |
| Net income | 968 | 894 | 825 | 665 | 711 |
| Per basic share | 12.04 | 11.00 | 9.92 | 7.97 | 8.28 |
| Per diluted share | 11.76 | 10.78 | 9.74 | 7.86 | 8.16 |
| After-tax income, excluding realized gains/losses[2, 3] | 965 | 877 | 788 | 621 | 604 |
| Per basic share | 12.00 | 10.79 | 9.47 | 7.43 | 7.01 |
| Per diluted share | 11.72 | 10.57 | 9.30 | 7.33 | 6.91 |
| Investment income before tax | 1,288 | 1,205 | 1,017 | 749 | 755 |
| Investment income after tax | 969 | 909 | 787 | 622 | 619 |
| Insurance investments | 24,576 | 23,168 | 21,061 | 17,237 | 12,012 |
| Total assets | 41,459 | 40,161 | 34,263 | 28,116 | 19,419 |
| Long-term debt[8] | 285 | 286 | 150 | 150 | 184 |
| Common shareowners' equity | 8,161 | 7,326 | 6,587 | 4,859 | 4,761 |
| Operating return on equity[4] | 16.9% | 16.2% | 16.5% | 14.5% | 15.4% |
| Total return on equity[4] | 23.4% | 14.5% | 32.9% | 9.5% | 18.3% |
| **North American Property/Casualty Operations** | | | | | |
| Net premiums written[6] | $ 3,058 | $ 3,081 | $ 2,964 | $ 2,581 | $ 2,275 |
| Investment income before tax | 814 | 727 | 711 | 686 | 705 |
| Pretax income, excluding realized gains/losses[2, 5] | 849 | 741 | 716 | 599 | 644 |
| Statutory surplus | 6,309 | 5,326 | 4,607 | 3,770 | 3,836 |
| Investments | 15,995 | 14,879 | 13,481 | 11,177 | 11,601 |
| Net claims and claim expense liabilities[6] | 8,881 | 8,741 | 7,385 | 7,029 | 6,803 |
| Loss ratio | 68.4% | 69.0% | 67.3% | 71.4% | 70.0% |
| Expense ratio | 30.8% | 30.1% | 32.3% | 30.5% | 31.1% |
| Underwriting combined ratio | 99.2% | 99.1% | 99.6% | 101.9% | 101.1% |
| **International Property/Casualty Operations** | | | | | |
| Net premiums written[6] | $ 2,268 | $ 2,505 | $ 2,429 | $ 420 | $ 249 |
| Investment income before tax | 369 | 394 | 247 | 52 | 43 |
| Pretax income, excluding realized gains/losses[2, 5, 9] | 315 | 320 | 200 | 46 | 25 |
| Investments[7] | 8,581 | 8,290 | 7,535 | 6,060 | 589 |
| Net claims and claim expense liabilities[6] | 4,560 | 4,664 | 4,352 | 3,289 | 253 |
| Loss ratio | 72.1% | 73.2% | 77.0% | 69.2% | 75.1% |
| Expense ratio | 30.3% | 28.9% | 25.8% | 29.4% | 30.9% |
| Underwriting combined ratio | 102.4% | 102.1% | 102.8% | 98.6% | 106.0% |
| **Global Life/Health Operations** | | | | | |
| Net premiums written[6] | $ 1,219 | $ 1,075 | $ 709 | — | — |
| Investment income before tax | 73 | 59 | 40 | — | — |
| Pretax income, excluding realized gains/losses[2, 5, 9] | 83 | 53 | 50 | — | — |
| Net policy benefits for life/health contracts[6] | 637 | 523 | 379 | $ 330 | — |
| **Financial Service Operations** | | | | | |
| Revenues, excluding net realized gains/losses | $ 300 | $ 269 | $ 250 | $ 229 | $ 211 |
| Pretax income, excluding realized gains/losses[2, 5] | 105 | 100 | 100 | 85 | 58 |
| **Common Shareowners' Information** | | | | | |
| Average common shares outstanding: Basic | 79.5 | 80.3 | 82.1 | 82.1 | 84.5 |
| Diluted | 81.9 | 82.5 | 84.2 | 84.0 | 86.6 |
| Dividend per common share | $ 2.20 | $ 2.04 | $ 1.96 | $ 1.92 | $ 1.88 |
| Total common dividends | 174 | 163 | 161 | 157 | 159 |
| Cost of common share repurchases | 864 | 735 | 35 | 207 | 134 |
| Common shareowners' equity per share | 105.40 | 89.82 | 80.22 | 59.35 | 56.92 |
| Common share price: High | 219.38 | 169.38 | 157.88 | 128.50 | 132.75 |
| Low | 151.25 | 139.13 | 122.88 | 102.50 | 105.38 |
| Year end | 212.00 | 157.75 | 155.00 | 123.50 | 107.00 |

*Notes to the Eleven-Year Summary of Selected Financial Data: Only continuing operations are presented. Balance sheet data are as of December 31st. The 1996 North American property/casualty operations include the balance sheet of National Re as of December 31, 1996 and income statement amounts since the October 3, 1996 acquisition. International property/casualty and life/health operations are reported on a one-quarter lag. The international property/casualty operations include Cologne Re's balance sheet beginning at December 31, 1994 and its income statement beginning in 1995. Only nine months of Cologne Re's 1995 results are included in General Re's 1995 results due to the one-quarter reporting lag. Loss ratios, expense ratios and combined ratios shown in the table are computed in relation to net premiums earned (referred to as a "GAAP" combined ratio). (1) Represents the five-year and 10-year compound annual growth rates. (2) Excludes cumulative effect of accounting changes. The balance sheet data in the table reflect the adoption of Statement of Financial Accounting Standards ("SFAS") No. 115, Accounting For Certain Investments in Debt and Equity Securities in 1994. In 1993, General Re adopted the accounting prescribed by the Emerging Issues Task Force for multiple-year, retrospectively rated reinsurance contracts. The cumulative effect from prior years recorded in 1993 increased net income by $14 million, or $.17 per share.*

| 5 yr. CAGR[1] | 1992 | 1991 | 1990 | 1989 | 1988 | 1987 | 10 yr. CAGR[1] |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| 19.5% | $ 3,387 | $ 3,207 | $ 2,954 | $ 2,742 | $ 2,719 | $ 3,115 | 10.2% |
| 22.7 | 2,349 | 2,249 | 2,150 | 1,898 | 1,903 | 2,365 | 10.7 |
| 8.1 | 657 | 657 | 614 | 599 | 480 | 511 | 6.6 |
| 9.8 | 7.55 | 7.46 | 6.89 | 6.52 | 5.04 | 5.04 | 9.1 |
| 9.6 | 7.45 | 7.32 | 6.76 | 6.40 | 5.03 | 5.03 | 8.9 |
| 15.7 | 465 | 563 | 566 | 559 | 518 | 458 | 7.7 |
| 17.8 | 5.30 | 6.37 | 6.35 | 6.08 | 5.44 | 4.52 | 10.3 |
| 17.4 | 5.25 | 6.25 | 6.23 | 5.97 | 5.44 | 4.52 | 10.0 |
| 11.3 | 755 | 752 | 706 | 673 | 570 | 506 | 9.8 |
| 9.3 | 620 | 618 | 581 | 558 | 494 | 435 | 8.3 |
| 17.5 | 10,986 | 10,471 | 9,291 | 8,758 | 7,831 | 6,945 | 13.5 |
| 23.0 | 14,700 | 12,416 | 11,033 | 10,390 | 9,394 | 8,902 | 16.6 |
| 8.4 | 190 | 290 | 290 | 250 | 100 | 100 | 11.0 |
| 14.1 | 4,227 | 3,911 | 3,270 | 3,084 | 2,695 | 2,563 | 12.3 |
| — | 13.1% | 17.7% | 20.0% | 21.9% | 21.9% | 20.4% | — |
| — | 15.8% | 23.6% | 17.4% | 24.7% | 19.5% | 21.2% | — |
| | | | | | | | |
| 7.0% | $ 2,177 | $ 2,122 | $ 2,040 | $ 1,789 | $ 1,780 | $ 2,251 | 3.1% |
| 3.0 | 703 | 703 | 662 | 638 | 539 | 479 | 5.4 |
| 11.7 | 489 | 647 | 649 | 612 | 511 | 449 | 6.6 |
| 12.8 | 3,452 | 3,363 | 2,902 | 2,684 | 2,319 | 2,009 | 12.1 |
| 8.8 | 10,477 | 10,003 | 8,848 | 8,417 | 7,532 | 6,666 | 9.1 |
| 6.0 | 6,635 | 6,230 | 5,816 | 5,535 | 5,218 | 4,739 | 6.5 |
| — | 78.8% | 72.0% | 67.5% | 69.7% | 70.7% | 74.5% | — |
| — | 29.9% | 29.3% | 31.5% | 28.3% | 28.8% | 24.7% | — |
| — | 108.7% | 101.3% | 99.0% | 98.0% | 99.5% | 99.2% | — |
| | | | | | | | |
| 67.5% | $ 172 | $ 127 | $ 110 | $ 109 | $ 123 | $ 114 | 34.9% |
| 51.0 | 47 | 44 | 39 | 31 | 27 | 24 | 31.4 |
| 67.3 | 24 | 30 | 25 | 35 | 33 | 26 | 28.3 |
| 75.9 | 509 | 469 | 442 | 342 | 299 | 279 | 40.9 |
| 86.5 | 202 | 164 | 156 | 121 | 109 | 105 | 45.8 |
| — | 80.2% | 75.8% | 71.5% | 62.4% | 64.4% | 64.2% | — |
| — | 32.8% | 35.2% | 37.5% | 33.4% | 31.3% | 31.9% | — |
| — | 113.0% | 111.0% | 109.0% | 95.8% | 95.7% | 96.1% | — |
| | | | | | | | |
| — | — | — | — | — | — | — | — |
| — | — | — | — | — | — | — | — |
| — | — | — | — | — | — | — | — |
| — | — | — | — | — | — | — | — |
| | | | | | | | |
| 21.1% | $ 115 | $ 100 | $ 88 | $ 90 | $ 101 | $ 106 | 11.0% |
| 60.0 | 10 | 1 | 6 | 14 | 27 | 30 | 13.3 |
| | | | | | | | |
| — | 85.7 | 87.1 | 88.0 | 91.3 | 95.3 | 101.4 | — |
| — | 87.6 | 89.0 | 89.9 | 93.2 | 95.3 | 101.5 | — |
| 4.1% | $ 1.80 | $ 1.68 | $ 1.52 | $ 1.36 | $ 1.20 | $ 1.00 | 8.2% |
| 2.6 | 153 | 146 | 133 | 124 | 114 | 101 | 5.6 |
| — | 179 | 59 | 236 | 206 | 268 | 274 | — |
| 16.1 | 49.89 | 45.14 | 37.50 | 34.28 | 29.04 | 26.20 | 14.9 |
| 12.2 | 123.13 | 101.88 | 93.00 | 95.75 | 59.25 | 68.38 | 12.4 |
| 14.0 | 78.63 | 84.88 | 69.00 | 55.00 | 45.88 | 48.75 | 12.0 |
| 12.9 | 115.75 | 101.88 | 93.00 | 87.13 | 55.25 | 55.88 | 14.3 |

*In 1992, General Re adopted SFAS No. 109,* Accounting for Income Taxes. *The cumulative effect from prior years recorded in 1992 increased net income by $61 million, or $.71 per share. (3) After deducting minority interest. (4) Operating return on equity is computed based on after-tax income, excluding realized gains/losses and cumulative effects of accounting changes, divided by average common shareowners' equity, excluding unrealized investment gains, at the beginning and end of the year. Prior years' operating return on equity have been revised to exclude the effect of unrealized investment gains/losses, consistent with the new calculation. Total return on equity is computed based on net income plus the change in unrealized appreciation of investments and currency translation adjustments, net of deferred income taxes, divided by average common shareowners' equity at the beginning and end of the year. (5) Excludes amortization of goodwill. (6) Net of reinsurance. (7) Also includes investments for global life/health operations. (8) Excludes financial services. (9) Excludes deduction of minority interest.*

The management of General Re is responsible for the integrity of the financial information included in this Annual Report and for assuring that such information presents fairly the consolidated financial position and operating results of General Re. The financial statements have been prepared in conformity with generally accepted accounting principles. Financial information presented elsewhere in this Annual Report is consistent with the financial statements.

In preparing the financial statements of General Re, it is necessary, in many instances, to rely on statistical and actuarial estimates. General Re's liabilities for gross claims and claim expenses of $15,797 million and policy benefits for life/health contracts of $907 million as of December 31, 1997 represent management's best estimate and judgment of General Re's obligations to clients arising from current and prior insurance and reinsurance coverages. These liabilities are evaluated regularly by qualified staff members who examine client submitted claim information, and perform statistical analysis and actuarial projections.

The liabilities for property/casualty claims and claim expenses and life/health policy benefits are also reviewed by Coopers & Lybrand L.L.P. in conjunction with their annual audit. In addition, the Audit Committee of the Board of Directors periodically engages the services of an actuarial consulting firm to review the process utilized by management to establish these liabilities and to compare their independent estimate of these liabilities with those established by management.

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

General Re strives to foster an ethical environment and to conduct its affairs in accordance with the highest standards of business and personal conduct. General Re's policies and guidelines are detailed in its Code of Business Conduct, which is publicized throughout the organization. General Re maintains programs to assess compliance with these policies.

Coopers & Lybrand L.L.P., independent accountants, have audited the financial statements of General Re and their report is included on page 63. The auditors have full access to all of General Re's records and to each member of management in performing their audits.

The Audit Committee of the Board of Directors, which is composed solely of nonmanagement directors, oversees management's fulfillment of its financial reporting responsibilities. Audit Committee activities are discussed in the Audit Committee Chairman's Letter on page 63.

Ronald E. Ferguson
*Chairman and Chief Executive Officer*

Joseph P. Brandon
*Senior Vice President and Chief Financial Officer*

Lee R. Steeneck
*Vice President and Actuary*
Fellow, Casualty Actuarial Society
Member, American Academy of Actuaries

# Consolidated Statements of Income

| Years ended December 31 *(in millions, except share data)* | 1997 | 1996 | 1995 |
|---|---|---|---|
| ***Premiums and other revenues*** | | | |
| Net premiums written | | | |
| Property/casualty | $5,326 | $5,586 | $5,393 |
| Life/health | 1,219 | 1,075 | 709 |
| **Total net premiums written** | $6,545 | $6,661 | $6,102 |
| Net premiums earned | | | |
| Property/casualty | $5,414 | $5,618 | $5,141 |
| Life/health | 1,193 | 1,060 | 696 |
| Total net premiums earned | 6,607 | 6,678 | 5,837 |
| Investment income | 1,288 | 1,205 | 1,017 |
| Other revenues | 352 | 309 | 292 |
| Net realized gains on investments | 4 | 104 | 64 |
| Total revenues | 8,251 | 8,296 | 7,210 |
| *Expenses* | | | |
| Claims and claim expenses | 3,788 | 3,984 | 3,680 |
| Life/health benefits | 883 | 789 | 505 |
| Acquisition costs | 1,414 | 1,478 | 1,345 |
| Other operating costs and expenses | 810 | 727 | 550 |
| Goodwill amortization | 29 | 21 | 13 |
| Total expenses | 6,924 | 6,999 | 6,093 |
| *Income before income taxes and minority interest* | 1,327 | 1,297 | 1,117 |
| Income tax expense (benefit): | | | |
| Current | 254 | 327 | 288 |
| Deferred | 48 | (4) | (41) |
| Income tax expense | 302 | 323 | 247 |
| *Income before minority interest* | 1,025 | 974 | 870 |
| Minority interest | 57 | 80 | 45 |
| Net income | $ 968 | $ 894 | $ 825 |
| *Share data:* | | | |
| Net income per common share: | | | |
| Basic | $12.04 | $11.00 | $ 9.92 |
| Diluted | 11.76 | 10.78 | 9.74 |
| Average common shares outstanding: | | | |
| Basic | 79,502,845 | 80,251,342 | 82,085,315 |
| Diluted | 81,947,547 | 82,466,750 | 84,227,806 |
| Dividends per share to common shareowners | $ 2.20 | $ 2.04 | $ 1.96 |

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

# Consolidated Balance Sheets

| December 31 *(in millions, except share data)* | 1997 | 1996 |
|---|---|---|
| ***Assets*** | | |
| Investments: | | |
| Fixed maturities, available-for-sale (cost: $15,859 in 1997; $16,298 in 1996) | $16,847 | $16,992 |
| Preferred equities, at fair value (cost: $980 in 1997; $771 in 1996) | 1,041 | 789 |
| Common equities, at fair value (cost: $2,098 in 1997; $1,940 in 1996) | 4,748 | 3,672 |
| Short-term investments, at amortized cost which approximates fair value | 1,172 | 1,019 |
| Other invested assets | 768 | 696 |
| Total insurance investments | 24,576 | 23,168 |
| Cash | 193 | 154 |
| Accrued investment income | 358 | 350 |
| Accounts receivable | 1,858 | 2,663 |
| Funds held by reinsured companies | 488 | 474 |
| Reinsurance recoverable | 2,706 | 2,935 |
| Deferred acquisition costs | 476 | 457 |
| Goodwill | 968 | 1,038 |
| Other assets | 962 | 804 |
| Financial services assets: | | |
| Investment securities, at fair value (cost: $790 in 1997; $176 in 1996) | 792 | 179 |
| Trading securities, at fair value (cost: $1,908 in 1997; $2,994 in 1996) | 1,859 | 2,967 |
| Short-term investments, at fair value | 129 | 248 |
| Cash | 159 | 211 |
| Trading account assets | 4,313 | 3,962 |
| Securities purchased under agreement to resell | 903 | — |
| Other assets | 719 | 551 |
| Total assets | $41,459 | $40,161 |
| ***Liabilities*** | | |
| Claims and claim expenses | $15,797 | $15,977 |
| Policy benefits for life/health contracts | 907 | 751 |
| Unearned premiums | 1,874 | 1,957 |
| Other reinsurance balances | 2,948 | 3,388 |
| Notes payable | 285 | 286 |
| Income taxes | 1,104 | 732 |
| Other liabilities | 997 | 963 |
| Minority interest | 1,032 | 1,166 |
| Financial services liabilities: | | |
| Securities sold under agreements to repurchase, at contract value | 1,030 | 1,985 |
| Securities sold but not yet purchased, at market value | 1,190 | 869 |
| Trading account liabilities | 3,664 | 3,785 |
| Commercial paper | 689 | 140 |
| Notes payable | 746 | 4 |
| Other liabilities | 1,032 | 830 |
| Total liabilities | 33,295 | 32,833 |
| Cumulative convertible preferred stock (shares issued: 1,700,231 in 1997 and 1,711,907 in 1996; no par value) | 145 | 146 |
| Loan to employee savings and stock ownership plan | (142) | (144) |
| | 3 | 2 |
| ***Common Shareowners' Equity*** | | |
| Common stock (102,827,344 shares issued in 1997 and 1996; par value $.50) | 51 | 51 |
| Paid-in capital | 1,109 | 1,041 |
| Unrealized appreciation of investments, net of deferred income taxes | 2,460 | 1,625 |
| Currency translation adjustments, net of deferred income taxes | (42) | (53) |
| Retained earnings | 7,492 | 6,708 |
| Less common stock in treasury, at cost (shares held: 25,393,840 in 1997 and 21,262,113 in 1996) | (2,909) | (2,046) |
| Total common shareowners' equity | 8,161 | 7,326 |
| Total liabilities, cumulative convertible preferred stock and common shareowners' equity | $41,459 | $40,161 |

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

# Consolidated Statements of Common Shareowners' Equity

| Years ended December 31 *(in millions)* | 1997 | 1996 | 1995 |
|---|---|---|---|
| Common stock: | | | |
| Beginning of year | $ 51 | $ 51 | $ 51 |
| Change for the year | — | — | — |
| End of year | 51 | 51 | 51 |
| Paid-in capital: | | | |
| Beginning of year | 1,041 | 635 | 604 |
| Stock issued under stock option and other incentive arrangements | 47 | 30 | 24 |
| Stock issued for acquisition of National Re | — | 369 | — |
| Other | 21 | 7 | 7 |
| End of year | 1,109 | 1,041 | 635 |
| Unrealized appreciation of investments, net of deferred income taxes: | | | |
| Beginning of year | 1,625 | 1,468 | 421 |
| Change for the year | 1,318 | 242 | 1,641 |
| Deferred income taxes | (483) | (85) | (594) |
| End of year | 2,460 | 1,625 | 1,468 |
| Currency translation adjustments, net of deferred income taxes: | | | |
| Beginning of year | (53) | (11) | (20) |
| Change for the year | 11 | (42) | 9 |
| End of year | (42) | (53) | (11) |
| Retained earnings: | | | |
| Beginning of year | 6,708 | 5,986 | 5,330 |
| Net income | 968 | 894 | 825 |
| Dividends paid on common stock | (174) | (163) | (161) |
| Dividends paid on preferred stock, net of income taxes | (10) | (9) | (8) |
| End of year | 7,492 | 6,708 | 5,986 |
| Common stock in treasury: | | | |
| Beginning of year | (2,046) | (1,542) | (1,527) |
| Cost of shares acquired during year | (864) | (735) | (35) |
| Stock issued for acquisition of National Re | — | 218 | — |
| Stock issued under stock option and other incentive arrangements | 1 | 13 | 20 |
| End of year | (2,909) | (2,046) | (1,542) |
| Total common shareowners' equity | $8,161 | $7,326 | $6,587 |

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

# Consolidated Statements of Cash Flows

| Years ended December 31 *(in millions)* | 1997 | 1996 | 1995 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income | $ 968 | $ 894 | $ 825 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Change in claim and claim expense liabilities | (180) | 689 | 1,671 |
| Increase in policy benefits for life/health contracts | 156 | 171 | 96 |
| Change in reinsurance recoverable | 229 | (49) | (305) |
| Change in unearned premiums | (83) | (64) | 272 |
| Amortization of acquisition costs | 1,414 | 1,478 | 1,345 |
| Acquisition costs deferred | (1,433) | (1,478) | (1,455) |
| Trading account activities: | | | |
| Change in trading account securities | 1,515 | (660) | (1,602) |
| Securities purchased under agreements to resell | (903) | 66 | 747 |
| Securities sold under agreements to repurchase | (955) | 722 | 325 |
| Change in other trading balances | 301 | (42) | 521 |
| Other changes in assets and liabilities | 443 | 55 | (602) |
| Net realized gains on investments | (4) | (104) | (64) |
| Net cash from operating activities | 1,468 | 1,678 | 1,774 |
| Cash flows from investing activities: | | | |
| Fixed maturities: available-for-sale | | | |
| Purchases | (6,664) | (8,612) | (5,837) |
| Calls and maturities | 564 | 857 | 811 |
| Sales | 5,751 | 6,531 | 3,900 |
| Equity securities | | | |
| Purchases | (1,119) | (1,166) | (900) |
| Sales | 652 | 1,337 | 723 |
| Net (purchases) sales of other invested assets | (43) | 12 | (101) |
| Net (purchases) sales of short-term investments | (143) | 295 | (359) |
| Cash used for acquisitions | — | (313) | — |
| Cash obtained in acquisitions | — | 3 | — |
| Net cash used in investing activities | (1,002) | (1,056) | (1,763) |
| Cash flows from financing activities: | | | |
| Repayments of notes payable | — | (86) | — |
| Commercial paper borrowing (repayment), net | 549 | 140 | (31) |
| Increase in contract deposits | 42 | 290 | 64 |
| Cash dividends paid to shareowners: Common | (174) | (163) | (161) |
| Preferred | (11) | (11) | (11) |
| Acquisition of treasury stock | (867) | (729) | (30) |
| Other | (18) | 44 | 174 |
| Net cash (used in) from financing activities | (479) | (515) | 5 |
| Change in cash | (13) | 107 | 16 |
| Cash, beginning of year | 365 | 258 | 242 |
| Cash, end of year | $ 352 | $ 365 | $ 258 |

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

# Notes to Consolidated Financial Statements

## 1. Organization and Summary of Significant Accounting Policies

### Organization

General Re Corporation and its subsidiaries ("General Re") have global reinsurance and financial service operations in 61 cities in 31 countries on six continents and provide reinsurance coverage in approximately 150 countries. General Re operates four principal businesses: North American property/casualty reinsurance, international property/casualty reinsurance, global life/health reinsurance and financial services. General Re's principal reinsurance operations are based in North America and Germany, with other major operations in Asia, Australia, Europe and South America. General Re's principal financial service operations are located in the United States, the United Kingdom, Japan, Hong Kong and Canada. General Re is the largest North American professional property/casualty reinsurer and is among the three largest reinsurers in the world based on net premiums written and capital.

General Re's North American property/casualty operations produced revenues of $3,967 million, or 48 percent, of consolidated revenues in 1997. The principal business of these subsidiaries is treaty and facultative reinsurance underwritten on a direct basis throughout North America. General Re predominately writes excess reinsurance across various lines of business.

General Re's international property/casualty operations produced revenues of $2,706 million or 33 percent of consolidated revenues in 1997. The international property/casualty operations write proportional and excess reinsurance for both property and casualty risks throughout the world.

General Re's global life/health reinsurance operations produced revenues of $1,277 million or 15 percent of consolidated revenues in 1997. These operations include the North American and international life/health reinsurance operations of Cologne Re.

General Re's financial service operations include derivative products, insurance brokerage and management, investment management, reinsurance brokerage and real estate management operations. Through General Re Financial Products Corporation and its affiliates ("GRFP"), General Re offers a full line of interest rate, currency credit and equity swaps and options, as well as structured finance products. The financial service operations produced $301 million, or 4 percent, of General Re's 1997 revenues.

### Accounting Policies

*Basis of Presentation:* General Re's consolidated financial statements have been prepared on the basis of generally accepted accounting principles in the United States. The consolidated financial statements include General Re Corporation and its subsidiaries. All significant intercompany transactions have been eliminated. International property/casualty and global life/health subsidiaries report their results on a quarter lag. Certain reclassifications have been made to prior years' financial statements to conform to the 1997 presentation.

*Investments:* Fixed maturity securities that General Re may sell prior to maturity in response to changes in market interest rates, changes in liquidity needs, or other factors and equity securities are classified as "available-for-sale" and carried at fair value, with unrealized gains and losses, net of deferred income taxes, excluded from income and reported in a separate component of common shareowners' equity. Fixed maturity securities that are held for resale are classified as "trading" and carried at fair value, with unrealized gains and losses included in income.

Realized gains or losses on sales of investments are primarily determined on the basis of identified cost and include adjustments to the net realizable value of investments for declines in value that are considered to be other than temporary. Realized gains or losses include gains and losses arising from the translation into U.S. dollars of investments held by the North American operations and denominated in foreign currencies. General Re periodically uses derivatives to hedge certain risks in its investment portfolio. To the extent the derivatives are considered hedges for accounting purposes, these derivatives must be designated as a hedge of specific securities at their inception and must remain a hedge throughout the hedge period. Related gains or losses are treated as basis adjustments of the hedged securities and are included net of taxes in shareowners' equity. Gains and losses on derivatives not qualifying for hedge accounting treatment are included in income in the current period.

Investment income is recognized as earned and includes the accretion of bond discount and amortization of bond premium. Included in other invested assets are investments in reinsurance joint ventures, limited partnerships and real estate. Reinsurance ventures reported under the equity method are carried at initial cost with adjustment after acquisition for General Re's proportionate share of the venture's earnings. The amount of the adjustment is included in "Other revenues." Limited partnership investments are carried at estimated fair value. Real estate is valued at cost and depreciated over its estimated useful life.

Property/Casualty Operations

• *Premiums Earned:* Premiums are recognized in income over the contract period in proportion to the amount of insurance or reinsurance provided. Unearned premium liabilities are esrablished to cover the unexpired portion of premiums written. Such liabilities are computed by pro rata methods based on statistical data and reports received from ceding companies. In the absence of ceding company reports, premiums are estimared using historical information and management judgment. Premium adjustments on contracts and audit premiums are accrued on an estimated basis throughout the contract term. Premiums are reported net of retrocessions.

• *Acquisition Costs:* Acquisition costs, consisting principally of commissions and brokerage expenses incurred at contract issuance, are deferred and amortized over the contract period in which the related premiums are earned, generally one year. Deferred acquisition costs are reviewed to determine that they do not exceed recoverable amounts, after considering investment income.

• *Claims and Claim Expenses:* The liability for claims and claim expenses is based on reports and individual case estimates received from ceding companies. The liability also includes incurred but not reported claims and claim expenses, which are actuarially estimated based on past experience and are reduced by anticipated salvage and subrogation recoverable. The methods of determining such estimates and establishing the related liabilities are regularly reviewed and updated, and any resulting adjustments are included in income currently. Reinsurance recoveries on unpaid claims and claim expenses, net of uncollectible amounts, are recognized as assets at the same time and in a manner consistenr with General Re's method for establishing the related liability.

Life/Health Operations

• *Premiums Earned:* Premiums for life conrracts are recognized in income when due. Premiums for health contracts are earned over the contracr period in proportion to the amount of insurance or reinsurance provided. Unearned premium liabilities are established to cover the unexpired portion of health premiums written. Premiums are reported ner of retrocessions.

• *Acquisition Costs:* Acquisition costs, principally commissions rhat vary with and are primarily related to the acquisition of new business, are deferred and amortized wirh interest over the premium-paying period of tradirional life and health insurance policies.

• *Policy Benefits for Life/Health Contracts:* The liability for policy benefits for life contracts has been computed based upon estimated future investment yields, expected mortality and withdrawal rares anticipated at the later of either the acquisition of Cologne Re or at the date of contract issuance. These assumptions include a margin for adverse deviation and vary with the characreristics of the reinsurance contract's date of issuance, policy duration and country of risk. The interest rare assumptions used vary by country ranging principally from 3.0 percent to 7.0 percent. Accrued profit-sharing commissions to ceding companies have been provided based on contractual terms for experience through the balance sheet date.

• *Present Value of Future Profits:* The present value of future profits ("PVP") is the actuarially determined present value of the projected profits from the continuation of in-force reinsurance on existing insurance policies on the date Cologne Re was acquired. The calculation of the estimated profits includes anticipated future premiums, death and benefit payments, reserve changes, profit sharing amounts, expenses and related investment income. PVP was determined using risk-adjusted discount rates ranging primarily from 10.0 percent through 16.0 percent. The interest rates selected for the valuation were determined based on the applicable interest rates in the counrry of risk and the risk inherent in the realization of the estimated future profits. PVP of $100 million and $112 million at December 31, 1997 and 1996, respectively, is included in "Other assets" and is being amortized over the duration of the related life business, based upon the assumed underlying profits of the business acquired using a 7.0 percent interest rate.

*Funds Held by Reinsured Companies:* Funds held by reinsured companies represent ceded premiums retained by the ceding company for a period according to contractual terms. General Re generally earns investment income on these balances during the period funds are held.

*Goodwill:* General Re amortizes goodwill arising from its business combinations on a straight-line basis predominantly over 40 years. The amount of goodwill associated with Cologne Re fluctuates based on changes in the value of the German mark relative to the U.S. dollar during the period.

*Deferred Income Taxes:* Deferred income taxes have been provided for all temporary differences between the bases of assets and liabilities used in the financial statements and General Re's United States and foreign tax returns. Deferred income taxes are also provided for unrealized appreciation or depreciation of equity securities and available-for-sale fixed maturities, and for foreign currency translation gains or losses by a charge or credit directly to the applicable component of common shareowners' equity.

*Foreign Currency Translation:* Revenues and expenses denominated in foreign currencies are translated at the average rate of exchange during the period. 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 common shareowners' equity. General Re's international operations have exposures to major European currencies, principally the German mark and British pound. A deterioration in the value of these currencies could have an adverse effect on General Re's financial position and operating results. Gains or losses resulting from foreign currency transactions (transactions denominated in a currency other than the entity's functional currency) are included in net income.

*Deposits:* Reinsurance contracts that do not meet insurance accounting risk transfer requirements are classified as deposits and included in "Other reinsurance balances." These deposits are treated as financing transactions and are credited or charged with interest income or expense according to contract terms. Cash flows from these deposit transactions are included in "financing activities" in the statement of cash flows.

*Allowance for Doubtful Accounts:* Allowances are provided for uncollectible reinsurance recoverables and other doubtful receivables. Write-offs of receivables reduce the allowance. At December 31, 1997 and 1996, the allowance was $119 million and $126 million, respectively.

*Financial Services:* GRFP's derivative contracts are carried at estimated fair value based on financial models that incorporate current interest rates, currency rates and security values. Securities owned, securities sold but not yet purchased and futures contracts are carried at fair value. Realized and unrealized gains or losses from selling or valuing securities and contractual commitments at fair value are included in "Other revenues." Included in trading account assets and liabilities are the unrealized gains and losses on interest rate and currency swaps, forward currency commitments and option products. These estimated unrealized gains and losses, which have been included in income, represent the fair value of estimated future cash flows for these transactions. Purchases of securities under agreements to resell and sales of securities under agreements to repurchase are accounted for as collateralized investing and financing transactions and are recorded at their contractual resale or repurchase amounts, plus accrued interest.

*Stock-Based Compensation:* General Re's expense from stock-based compensation plans is measured based on accounting prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees.* General Re discloses the pro forma effects on net income and earnings per share of the fair value-based method under Statement of Financial Standard No. 123.

*Accounting Estimates:* The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. General Re's principal estimates include property/casualty claims and claim expenses, policy benefits for life/health contracts, estimated premiums when General Re has not received ceding company reports and valuation of nonexchange traded financial instruments. General Re utilizes historical information, actuarial analyses, financial modeling and other analytical techniques to prepare these estimates. Actual results for all these items could differ from the estimates included in General Re's income statements and balance sheets.

## 2. Accounting Changes

In the fourth quarter of 1997, General Re adopted Statement of Financial Accounting Standards No. 128, *Earnings Per Share,* which established a new standard for computing and disclosing earnings per share data. As a result, General Re presented both basic and diluted earnings per share as computed under the new standard. Under previous guidance, General Re only reported primary earnings per share, which was the same result for General Re as basic earnings per share. Basic earnings per share excludes dilution and is computed by dividing income available to common shareowners by the weighted-average number of common shares outstanding for the period. Diluted earnings per share include the effect of all potentially dilutive securities.

In June 1997, the Financial Accounting Standards Board issued Statement No. 130, *Reporting Comprehensive Income,* which establishes standards for the reporting and display of comprehensive income and its components in the consolidated financial statements. After-tax unrealized appreciation of investments and currency translation adjustments are among the principal items that will be added to net income to arrive at comprehensive income. The statement is effective in 1998 and will change the presentation of certain information in General Re's financial statements but will not have any effect on financial position, results from operations or cash flows.

Also in June 1997, the Financial Accounting Standards Board issued Statement No. 131, *Disclosure about Segments of an Enterprise and Related Information.* This statement requires that companies report certain information about their operating segments in the interim and annual financial statements, including information about the products and services from which revenues are derived, the geographic areas of operation and information about major customers. The statement defines operating segments based on internal management reporting and management's method of allocating resources and assessing performance. The statement is effective for year-end 1998 and is not expected to change the four segments now reported by General Re.

## 3. Acquisitions and Reinsurance Ventures

### *National Re*

On October 3, 1996, General Re acquired all of the outstanding shares of National Re, a North American property/casualty reinsurance group, in exchange for 4,023,901 shares of General Re's common stock and $313 million in cash for a total cost of $900 million. The acquisition of National Re has been accounted for as a purchase. The results of operations subsequent to the date of acquisition are included in General Re's consolidated operating results. At December 31, 1996, National Re's assets and liabilities at acquisition were included in General Re's consolidated balance sheet. "Pro forma" figures showing the effect of this acquisition on General Re's 1995 and 1996 net income and shareowners' equity have not been presented due to immateriality.

### *Cologne Re*

On December 28, 1994, General Re and Colonia Konzern AG formed a new company that acquired 75 percent of the ordinary shares and approximately 30 percent of the preference shares of Cologne Re, which collectively represents a 66.3 percent economic interest in Cologne Re. In exchange for its Cologne Re shares, Colonia Konzern AG, for itself and as trustee for Nordstern Allgemeine Versicherungs AG (collectively, "CKAG"), received 100 percent of the Class A shares of the new company, General Re-CKAG Reinsurance and Investment S.à r.l. ("GR-CK"). General Re initially contributed $884 million (DM 1,377 million) to GR-CK in exchange for 100 percent of the Class B shares of GR-CK. On December 30, 1994, GR-CK paid $302 million (DM 475 million) to General Re in exchange for notes in the principal amount of DM 475 million. The notes pay interest of 8.0 percent annually to GR-CK and are due on December 30, 2004. The intercompany notes have been eliminated in consolidation. The funds invested in GR-CK are subject to certain restrictions according to the joint venture agreement.

The Class A shares have 49.9 percent of the votes of GR-CK and are entitled to an annual Class A dividend, which is based on a formula and is subject to a minimum of approximately DM 36 million, while the Class B shares have 50.1 percent of the votes of GR-CK and are entitled to the earnings of GR-CK in excess of the Class A dividend. General Re also receives an annual Class B cash dividend of 50.1 percent of GR-CK's distributable income, as defined in the joint-venture agreement. Dividends related to the 1996 calendar result, which were paid in 1997 with respect to the Class A and B shares, were $22 million and $14 million, respectively.

General Re has an option to purchase from January 1, 2002 to January 1, 2004 the Class A shares of GR-CK owned by the CKAG at a formula price. The option has a minimum exercise price of DM 1,306 million and a maximum of DM 1,509 million, subject to certain warranty and other adjustments that may affect the exercise price. If General Re does not exercise its option to purchase the Class A shares of GR-CK from CKAG, CKAG has an option to purchase the Class B shares of GR-CK from General Re under a similar exercise price formula.

The acquisition of the shares of Cologne Re through GR-CK has been accounted for as a purchase. General Re has consolidated GR-CK and Cologne Re in its financial statements and recorded as minority interests the share of CKAG in GR-CK and of the other shareowners in Cologne Re.

In addition to its ownership in Cologne Re through GR-CK, General Re has purchased for its own account an additional 11.2 percent of the ordinary and preference shares of Cologne Re through December 31, 1997 for aggregate consideration of $127 million, which increased General Re's consolidated economic interest in Cologne Re to 77.5 percent. The purchases of additional Cologne Re shares are accounted for as a step acquisition, under which the fair value of assets and liabilities are recorded at each acquisition date, with the excess of cost over fair value recorded as incremental goodwill.

*Tempest Reinsurance Company Limited*

In September 1993, General Re acted as sponsor in the formation of Tempest Reinsurance Company Limited ("Tempest"), a Bermuda-based reinsurance company specializing in property catastrophe reinsurance. On July 1, 1996, General Re sold its 20.7 percent interest in Tempest and its stock options, and terminated its underwriting services agreement with Tempest for $216 million in aggregate consideration.

## 4. Statutory Financial Information

General Re's North American reinsurance and insurance subsidiaries file financial statements prepared in accordance with statutory accounting practices prescribed or permitted by insurance regulators. Statutory accounting differs from generally accepted accounting principles in the reporting of certain reinsurance contracts, investments, subsidiaries, acquisition expenses, fixed assets, deferred income taxes and certain other items. Combined statutory surplus of General Re's North American property/casualty operations at December 31, 1997 and 1996 was $6,309 million and $5,326 million, respectively. Combined statutory net income of these operations for 1997, 1996 and 1995 was $968 million, $777 million and $621 million, respectively.

Prescribed accounting practices include a variety of publications of the National Association of Insurance Commissioners, as well as state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed that have been permitted by the insurance department of the insurer's domiciliary state. General Re discounts certain workers' compensation liabilities at an annual rate of 4.5 percent. These discounted liabilities were $1,501 million and $1,490 million at December 31, 1997 and 1996, respectively. Included in the discount recognized for statutory purposes at December 31, 1997 was $611 million resulting from discounting permitted by the domiciliary insurance department.

General Re's international subsidiaries prepare statutory financial statements based on local laws and regulations. Some jurisdictions, such as the United Kingdom, impose complex regulatory requirements on reinsurance companies, while other jurisdictions, such as Germany, impose fewer requirements. Local reinsurance business conducted by General Re in some countries requires licenses issued by governmental authorities. These licenses may be subject to modification or revocation dependent on such factors as amount and types of reserves and minimum capital and solvency tests. Jurisdictions may impose fines, censure and/or criminal sanctions for violation of regulatory requirements.

General Re Corporation is dependent upon the ability of its operating subsidiaries to provide it funds, predominantly through dividends and tax-sharing payments. Insurance holding company laws require prior regulatory approval for extraordinary distributions made to insurance company shareowners. General Reinsurance Corporation ("GRC") is subject to the insurance laws of Delaware, its state of domicile. Under Delaware law, dividends or distributions in a rolling twelve-month period exceeding the greater of 10 percent of an insurance company's surplus or 100 percent of net income, excluding realized gains, for the previous calendar year are generally considered extraordinary and require prior regulatory approval.

During 1997, GRC paid $850 million in dividends to General Re Corporation. The proceeds from these dividends were primarily used by General Re Corporation for the payment of common dividends and the repurchase of its common stock. This dividend amount was approved by the domiciliary insurance department and exceeded GRC's 1997 ordinary dividend capacity of $607 million. During 1998, GRC's ordinary dividend capacity will be $755 million. As a result of the extraordinary dividend payments in 1997, significant dividend payments by GRC to General Re Corporation prior to May 1, 1998, will be considered extraordinary and will require regulatory approval prior to payment. The statutory standard for such approval requires that GRC's statutory surplus must be reasonable in relation to its outstanding liabilities and adequate relative to its financial needs following payment of the dividend. Dividends subsequent to May 1, 1998 will be considered ordinary to the extent that they do not exceed the rolling ordinary dividend capacity of $755 million.

## 5. Investments

The cost, fair value and gross unrealized appreciation and depreciation of investments were as follows:

| December 31, 1997 *(in millions)* | Cost[1] | Gross Unrealized Appreciation | Gross Unrealized Depreciation | Fair Value |
|---|---|---|---|---|
| **Insurance Investments** | | | | |
| Short-term investments | $ 1,172 | — | — | $ 1,172 |
| Fixed maturities — available-for-sale | | | | |
| U.S. Government | 1,212 | $ 38 | $ 1 | 1,249 |
| German federal and state governments | 750 | 52 | — | 802 |
| Tax-exempt | 7,179 | 600 | 1 | 7,778 |
| Corporate | 3,261 | 163 | 19 | 3,405 |
| Mortgage-backed | 908 | 49 | 5 | 952 |
| Asset-backed | 81 | 2 | — | 83 |
| Other foreign government | 2,468 | 114 | 4 | 2,578 |
| Fixed maturities — available-for-sale | 15,859 | 1,018 | 30 | 16,847 |
| Preferred equities | 980 | 63 | 2 | 1,041 |
| Common equities | 2,098 | 2,688 | 38 | 4,748 |
| Other invested assets | 616 | 165 | 13 | 768 |
| Total insurance investments | $20,725 | $3,934 | $83 | $24,576 |
| Total financial services investments | $ 2,827 | $ 21 | $68 | $ 2,780 |

| December 31, 1996 *(in millions)* | Cost[1] | Gross Unrealized Appreciation | Gross Unrealized Depreciation | Fair Value |
|---|---|---|---|---|
| **Insurance Investments** | | | | |
| Short-term investments | $ 1,019 | — | — | $ 1,019 |
| Fixed maturities — available-for-sale | | | | |
| U.S. Government | 1,575 | $ 45 | $ 9 | 1,611 |
| German federal and state governments | 868 | 56 | — | 924 |
| Tax-exempt | 7,416 | 379 | 7 | 7,788 |
| Corporate | 2,939 | 114 | 6 | 3,047 |
| Mortgage-backed | 947 | 21 | 2 | 966 |
| Asset-backed | 51 | 2 | — | 53 |
| Other foreign government | 2,502 | 103 | 2 | 2,603 |
| Fixed maturities — available-for-sale | 16,298 | 720 | 26 | 16,992 |
| Preferred equities | 771 | 23 | 5 | 789 |
| Common equities | 1,940 | 1,745 | 13 | 3,672 |
| Other invested assets | 612 | 104 | 20 | 696 |
| Total insurance investments | $20,640 | $2,592 | $64 | $23,168 |
| Total financial services invested assets | $ 3,418 | $ 44 | $68 | $ 3,394 |

[1] *Cost is amortized cost for short-term investments and fixed maturities and original cost for equity securities and other invested assets.*

The contractual maturities of available-for-sale fixed maturity investments for both reinsurance and financial services segments are shown in the following table. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay certain obligations.

| December 31, 1997 *(in millions)* | Amortized Cost | Fair Value |
|---|---|---|
| Due in one year or less | $ 712 | $ 717 |
| Due after one year through five years | 4,083 | 4,178 |
| Due after five years through ten years | 5,373 | 5,712 |
| Due after ten years | 5,491 | 5,992 |
| Mortgage and asset-backed | 989 | 1,036 |
| Total | $16,648 | $17,635 |

The components of realized gains (losses) on available-for-sale securities and total investment income were as follows:

| Years ended December 31 *(in millions)* | 1997 | 1996 | 1995 |
|---|---|---|---|
| Realized Gains (Losses) | | | |
| Fixed maturities: | | | |
| Gross realized gains | $ 95 | $ 148 | $ 117 |
| Gross realized losses | (55) | (93) | (73) |
| Total fixed maturities | $ 40 | $ 55 | $ 44 |
| Equity securities: | | | |
| Gross realized gains | 64 | 161 | 72 |
| Gross realized losses | (100) | (112) | (52) |
| Total equity securities | (36) | 49 | 20 |
| Total realized gains | $ 4 | $ 104 | $ 64 |
| Investment Income | | | |
| Fixed maturities | $1,065 | $1,041 | $ 850 |
| Equity securities | 183 | 134 | 111 |
| Short-term investments | 53 | 52 | 62 |
| Other | 45 | 24 | 26 |
| Investment income before expenses | 1,346 | 1,251 | 1,049 |
| Investment expenses | (58) | (46) | (32) |
| Net investment income | $1,288 | $1,205 | $1,017 |

Securities with a market value of approximately $984 million at December 31, 1997, were on deposit with various state or governmental departments to comply with insurance laws.

6. Claims and Claim Expenses

The table below provides a reconciliation of the beginning and ending property/casualty claim and claim expense liability for the past three years:

| *(in millions)* | 1997 | 1996 | 1995 |
|---|---|---|---|
| Gross claims and claim expense liability, January 1 | $15,977 | $14,252 | $12,158 |
| Reinsurance recoverables on unpaid claims and claim expenses | (2,572) | (2,515) | (1,840) |
| Net liability at January 1 | 13,405 | 11,737 | 10,318 |
| Incurred claims and claim expenses related to: | | | |
| Current year | 3,956 | 4,023 | 3,666 |
| Prior years | (168) | (39) | 14 |
| Total incurred claims and claim expenses | 3,788 | 3,984 | 3,680 |
| Claim and claim expense payments related to: | | | |
| Current year | 773 | 1,061 | 773 |
| Prior years | 2,644 | 2,052 | 1,584 |
| Total payments | 3,417 | 3,113 | 2,357 |
| Effect of foreign exchange | (335) | (150) | 96 |
| Net unpaid claims and claim expenses from acquisitions | — | 947 | — |
| Net liability at December 31 | 13,441 | 13,405 | 11,737 |
| Reinsurance recoverables on unpaid claims and claim expenses | 2,356 | 2,572 | 2,515 |
| Gross claim and claim expense liability, December 31 | $15,797 | $15,977 | $14,252 |

Consolidated net claims and claim expenses for 1996 and prior accident years experienced favorable development of $168 million in 1997. Net claims and claim expenses for 1996 and prior accident years for the North American operations experienced favorable development of $178 million in 1997. The net favorable loss development was due to favorable development on casualty lines of business, partially offset by losses related to environmental, asbestos and other mass tort claims. Net claims and claim expenses for 1996 and prior accident years for the international operations, adjusted for the effects of foreign exchange, had adverse development of $10 million in 1997. The net adverse loss development for the international operations was primarily related to strengthening of reserves for certain casualty business. Due to customary lags in underwriting activity reports from European ceding companies, there may be correlated development of premium and losses in the international property/casualty operations. These premiums are not included in the reserve development discussed above.

General Re continuously estimates its liabilities and related reinsurance recoverable for environmental and latent injury claims and claim expenses. While most of its liabilities for such claims arise from exposures in North America, General Re has also provided for international environmental and latent injury exposures. Environmental and latent injury exposures do not lend themselves to traditional methods of loss development determination and, therefore, reserves related to these exposures may be considered less reliable than reserves for standard lines of business (e.g., automobile). The estimate for environmental and latent injury losses is composed of four parts: known claims, development on known claims, IBNR and direct excess coverage litigation expenses. General Re's estimate for IBNR is based on fitted curves of estimated future claim emergence; this estimate is less reliable than the estimated liability for reported claims. The effect of joint and several liability on the severity of claims and a provision for future claims inflation have been included in the loss development estimate. General Re has established a liability for litigation costs associated with coverage disputes arising out of direct excess insurance policies, rather than from reinsurance assumed. Direct excess coverage litigation expenses are estimated using a modified count and amount actuarial study.

The gross liability for environmental and latent injury claims and claim expenses and the related reinsurance recoverable were $2,047 million and $611 million, respectively, at December 31, 1997. The liability for environmental and latent injury claims and claim expenses is management's best estimate of future claim and claim expense payments and recoveries which are expected to develop over the next several decades. General Re continuously monitors evolving case law and its effect on environmental and latent injury claims. Changing government regulations, newly identified toxins, newly reported claims, new theories of liability, new contract interpretations and other factors could significantly affect future claim development. While General Re has recorded its current best estimate of its liabilities for unpaid claims and claim expenses, it is reasonably possible that these estimated liabilities, net of estimated reinsurance recoveries, may increase in the future and that the increase may be material to General Re's results from operations, cash flows and financial position. It is not possible to estimate reliably the amount of additional net loss, or the range of net loss, that is reasonably possible.

## 7. Reinsurance

Premiums, claims and claim expenses and life/health benefits are reported net of reinsurance in General Re's statements of income. Direct, assumed, ceded and net amounts for these items were as follows:

| Years ended December 31 | Property/Casualty Premiums Written | Property/Casualty Premiums Earned | Property/Casualty Claims Expenses | Life/Health Premiums Written | Life/Health Premiums Earned | Life/Health Benefits |
|---|---|---|---|---|---|---|
| **1997** | | | | | | |
| Direct | $ 513 | $ 512 | $ 353 | — | — | — |
| Assumed | 5,668 | 5,749 | 3,964 | $1,388 | $1,342 | $963 |
| Ceded | (855) | (847) | (529) | (169) | (149) | (80) |
| Net | $5,326 | $5,414 | $3,788 | $1,219 | $1,193 | $883 |
| **1996** | | | | | | |
| Direct | $ 525 | $ 477 | $ 382 | — | — | — |
| Assumed | 5,887 | 5,987 | 4,237 | $1,180 | $1,165 | $915 |
| Ceded | (826) | (846) | (635) | (105) | (105) | (126) |
| Net | $5,586 | $5,618 | $3,984 | $1,075 | $1,060 | $789 |
| **1995** | | | | | | |
| Direct | $ 405 | $ 364 | $ 207 | — | — | — |
| Assumed | 6,091 | 5,900 | 4,372 | $ 793 | $ 780 | $558 |
| Ceded | (1,103) | (1,123) | (899) | (84) | (84) | (53) |
| Net | $5,393 | $5,141 | $3,680 | $ 709 | $ 696 | $505 |

General Re utilizes reinsurance to reduce its exposure to large claims. These agreements provide for recovery of a portion of certain claims and claim expenses from reinsurers. If the reinsurers are unable to meet their obligations under the agreements, General Re would be liable for such defaulted amounts. General Re holds partial collateral under these agreements and has never suffered a significant loss because of defaults. General Re utilizes various North American and international reinsurers as part of its retrocessional program. Prior to being included in General Re's retrocessional program, reinsurers are reviewed for their anticipated long-term creditworthiness by General Re's Retrocessional Market Committee.

As part of its retrocessional program, General Re has placed a portion of its reinsurance with various Lloyd's of London syndicates. The syndicates act as managing agents for individual Names who bear the risks and rewards of the syndicates' underwriting results. At December 31, 1997, General Re's reinsurance recoverables on paid and unpaid claims and claim expenses from all Lloyd's syndicates aggregated to approximately $270 million.

## 8. Federal, Foreign and Local Income Taxes

Income tax expense (benefit) was as follows:

| Years ended December 31 *(in millions)* | 1997 United States | 1997 Foreign | 1997 Total | 1996 United States | 1996 Foreign | 1996 Total | 1995 United States | 1995 Foreign | 1995 Total |
|---|---|---|---|---|---|---|---|---|---|
| Current | $ 112 | $ 142 | $ 254 | $ 179 | $ 148 | $ 327 | $ 169 | $ 119 | $ 288 |
| Deferred | (22) | 70 | 48 | (64) | 60 | (4) | (90) | 49 | (41) |
| Total | $ 90 | $ 212 | $ 302 | $ 115 | $ 208 | $ 323 | $ 79 | $ 168 | $ 247 |

Income taxes were established on a consolidated basis for all United States and international operations of General Re. No provisions have been made for U.S. income taxes relating to $213 million of cumulative undistributed income of wholly owned international subsidiaries as of December 31, 1997 which is considered permanently reinvested. Applicable U.S. income taxes have been recorded for Cologne Re's income since it distributes dividends to its shareholders on an annual basis. Income taxes paid were $262 million, $219 million and $216 million in 1997, 1996 and 1995, respectively.

8. Federal, Foreign and Local Income Taxes *(continued)*

An analysis comparing the U.S. statutory income tax rate to General Re's effective tax rate based on percentages of pretax income is as follows:

| Years ended December 31 | 1997 | 1996 | 1995 |
|---|---|---|---|
| U.S. statutory tax rate | 35.0% | 35.0 | 35.0% |
| Reduction in taxes resulting from: | | | |
| Tax-exempt bond interest | (9.5) | (9.6) | (10.3) |
| Dividends received deduction | (1.9) | (1.4) | (1.5) |
| Foreign tax rate differential/credits | 0.3 | 1.1 | 0.4 |
| Miscellaneous | (1.0) | (0.2) | (1.5) |
| Effective tax rate | 22.9% | 24.9% | 22.1% |

The components of the net deferred income tax liability were as follows:

| December 31 *(in millions)* | 1997 | 1996 |
|---|---|---|
| Deferred income tax assets: | | |
| Claim and claim expense liabilities | $ 69 | $ 131 |
| Unearned premiums | 73 | 82 |
| Accruals not currently deductible | 95 | 78 |
| U.S. temporary differences from foreign operations | 195 | 114 |
| Foreign exchange | 97 | 1 |
| Other | 37 | 50 |
| Total deferred tax assets | 566 | 456 |
| Deferred income tax liabilities: | | |
| Unrealized appreciation of investments | 1,350 | 798 |
| Deferred acquisition costs | 156 | 165 |
| Deferred charges | 8 | 12 |
| Discount on fixed maturity investments | 29 | 32 |
| Derivative financial instruments | 36 | 22 |
| Other | 9 | 33 |
| Total deferred tax liabilities | 1,588 | 1,062 |
| Net deferred income tax liability | $1,022 | $ 606 |

## 9. Notes Payable and Commercial Paper

### Parent and Reinsurance Operations

Notes payable and commercial paper of the parent company, General Re Corporation, and its reinsurance operations are presented below:

| December 31 *(in millions)* | 1997 | 1996 |
|---|---|---|
| 9.00% Note due in 2009 | $ 150 | $ 150 |
| 8.85% Note due in 2005 | 109 | 110 |
| 7.50% Note due in 2005 | 26 | 26 |
| Total notes payable | $ 285 | $ 286 |

The 9.00 percent note was issued in 1989 by General Re Corporation in connection with establishing the Employee Savings and Stock Ownership Plan (Note 11). The note is noncallable and has a covenant requiring General Re not to encumber its common stock holding in GRC, the largest subsidiary of General Re. The 8.85 percent and 7.50 percent noncallable notes were issued by National Re on January 19, 1995 and July 31, 1995, respectively. These notes have a par value of $100 million and $25 million, respectively, and were included in General Re's balance sheet at fair value on the date National Re was acquired. The difference between their fair value and par value is recognized as an adjustment to interest expense over the life of the notes.

General Re Corporation issues commercial paper periodically to meet its short-term funding needs or those of the reinsurance operations. Related commercial paper activity is summarized as follows:

| *(in millions)* | 1997 | 1996 |
|---|---|---|
| Outstanding at end of year | — | — |
| Average outstanding balance during the year | $ 2 | $ 119 |
| Average interest rate for the year | 5.69% | 5.30% |

General Re has $1.8 billion of available lines of credit which provide financial flexibility and support its commercial paper program. The credit lines consist of a 364-day facility of $800 million and a five-year credit facility for the remaining $1.0 billion. The credit agreements with the banks require General Re to maintain a minimum consolidated tangible net worth, as defined, of $2.7 billion. All available lines of credit were unused at December 31, 1997.

### Financial Services

Notes and commercial paper of financial service operations were as follows:

| December 31 *(in millions)* | 1997 | 1996 |
|---|---|---|
| General Re Funding Corporation Global Bond 3.0% due in 2026 | $ 27 | — |
| General Re Funding Corporation Senior Accreting Notes 8.375% due in 2037 | 51 | — |
| Structured finance notes | 666 | — |
| 7.70% Mortgage payable through 1998 | 2 | $ 4 |
| Total notes payable | $ 746 | $ 4 |

The financial service operations issue notes payable and commercial paper to meet their funding and liquidity needs. Notes issued by General Re Funding Corporation ("GRFC") and the structured finance notes are supported by GRFC's match-funded investments. The 8.375 percent senior accreting note issued by GRFC matures on July 30, 2037, but is redeemable semiannually beginning July 30, 2004.

GRFC and its affiliates also had outstanding $666 million of structured finance notes at December 31, 1997, with interest rates ranging from 5.9 to 6.3 percent and maturities from one to three years. GRFC has entered into swap transactions that convert the associated fixed interest expense into floating rates. GRFC's debt obligations are guaranteed by General Re Corporation.

Principal maturities on the outstanding notes and mortgage payable of the financial service operations at December 31, 1997 were as follows:

| December 31 *(in millions)* | 1997 |
|---|---|
| 1998 | $ 415 |
| 1999 | — |
| 2000 | 248 |
| 2001 | — |
| 2002 | — |
| Remaining years after 2002 | 83 |
| Total | $ 746 |

General Re Corporation has issued commercial paper on behalf of GRFP and GRFC to fund short-term liquidity needs. A summary of the commercial paper borrowings for these companies was as follows:

| *(in millions)* | 1997 | 1996 |
|---|---|---|
| Year-end balance | $ 689 | $ 140 |
| Average interest rate at year end | 5.73% | 5.30% |
| Average maturity at year end (in days) | 87.2 | 76.8 |
| Average outstanding balance during the year | $ 446 | $ 107 |
| Average interest rate for the year | 5.54% | 5.38% |

On December 18, 1997, General Re Corporation and GRFC established a $1 billion European Medium Term Note Program. Notes issued under the program by GRFC will be guaranteed by General Re Corporation and will be primarily used for match-funded investment transactions. The program allows for issuance of debt with maturities up to 30 years and denominated in a number of major currencies. With certain exceptions, the instruments may not be offered, sold or delivered in the United States or to U.S. persons. There were no notes outstanding under the program at December 31, 1997.

Consolidated interest expense and interest paid for loans payable and commercial paper were as follows:

| Years ended December 31 *(in millions)* | 1997 | 1996 | 1995 |
|---|---|---|---|
| Interest expense | $58 | $30 | $15 |
| Interest paid | 63 | 28 | 15 |

## 10. Retirement Plans

General Re has noncontributory pension plans covering substantially all employees. Plans for U.S. employees provide pension benefits that are generally computed on the basis of the average earnings during the three consecutive years of highest earnings during the employee's service. General Re's funding policy is to contribute sufficient amounts to meet the minimum annual funding required by applicable regulations, plus such additional amounts as it may determine to be appropriate from time to time. Through unfunded plans, General Re provides pension benefits for certain employees above amounts allowed under tax qualified plans. Pension plan assets are principally invested in investment-grade fixed maturities and equities. Cologne Re provides unfunded pension benefits to its employees based on years of service and age at retirement.

The components of pension expense related to both funded and unfunded plans were as follows:

| Years ended December 31 *(in millions)* | 1997 | 1996 | 1995 |
|---|---|---|---|
| Service cost for benefits earned during the year | $19 | $17 | $13 |
| Interest cost on projected benefit obligation | 23 | 19 | 16 |
| Actual return on plan assets | (39) | (22) | (29) |
| Net amortization and deferral | 26 | 11 | 22 |
| Pension expense | $29 | $25 | $22 |

The projected benefit obligation for U.S. employees was determined using an assumed discount rate of 7.00 percent in 1997, 7.50 percent in 1996 and 7.00 percent for 1995, and an assumed long-term compensation increase of 5.50 percent in 1997, 6.00 percent for 1996 and 5.75 percent for 1995. An assumed long-term rate of return on plan assets of 8.50 percent was used in determining pension expense in 1997, 1996 and 1995. The projected benefit obligation for most Cologne Re employees was determined using an assumed discount rate of 7.00 percent in 1997, 1996 and 1995 and an assumed long-term compensation increase of 3.50 percent in 1997, 1996 and 1995.

The following table sets forth the plans' funded status and amount recognized in General Re's consolidated balance sheet:

| | 1997 | | 1996 | |
|---|---|---|---|---|
| December 31 *(in millions)* | Funded | Unfunded | Funded | Unfunded |
| Accumulated benefit obligation: | | | | |
| Vested | $ 134 | $ 78 | $ 100 | $ 72 |
| Nonvested | 20 | 11 | 16 | 10 |
| Accumulated benefit obligation | 154 | 89 | 116 | 82 |
| Effect of projected salary increases | 62 | 34 | 64 | 42 |
| Projected benefit obligation | 216 | 123 | 180 | 124 |
| Plan assets at fair value | 196 | — | 161 | — |
| Projected benefit obligation in excess of plan assets | (20) | (123) | (19) | (124) |
| Unrecognized net (gain) loss | (31) | 22 | (20) | 22 |
| Unrecognized prior service cost | (4) | 5 | (4) | 6 |
| Unrecognized net (asset) obligation at transition | (4) | 1 | (5) | 1 |
| Adjustment to recognize minimum liability | — | (3) | — | — |
| Accrued pension liability | $ (59) | $ (98) | $ (48) | $ (95) |

Substantially all of General Re's employees in the United States will become eligible for certain health care and group life insurance benefits upon retirement from General Re. General Re has funded the benefit cost of current retirees, with the retiree paying a portion of the costs. The retiree's portion of the costs varies depending upon the individual's length of service with General Re upon retirement. Through a trust, General Re funded $3 million for post-retirement health care benefits for current retirees at December 31, 1997 and 1996, and also had an accrued liability of $32 million and $30 million, respectively, for current employees.

## 11. Employee Savings and Stock Ownership Plan

General Re has a leveraged Employee Savings and Stock Ownership Plan ("ESSOP"), in which substantially all U.S. employees may participate. This is a defined contribution plan which allows employees to make regular contributions that the ESSOP matches up to a maximum of 6 percent of the employee's salary. In 1989, the ESSOP borrowed $150 million from General Re at 9.25 percent, payable annually through 2014. The proceeds of this borrowing were used by the ESSOP to purchase 1,754,386 shares of 7.25 percent ($6.20 dividend per share) cumulative convertible preferred stock of General Re. All preferred stock outstanding is held by the ESSOP and is convertible into common stock, under certain conditions, on a one-to-one basis. The preferred stock is held by the ESSOP trustee as collateral for the loan from General Re.

General Re makes contributions to the ESSOP which, together with the dividend on shares of the preferred stock, are sufficient to make loan interest and principal repayments back to General Re. As interest and principal are repaid, a portion of the preferred stock is released for allocation to participating employees. Annual compensation expense for the ESSOP is based on the amount of contributions made to the plan, subject to a floor related to the percentage of allocated shares to total shares purchased. During 1997 General Re recognized compensation expense for the ESSOP based on the shares-allocated floor.

The following summarizes ESSOP activity:

| Years ended December 31 *(in millions, except share data)* | 1997 | 1996 | 1995 |
|---|---|---|---|
| Dividends paid on preferred stock: | | | |
| Allocated shares | $ 3 | $ 2 | $ 2 |
| Unallocated shares | 8 | 9 | 9 |
| Compensation expense | 4 | 4 | 4 |
| Contribution to ESSOP | 5 | 4 | 4 |
| Interest income from ESSOP | 14 | 14 | 14 |
| ESSOP Share Information at December 31 | | | |
| Fair value per share | $213.78 | $159.50 | $157.00 |
| Shares allocated to employees during the year | 62,012 | 62,826 | 59,672 |
| Committed to be released | 25 | 40 | 2,602 |

## 12. Incentive Plans

General Re has a Long-Term Compensation Plan (the "Plan") which provides for the granting of incentive and nonqualified stock options to officers and members of the Board of Directors. The Plan provides that the exercise price of the options granted may not be less than the fair market value of General Re's common stock on the date the options are granted. The options are exercisable cumulatively, 20 percent each year commencing one year from the date of grant, and expire 10 years from the grant date. In certain circumstances, replacement options may be granted upon exercise of an original option, with the exercise price equal to the current market price and with a term extending to the expiration date of the original option.

In celebration of its 75th Anniversary during 1996, General Re issued 75 option shares or stock appreciation rights ("SARs") to most of its employees. These options are exercisable cumulatively 33 percent each year commencing one year from March 21, 1996. As part of the acquisition of National Re, holders of National Re stock options had the opportunity to roll over their options into options to purchase General Re's common stock. These rollover options are fully vested and have exercise prices that maintain the holder's intrinsic value in the options held.

The Plan also permits the granting of SARs in connection with options granted under the Plan. SARs permit the grantee to surrender an exercisable option for an amount equal to the excess of the market price of the common stock over the option price when the right is exercised.

The table that follows provides a summary of the activity for options and SARs:

| | 1997 | | 1996 | | 1995 | |
|---|---|---|---|---|---|---|
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| **Stock Options** | | | | | | |
| Outstanding, beginning of year | 4,559,411 | $122.96 | 3,647,929 | $115.26 | 3,107,851 | $102.06 |
| Granted | 1,158,289 | 178.59 | 921,738 | 149.58 | 944,987 | 146.36 |
| Granted: 75th Anniversary | — | — | 171,000 | 146.75 | — | — |
| Granted: National Re acquisition | — | — | 262,269 | 85.27 | — | — |
| Exercised | (721,019) | 99.28 | (341,765) | 153.71 | (360,074) | 139.31 |
| Canceled | (103,994) | 147.86 | (100,460) | 139.24 | (43,635) | 112.99 |
| Voided due to SARs exercise | (2,900) | 55.56 | (1,300) | 156.33 | (1,200) | 141.24 |
| Outstanding, end of year | 4,889,787 | $139.08 | 4,559,411 | $122.96 | 3,647,929 | $115.26 |
| Options exercisable, end of year | 2,177,771 | $118.17 | 2,150,751 | $104.58 | 1,628,404 | $ 97.51 |
| Shares available for future options | 1,855,841 | — | 2,938,838 | — | 3,881,185 | — |
| **Stock Appreciation Rights** | | | | | | |
| Outstanding, beginning of year | 12,525 | $114.48 | 8,000 | $ 55.94 | 9,200 | $ 55.49 |
| Granted | 12,700 | 177.00 | 5,825 | 149.20 | — | — |
| Exercised | (2,900) | 55.56 | (1,300) | 156.33 | (1,200) | 141.24 |
| Canceled | (75) | 146.75 | — | — | — | — |
| Outstanding, end of year | 22,250 | $143.12 | 12,525 | $114.48 | 8,000 | $ 55.94 |

The following table summarizes information about stock options outstanding at December 31, 1997:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| | Number Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| Range of Exercise Prices | | | | | |
| $50.65 - $99.13 | 574,727 | 3.5 years | $ 85.17 | 574,727 | $ 85.17 |
| 100.81 - 124.19 | 1,357,288 | 6.0 | 116.19 | 924,066 | 115.54 |
| 126.38 - 149.44 | 1,100,052 | 8.1 | 145.98 | 288,732 | 143.00 |
| 150.18 - 174.31 | 857,067 | 7.6 | 154.26 | 390,246 | 154.63 |
| 177.00 - 300.00 | 1,000,653 | 8.9 | 180.51 | — | — |
| Total | 4,889,787 | 5.0 | $ 139.08 | 2,177,771 | $ 118.17 |

The fair value of options granted during 1997, 1996 and 1995 was $58 million, $48 million and $39 million, respectively. The fair value of the options granted was determined using the binomial option-pricing model using the following assumptions:

| Years ended December 31 | 1997 | 1996 | 1995 |
|---|---|---|---|
| Volatility of General Re stock price | 20.0% | 20.0% | 20.0% |
| Annual dividend increase | 4.2 | 4.2 | 4.2 |
| Expected term of options (in years): | | | |
| Non-qualified stock options | 6.0 | 6.0 | 6.0 |
| Restricted stock options | 6.5 | 6.5 | 6.5 |

The expected term of replacement options is equal to the time remaining to maturity with a maximum of six years. In addition, the risk free interest rate on the date of grant is used, with the maturity equal to the expected term.

General Re has elected to continue accounting for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25 for all of its compensatory plans. Accordingly, no compensation expense has been recognized for its nonqualified stock option plan. Had compensation expense for General Re's nonqualified stock option plan been recognized in accordance with FASB Statement No. 123, General Re's net income and basic earnings per share would have been $952 million, or $11.84 per basic share in 1997, $882 million, or $10.86 per basic share in 1996 and $823 million, or $9.90 per basic share in 1995.

The Plan also permits the granting of restricted stock awards as compensation to officers of General Re. Shares of restricted stock become outstanding upon grant, receive dividends and have voting rights identical to other outstanding shares of common stock. Restrictions lapse upon termination of the restriction period or upon death, disability or normal retirement. During 1997, 1996 and 1995, General Re made aggregate compensatory restricted stock awards of 16,715, 96,153 and 31,900 shares, respectively. At December 31, 1997, total restricted shares outstanding were 307,322 shares. The cost of restricted stock awards is based on the market value of the common stock at the date of grant and is recognized as an expense over the restriction period.

The Plan also provides for bonus awards to be made in cash, common stock, share units or restricted stock options ("RSOs"). RSOs restrictions lapse five years after the grant date and RSOs expire 10 years after the grant date. RSOs are included in the tables on page 53. Share units are paid in shares of common stock at a future date designated in advance of the bonus award period.

The expense of the Plan was $15 million in 1997, $7 million in 1996 and $4 million in 1995.

## 13. Leases

General Re leases office space and computer equipment under noncancelable leases expiring in various years through 2010. Several of the leases have renewal options with various terms and rental rate adjustments. Rental expense was $35 million in 1997, $32 million in 1996 and $31 million in 1995. At December 31, 1997, the future minimum annual rental commitments under noncancelable leases were as follows:

| *(in millions)* | |
|---|---|
| 1998 | $ 39 |
| 1999 | 33 |
| 2000 | 31 |
| 2001 | 28 |
| 2002 | 23 |
| Subsequent to 2002 | 143 |
| Total | $ 297 |

Future minimum rental payments above have not been reduced by $41 million of anticipated sublease rental income on noncancelable leases.

## 14. General Re Financial Products

GRFP is engaged as a dealer in various types of derivative instruments, including interest rate, currency and equity swaps and options, as well as structured finance products. These instruments are carried at their current estimates of fair value, which is a function of underlying interest rates, currency rates, security values, volatilities and the creditworthiness of counterparties. Future changes in these factors or a combination thereof may affect the fair value of these instruments with any resulting adjustment, including amounts in excess of those previously recognized in the financial statements, being included currently in the income statement.

*Trading Revenues*

The results of GRFP's trading activities are summarized in the following table. Trading revenues include any associated gains and losses on hedging instruments. Trading revenue is included in "Orher revenues" in the income statement.

| Years ended December 31 *(in millions)* | 1997 | 1996 | 1995 |
|---|---|---|---|
| Fixed income | $155 | $143 | $142 |
| Other | 20 | 1 | — |
| Gross trading revenues | $175 | $144 | $142 |

*Nature of Transactions and Terms*

Interest rate, currency and equity swaps are agreements between two parties to exchange, at particular intervals, payment streams calculated on a specified notional amount. The parties to a currency swap typically exchange a principal amount in two currencies at inception of the contract, agreeing to re-exchange the currencies at a future date and agreed exchange rate.

Interest rate, currency and equity options grant the purchaser the right, but not the obligation, either to purchase from or sell to the writer a specified financial instrument under agreed terms. Interest rate caps and floors require the writer to pay the purchaser at specified future dates the amount, if any, by which the option's underlying market interest rate exceeds the fixed cap or falls below the fixed floor, applied to a notional amount.

Futures contracts are commitments either to purchase or sell a financial instrument at a future date for a specified price and are generally settled in cash. Forward-rate agreements are financial instruments that settle in cash at a specified future date based on the differential between agreed interest rates applied to a notional amount. Foreign exchange contracts generally involve the exchange of two currencies at agreed rates on a specified date; spot contracts usually require the exchange to occur within two business days of the contract date.

A summary of notional amounts of derivative contracts at December 31, 1997 and 1996 is included in the table below. For these transactions, the notional amount represents the principal volume, which is referenced by the counterparties in computing payments to be exchanged, and are not indieative of GRFP's exposure to market or credit risk, future cash requirements or receipts from such transactions. Approximately 64 percent of the notional volume outstanding for derivative contracts at December 31, 1997 have a term of five years or less and approximately 93 percent of the contracts have a term of less than 10 years.

| December 31 *(in millions)* | 1997 | 1996 |
|---|---|---|
| Interest rate and currency swap agreements | $442,771 | $322,836 |
| Options written | 62,325 | 51,547 |
| Options purchased | 63,542 | 54,871 |
| Financial futures contracts: | | |
| Commitments to purchase | 13,668 | 12,057 |
| Commitments to sell | 18,179 | 17,427 |
| Forward rate agreements | 5,264 | 9,565 |
| Foreign exchange spot and forward contracts | 26,826 | 15,615 |

*Fair Value of Trading Instruments*

The table below discloses the net fair value or carrying amount at the reporting date for each class of derivative financial contract held or issued by GRFP for trading purposes, as well as the average fair value during the year, based on monthly observations. The net fair values reflect rights of setoff and qualifying master netting arrangements with various counterparties in accordance with FASB Interpretation 39, *Offsetting Amounts Related to Certain Contracts*. Interest rate and foreign currency swaps shown in the table below include forward rate agreements and foreign exchange spot and forward contracts.

| | 1997 | | 1996 | |
|---|---|---|---|---|
| December 31 *(in millions)* | Asset | Liability | Asset | Liability |
| Interest rate and foreign currency swaps | $ 18,207 | $ 17,646 | $ 14,680 | $ 14,693 |
| Interest rate and foreign currency options | 1,864 | 1,764 | 1,101 | 935 |
| Gross fair value | 20,071 | 19,410 | 15,781 | 15,628 |
| Adjustment for counterparty netting | (15,987) | (15,987) | (12,445) | (12,445) |
| Net fair value | 4,084 | 3,423 | 3,336 | 3,183 |
| Security receivables/payables | 229 | 241 | 626 | 602 |
| Trading account assets/liabilities | $ 4,313 | $ 3,664 | $ 3,962 | $ 3,785 |

| | Average 1997 | | Average 1996 | |
|---|---|---|---|---|
| *(in millions)* | Asset | Liability | Asset | Liability |
| Interest rate and foreign currency swaps | $ 15,985 | $ 15,832 | $ 11,171 | $ 11,495 |
| Interest rate and foreign currency options | 1,336 | 1,228 | 815 | 724 |
| Gross fair value | 17,321 | 17,060 | 11,986 | 12,219 |
| Adjustment for counterparty netting | (13,951) | (13,951) | (9,650) | (9,650) |
| Net fair value | 3,370 | 3,109 | 2,336 | 2,569 |
| Security receivables/payables | 314 | 293 | 197 | 213 |
| Trading account assets/liabilities | $ 3,684 | $ 3,402 | $ 2,533 | $ 2,782 |

*Risk Management*

*Market Risk*

Market risk is the potential change in value of the portfolio caused by movements in foreign exchange, interest rate and equity markets. The level of market risk is influenced by factors such as volatility, correlation and liquidity. GRFP controls market risk exposures by taking offsetting positions in either cash instruments or other derivatives to reduce its overall exposure due to movements in these variables. For securities sold, but not yet purchased, GRFP may incur a loss if the market value of the security increases prior to the purchase of the instruments. GRFP manages its exposures on a portfolio basis. GRFP monitors its market risk on a daily basis across all products by calculating the effect on operating results of potential changes in market variables over a one-week period. Based on historical market volatility, correlation data and informed judgment, GRFP sets market risk limits for each trading book based on a 95 percent probability that movements in market rates will not affect the results from operations in excess of the limit over a one-week holding period. GRFP also monitors its consolidated market risk across all broad risk types on a weekly basis. It has established limits, and measures market risk against them primarily using Monte Carlo simulations to a 99 percent confidence level. When a risk limit is exceeded, appropriate action is taken, dependent upon the amount and duration of the excess, to monitor, control and reduce the excess within approved levels. The weekly market risk limit across all trading books increased from $10 million to $15 million from April 1997 onward, consistent with the growth in GRFP's business.

Since inception, GRFP has not experienced a weekly position change in excess of the aggregate weekly market risk limit. In addition to these daily and weekly assessments of risk, GRFP prepares periodic stress tests to assess its exposure to movements in various market risk factors such as volatilities, shifts in yield curves and foreign currency exchange rates.

*Credit Risk*

Credit risk arises from the possible inability of counterparties to meet the terms of their contracts. GRFP evaluates and records a fair value adjustment against trading revenue to recognize counterparty credit exposure and future costs associated with administering each contract. The expected credit exposure for each trade is initially established on the trade date and is determined through the use of a proprietary credit exposure model that is based on historical default probabilities, market volatilities and, if applicable, the legal right of setoff. These exposures are continuously monitored, and the fair value adjustment is adjusted to reflect the changes in the credit quality of the counterparty, changes in interest and currency rates or changes in other factors affecting credit exposures. The fair value adjustment for counterparty credit exposures and future administrative costs on existing contracts was $93 million at December 31, 1997. GRFP has not experienced any write-offs on such contracts. In the event counterparties are unable to fulfill their contractual obligations, future losses due to defaults may exceed amounts currently recognized in the balance sheet.

Counterparties to the financial instruments are, in decreasing order of magnitude, foreign and domestic commercial banks, corporations, sovereigns, foreign and domestic brokers/dealers and government-chartered organizations. GRFP evaluates the creditworthiness of its counterparties by performing formal internal credit analyses and by referring to ratings of widely accepted credit rating services. Counterparty credit limits are determined based on this analysis and counterparty credit exposures are monitored in accordance with these limits. GRFP receives cash and/or investment grade securities from certain counterparties as collateral and, where appropriate, may purchase credit insurance or enter into other transactions to mitigate its credit exposure. GRFP also incorporates into contracts with certain counterparties provisions that allow the unwinding of these transactions in the event of a downgrade in credit rating or other indications of decline in creditworthiness of either the counterparty or GRFP.

GRFP assesses credit risk by counterparty across all transactions with each respective counterparty. Assuming nonperformance by all counterparties on all contracts potentially subject to a loss, the maximum potential loss, based on the cost of replacement, net of collateral held, at market rates prevailing at December 31, 1997, approximated $3,075 million. This value represents unrealized gains on financial instrument contracts in gain positions, net of any unrealized losses with these counterparties from offsetting positions. The maximum potential loss will increase or decrease during the life of the transaction as a function of contract terms and market conditions such as interest and currency rates. In the judgment of management, the likelihood that all counterparties would default, resulting in a maximum potential loss, is remote. Since inception, GRFP has not had any credit losses.

The following table presents GRFP's derivatives portfolio by counterparty credit quality and maturity at December 31, 1997. The amounts shown under gross exposure in the table are before consideration of netting arrangements and collateral held by GRFP. Net fair value shown on the table represents unrealized gains on financial instrument contracts in gain positions, net of any unrealized loss owed to these counterparties on offsetting positions. Net exposure shown on the table is net fair value less collateral held by GRFP.

| | Gross Amounts | | | | | |
|---|---|---|---|---|---|---|
| *(in millions)* | Due before five years | Due after five years through ten years | Due after ten years | Total | Net fair value | Net exposure |
| Counterparty credit quality | | | | | | |
| AAA | $1,486 | $1,319 | $ 863 | $ 3,668 | $ 456 | $ 456 |
| AA | 4,185 | 2,647 | 1,901 | 8,733 | 1,197 | 1,197 |
| A | 2,953 | 2,513 | 702 | 6,168 | 1,821 | 1,205 |
| BBB | 343 | 255 | 421 | 1,019 | 498 | 198 |
| Below BBB and non-rated | 357 | 126 | — | 483 | 112 | 19 |
| Total | $9,324 | $6,860 | $3,887 | $20,071 | $4,084 | $3,075 |

In connection with certain purchases and sales of government securities, GRFP enters into collateralized repurchase and reverse repurchase agreements which may result in credit losses in the event the counterparty to the transaction is unable to fulfill its contractual obligations. All of these transactions are collateralized by U.S. and foreign government securities. In addition to interest amounts shown in Note 9, GRFP had $30 million, $96 million and $90 million of interest expense in 1997, 1996 and 1995, respectively, on related collateralized borrowings. GRFP's exposure to credit risks associated with the nonperformance of counterparties in fulfilling these contractual obligations can be directly affected by market fluctuations, which may affect the counterparties' ability to satisfy their obligations. It is GRFP's policy to take possession of securities purchased under agreements to resell. GRFP monitors the market value of the underlying securities as compared to the related receivable, including accrued interest, and requests additional collateral when appropriate. Counterparties to repurchase agreements and futures transactions are commercial banks and securities brokers and dealers.

GRFP enters into exchange traded futures contracts for delayed delivery of foreign currencies or securities in which the seller/purchaser agrees to make/take delivery at a specified future date of a specified instrument, at a specified price or yield. Risks arise from the inability of the futures exchange to meet the terms of the contracts and from counterparties' inability to meet their margin requirements.

*Legal Risk*

Legal risk arises from the uncertainty of the enforceability, through legal or judicial processes, of the obligations of GRFP's counterparties, including contractual provisions intended to reduce credit exposure by providing for the offsetting or netting of mutual obligations. GRFP seeks to reduce legal risk by consulting with internal and external legal counsel (in relevant jurisdictions) to determine legality and enforceability of various transactions with different types of counterparties.

*Liquidity Risk*

GRFP is subject to liquidity risk in funding its portfolio of open transactions. Movements in underlying market variables affect both future cash flows related to the transactions and collateral required to cover the value of open positions. General Re has taken actions to ensure that GRFP has sufficient resources to cover its potential liquidity needs through its access to General Re's internal sources of liquidity, commercial paper program, lines of credit and medium-term program.

## 15. Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107, *Disclosures about Fair Value of Financial Instruments,* requires disclosures of fair values for certain financial instruments. Insurance contracts are among certain types of transactions that were considered difficult to fair value and therefore were specifically excluded from the statement's disclosures. General Re carries other financial instruments generally at fair values on its balance sheet, with the exception of those financial instruments listed below:

| | 1997 | | 1996 | |
|---|---|---|---|---|
| December 31 *(in millions)* | Statement Value | Fair Value | Statement Value | Fair Value |
| **Financial assets** | | | | |
| Mortgage receivable (included in other assets) | $ 82 | $ 114 | $ 84 | $ 116 |
| Loan to ESSOP | 142 | 183 | 144 | 175 |
| **Financial liabilities** | | | | |
| Reinsurance operations notes payable | 285 | 321 | 286 | 309 |
| Financial services notes payable | 746 | 746 | 4 | 4 |

General Re uses various methods and assumptions in estimating the fair value of financial instruments. The following valuation methods and assumptions were utilized by General Re in estimating the fair value of financial instruments.

*Investments* — Fair values for fixed maturities and equity securities were generally based on quoted market prices or dealer quotes. The fair value of investments in limited partnerships, which were included in other invested assets on the balance sheet, was determined by reviewing available financial information of the investee and by performing other financial analyses in consultation with external advisors. Fair values for investments in real estate were determined using discounted cash flow analyses for each property. Fair values for reinsurance ventures were based on General Re's proportionate share in the entity's shareowners' equity, since the cost of determining fair value exceeds the benefits derived. The carrying amounts for short-term investments approximate their fair values.

*Mortgage and loans receivable/payable* — The fair value of General Re's mortgage and notes receivable/payable was estimated using discounted cash flow analyses, based on General Re's current incremental borrowing rates for similar types of arrangements. The fair value of General Re's debt was based on market price quotations.

*Contract deposit assets/liabilities* — The fair value of contract deposit assets and liabilities approximates their carrying value.

*Securities purchased under agreements to resell and securities sold under agreements to repurchase* — The carrying value for these financial instruments approximates their fair value.

*Trading account assets/liabilities* — The fair value for trading account assets/liabilities was based on the use of valuation models that utilize, among other factors, current interest and foreign exchange rates and market volatility data.

*Securities sold but not yet purchased* — The fair value for securities sold but not yet purchased was based on quoted market prices.

## 16. Legal Proceedings

General Re, through its subsidiaries, has been named as a defendant in litigation or a respondent in arbitration in the ordinary course of conducting its insurance and reinsurance business. These lawsuits generally seek to establish liability under insurance or reinsurance contracts issued by the subsidiaries, and occasionally seek punitive or exemplary damages. General Re's reinsurance subsidiaries are also indirectly involved in coverage litigation. In those cases, plaintiffs seek coverage for their liabilities under insurance policies from insurance companies reinsured by General Re's reinsurance subsidiaries. In the judgment of management, none of these cases, individually or collectively, is likely to result in judgments for amounts which, net of claim and claim expense liabilities previously established and applicable reinsurance, or any other litigation, would be material to the financial position, results of operations or cash flow of General Re.

On July 1, 1996, United States Aviation Underwriters, Inc. ("USAU"), a subsidiary of General Re, and the former chief executive officer of USAU, were convicted of mail fraud in connection with the allocation of liability between two policyholders arising from the settlement of claims for a December 7, 1987 airline crash. USAU's sentence included a $20.5 million fine, payable in installments over a five-year probation period and restitution in accordance with previously paid civil settlements. These amounts were accrued in prior periods. USAU is appealing both its conviction and sentence. Payment of the fine by USAU is stayed pending the determination of the appeal.

## 17. Common and Preferred Stock

General Re has the authority to issue 250 million shares of $.50 par value common stock, of which 103 million have been issued. Common stock purchased in the open market is carried at cost and shown as a reduction to common shareowners' equity. When treasury shares are reissued, the treasury stock account is reduced for the cost of the common stock reissued on a first-in, first-out basis. No treasury stock of General Re is held by any subsidiary. The number of shares included in treasury stock were as follows:

| Years ended December 31 | 1997 | 1996 | 1995 |
|---|---|---|---|
| Treasury shares, beginning of year | 21,262,113 | 20,714,069 | 20,955,202 |
| Additional purchases | 4,692,300 | 4,989,000 | 235,200 |
| Reissuances | (560,573) | (4,440,956) | (476,333) |
| Treasury shares, end of year | 25,393,840 | 21,262,113 | 20,714,069 |

General Re also has the authority to issue 20 million shares of preferred stock, of which 1,700,231 are issued and outstanding and held by the ESSOP, and 1 million (Series A Junior Participating Preferred) are reserved for the Stockholders' Rights Plan. Under the Stockholders' Rights Plan, one Right attaches to each outstanding share of common stock. In the event a person or group acquires or commences a tender or exchange offer for 20 percent or more of General Re's common stock, each Right entitles common shareowners to purchase Series A Junior Participating Stock, which is convertible to common stock having a value equal to two times the rights exercise price.

## 18. Earnings Per Share

Basic earnings per common share were based on earnings less preferred dividends, divided by the weighted average common shares outstanding during each year. Diluted earnings per share assume the conversion of all outstanding convertible preferred stock and the maximum dilutive effect of common stock equivalents. The following is a reconciliation of the numerators and denominators used in the basic and diluted earnings per share calculations for 1997, 1996 and 1995.

| Years ended December 31 | 1997 | | | 1996 | | | 1995 | | |
|---|---|---|---|---|---|---|---|---|---|
| *(in millions, except per share information)* | Income | Shares | Per share | Income | Shares | Per share | Income | Shares | Benefits |
| Net income | $968 | | | $894 | | | $825 | | |
| Less: preferred dividends | (11) | | | (11) | | | (11) | | |
| Basic earnings | 957 | 79.5 | $12.04 | 883 | 80.3 | $11.00 | 814 | 82.1 | $9.92 |
| Effect of dilutive securities | | | | | | | | | |
| Stock options | — | 0.7 | | — | 0.5 | | — | 0.4 | |
| Conversion of preferred stock | 11 | 1.7 | | 11 | 1.7 | | 11 | 1.7 | |
| Conversion expense | (4) | — | | (5) | — | | (5) | — | |
| Diluted earnings | $964 | 81.9 | $11.76 | $889 | 82.5 | $10.78 | $820 | 84.2 | $9.74 |

The effect of stock options on the denominator in the diluted earnings per share calculation was calculated using the treasury stock method. The treasury stock method assumes all potentially dilutive options are exercised as of the beginning of the period and the cash proceeds from assumed exercise are used to purchase common stock at the average market price for the period. The incremental difference between the number of shares assumed to be issued and the number of shares assumed to be purchased are included in the denominator of the diluted earnings per share calculation.

The additional expense due to conversion of preferred stock to common stock relates to the compensation expense recorded for the ESSOP as discussed in Note 11. Subject to certain thresholds, General Re's ESSOP compensation expense equals principal and interest payments made by the ESSOP to General Re less preferred dividends received from General Re. The preferred stock had an annual per share dividend of $6.20 for the years included in the table above compared with a common dividend per share of $2.20, $2.04 and $1.96 in 1997, 1996 and 1995, respectively. When the preferred stock is assumed to be converted for the diluted earnings per share calculation, the after-tax difference between the preferred stock dividend and the common stock dividend increases ESSOP compensation expense, and thus lowers income available to common shareowners.

## 19. Segment Information

The following is summarized financial information for General Re's business segments for 1997, 1996 and 1995:

| | 1997 | | | | |
|---|---|---|---|---|---|
| | Property/Casualty | | | | |
| *(in millions)* | North American | International | Global Life/Health | Financial Services | Consolidated |
| Net premiums written | | | | | |
| Property/casualty | $ 3,058 | $ 2,268 | — | — | $ 5,326 |
| Life/health | — | — | $1,219 | — | 1,219 |
| Total net premiums written | $ 3,058 | $ 2,268 | $1,219 | — | $ 6,545 |
| Total revenues | $ 3,967 | $ 2,706 | $1,277 | $ 301 | $ 8,251 |
| Income before taxes, goodwill, minority interest and realized gains/losses | 849 | 315 | 83 | 105 | 1,352 |
| Total assets — December 31 | 20,562 | 12,104 | — | 8,793 | 41,459 |

| | 1996 | | | | |
|---|---|---|---|---|---|
| | Property/Casualty | | | | |
| *(in millions)* | North American | International | Global Life/Health | Financial Services | Consolidated |
| Net premiums written | | | | | |
| Property/casualty | $ 3,081 | $ 2,505 | — | — | $ 5,586 |
| Life/health | — | — | $1,075 | — | 1,075 |
| Total net premiums written | $ 3,081 | $ 2,505 | $1,075 | — | $ 6,661 |
| Total revenues | $ 3,887 | $ 3,004 | $1,134 | $ 271 | $ 8,296 |
| Income before taxes, goodwill, minority interest and realized gains/losses | 741 | 320 | 53 | 100 | 1,214 |
| Total assets — December 31 | 19,669 | 12,454 | — | 8,038 | 40,161 |

| | 1995 | | | | |
|---|---|---|---|---|---|
| | Property/Casualty | | | | |
| *(in millions)* | North American | International | Global Life/Health | Financial Services | Consolidated |
| Net premiums written | | | | | |
| Property/casualty | $ 2,964 | $ 2,429 | — | — | $ 5,393 |
| Life/health | — | — | $ 709 | — | 709 |
| Total net premiums written | $ 2,964 | $ 2,429 | $ 709 | — | $ 6,102 |
| Total revenues | $ 3,641 | $ 2,573 | $ 742 | $ 254 | $ 7,210 |
| Income before taxes, goodwill, minority interest and realized gains/losses | 716 | 200 | 50 | 100 | 1,066 |
| Total assets — December 31 | 17,420 | 11,432 | — | 5,411 | 34,263 |

## 19. Segment Information *(continued)*

The following table is a summary of General Re's business by geographic area. Allocations to geographic area have been made on the basis of subsidiary location.

| *(in millions)* | Geographic Area | | |
|---|---|---|---|
| | North America | International | Consolidated |
| **1997** | | | |
| Revenues | $ 4,739 | $ 3,512 | $ 8,251 |
| Income before taxes, goodwill, minority interest and realized gains/losses | 967 | 385 | 1,352 |
| Identifiable assets at December 31 | 29,947 | 11,512 | 41,459 |
| **1996** | | | |
| Revenues | $ 4,593 | $ 3,703 | $ 8,296 |
| Income before taxes, goodwill, minority interest and realized gains/losses | 834 | 380 | 1,214 |
| Identifiable assets at December 31 | 29,041 | 11,120 | 40,161 |
| **1995** | | | |
| Revenues | $ 4,150 | $ 3,060 | $ 7,210 |
| Income before taxes, goodwill, minority interest and realized gains/losses | 763 | 303 | 1,066 |
| Identifiable assets at December 31 | 23,839 | 10,424 | 34,263 |

## 20. Unaudited Quarterly Financial Data

Summarized quarterly financial results and other data were as follows:

| *(in millions, except per share data)* | First | Second | Third | Fourth |
|---|---|---|---|---|
| **1997** | | | | |
| Net premiums written | | | | |
| Property/casualty | $1,263 | $1,551 | $1,294 | $1,218 |
| Life/health | 298 | 284 | 327 | 310 |
| Net premiums earned | | | | |
| Property/casualty | 1,370 | 1,389 | 1,338 | 1,317 |
| Life/health | 286 | 280 | 327 | 300 |
| Investment income | 318 | 316 | 321 | 333 |
| Expenses | 1,734 | 1,751 | 1,746 | 1,693 |
| Net income | 244 | 233 | 244 | 247 |
| Per common share: | | | | |
| Basic earnings per share | 2.97 | 2.88 | 3.06 | 3.13 |
| Diluted earnings per share | 2.91 | 2.81 | 2.98 | 3.05 |
| Common dividends | .55 | .55 | .55 | .55 |
| **1996** | | | | |
| Net premiums written | | | | |
| Property/casualty | $1,210 | $1,579 | $1,390 | $1,407 |
| Life/health. | 251 | 259 | 275 | 290 |
| Net premiums earned | | | | |
| Property/casualty | 1,294 | 1,424 | 1,378 | 1,522 |
| Life/health | 245 | 254 | 276 | 285 |
| Investment income | 285 | 288 | 302 | 330 |
| Expenses | 1,595 | 1,754 | 1,744 | 1,906 |
| Net income | 237 | 224 | 184 | 249 |
| Per common share: | | | | |
| Basic earnings per share | 2.87 | 2.80 | 2.31 | 3.00 |
| Diluted earnings per share | 2.82 | 2.74 | 2.27 | 2.94 |
| Common dividends | .51 | .51 | .51 | .51 |

## *Report of Independent Accountants*

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

We have audited the consolidated balance sheets of General Re Corporation and subsidiaries as of December 31, 1997 and 1996 and the related consolidated statements of income, common shareowners' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of General Re Corporation and subsidiaries as of December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.

New York, New York
January 30, 1998

## *Audit Committee Chairman's Letter*

The Audit Committee of the Board of Directors is composed of nonmanagement directors. The members of the Audit Committee are Donald J. Kirk (Chairman), Lucy Wilson Benson, Kay Koplovitz, Martin McGuinn and Walter F. Williams. The Committee held three meetings during 1997.

The Audit Committee oversees management's fulfillment of its financial reporting responsibilities and also oversees management's maintenance of an appropriate system of internal controls. In fulfilling its responsibility, the Committee recommended to the Board of Directors, subject to shareowner approval, the selection of General Re's independent accountants. The Audit Committee discussed with the internal auditor and the independent accountants the overall scope and specific plans for their respective audits. The Committee also discussed General Re's consolidared financial statements and adequacy of General Re's internal controls.

The Commitree met with General Re's General Counsel, internal auditor and independenr accountants, without management present, to discuss the results of rheir audirs, their evaluations of internal controls and the overall quality of General Re's financial reporting.

Donald J. Kirk

Donald J. Kirk
*Chairman, Audit Committee*

## Values

We embrace the following values as the essence of General Re's being and our success.

Our clients are our reason for being. All that we do and all that we are — our professionalism, our products, our people — must be focused on providing superior products and service to our clients. We must meet or exceed our clients' requirements and expectations. Clients come first.

Our associates, collectively, are our corporate knowledge, energy and creativity. We recognize and respect the diversity, strength, ingenuity and imagination of every individual.

Our owners provide the capital that is, in turn, both our financial energy and our financial strength. Since most of us are both employees and owners, earning an appropriate return on our capital is doubly important to us. We must always strive to create value for our owners. Doing so is in all of our interests, and it enhances our ability to serve our clients and grow our business.

Our professionalism is our hallmark. We must continually hone the skills needed in all aspects of the risk management process and maintain our superior level of creativity and professionalism.

Our products must be innovative and we must provide unquestionable indemnity.

Our profits are necessary to ensure our existence, pave the way for growth and provide an appropriate return to our owners. Profits are necessary to maintain the vitality of the enterprise and to assure that we are in a position today and tomorrow to serve our clients' needs. Profits are part of the foundation of the Quality of our Promise to clients.

Our responsibility as corporate citizens is to be involved and contribute to the well-being and betterment of our communities.

## Business Plan

Here is our plan for being the premier global reinsurer and provider of related risk management products.

- Achieve an underwriting profit and earn attractive risk-adjusred returns on our capital.
- Attract and retain the very best people.
- Build lasting relationships with our clients by consistently anticipating and responding to our clients' needs with valued products and services.
- Foster an entrepreneurial environment that encourages teamwork.
- Build a culture based on Continuous and Never-Ending Improvement.
- Expand our business without sacrificing our underwriting and risk management disciplines.
- Develop new risk management products and services.
- Maintain the proper balance and linkage between our underwriting, investments and capital.
- Optimize after-tax total return on our investments subject to appropriate constraints.
- Maintain balance sheet discipline and manage our capital effectively.
- Maintain a conservative capital position to provide clients with unquestionable security and to be able to respond to client needs and business opportunities.

(A,D,S)

Lucy Wilson Benson
*President*
Benson and Associates
Director since 1990

(A,E,F,S)

Donald J. Kirk
*Executive in Residence*
Columbia University
Graduate School of Business
*Formerly Chairman*
Financial Accounting
Standards Board
Director since 1987

(C,E,F)

David E. McKinney
*Director*
Watson Foundation
*Formerly Senior Vice President*
IBM Corporation
Director since 1988

(C,F)

Walter M. Cabot
*Senior Advisor and Director*
Standish, Ayer & Wood
Director since 1979

(A,C)

Kay Koplovitz
*Founder, Chairman and*
*Chief Executive Officer*
USA Networks
Director since 1990

(C,E,F)

Stephen A. Ross
*Sterling Professor of*
*Economics and Finance*
Yale University
*Co-Chairman*
Roll & Ross Asset
Management Corporation
Director since 1993

(E,F)

Ronald E. Ferguson
*Chairman and*
*Chief Executive Officer*
General Re Corporation
Director since 1983

(C,D,E,F)

Andrew W. Mathieson
*Executive Vice President*
Richard K. Mellon and Sons
Director since 1966

(A,F,S)

Walter F. Williams
*Retired Chairman and*
*Chief Executive Officer*
Bethlehem Steel Corporation
Director since 1989

(C,D,E,S)

William C. Ferguson
*Retired Chairman and*
*Chief Executive Officer*
NYNEX Corporation
Director since 1987

(A,D,S)

Martin G. McGuinn
*Vice Chairman*
Mellon Bank Corporation
Director since 1996

*(A) Audit Committee*
*(C) Compensation and*
*Personnel Committee*
*(D) Committee on Directors*
*(E) Executive Committee*
*(F) Finance Committee*
*(S) Shareholder Relations and*
*Public Affairs Committee*

Joseph P. Brandon Dr. Peter Lütke-Bornefeld Franklin Montross, IV

Tom N. Kellogg Ronald E. Ferguson James E. Gustafson Hans-Peter Gerhardt

Ronald E. Ferguson
*Chairman and*
*Chief Executive Officer*
Age 56; with Group since 1969

James E. Gustafson
*President and*
*Chief Operating Officer*
Age 51; with Group since 1969

Joseph P. Brandon
*Senior Vice President*
*and Chief Financial Officer*
Age 39; with Group since 1989

Hans-Peter Gerhardt
*Senior Vice President*
Age 43; with Group since 1994;
with Cologne Re since 1988

Tom N. Kellogg
*Executive Vice President*
Age 61; with Group since 1968

Dr. Peter Lütke-Bornefeld
*Executive Vice President*
Age 51; with Group since 1994;
with Cologne Re since 1979

Franklin Montross, IV
*Senior Vice President*
Age 42; with Group since 1978

## General Reinsurance Corporation

General Reinsurance Corporation is the largest professional property/casualty reinsurer domiciled in the United States. General Reinsurance has been an industry leader in reinsurance, risk assessment and risk management since 1921. In addition to writing all lines of property/casualty reinsurance directly from primary insurers, General Reinsurance also provides, directly or through affiliates, actuarial, claims, underwriting, financial and investment management services to clients.

With 1,739 associates operating from 19 cities in the United States and Canada, and its affiliates around the world, General Reinsurance is able to work closely with clients, responding quickly to their needs and to changing market conditions. While each associate brings individual expertise, he or she also brings to each client the company's unparalleled body of collective knowledge and experience. General Reinsurance is rated A++ (Superior) by A.M. Best. Moody's Financial Strength Rating for General Reinsurance is Aaa and the Standard & Poor's Claims-Paying Ability Rating for the company is AAA.

## The Cologne Re

The Cologne Re, the oldest reinsurance company in the world, has been an industry leader in assessing, underwriting and managing risk since 1846. Cologne Re writes property/casualty, life/health and financial reinsurance. With U.S. GAAP net premium volume of $3.2 billion in 1997, Cologne Re is among the top five reinsurance companies in the world.

Together, General Re and Cologne Re rank as the third largest reinsurer in the world in terms of premium volume, total assets and number of associates. In addition to traditional reinsurance products and services, Cologne Re also provides consulting services, offers training seminars and publishes a number of newsletters and journals for its clients. With 37 offices in 27 countries and 1,123 associates around the world, Cologne Re is able to work very closely with its clients, providing tailored solutions to meet their needs. The Standard & Poor's Claims-Paying Ability Rating for Cologne Re is AAA.

## General Star

The General Star companies underwrite excess, surplus and specialty property/casualty insurance on an admitted and non-admitted basis through appointed wholesale brokers. In 1997, General Star's combined ratio was 95.8 percent, marking the 13th consecutive year in which General Star produced an underwriting profit. Despite a continuing competitive market, General Star increased its net premiums written in 1997 by 5.2 percent to $270 million without compromising its underwriting standards. General Star is rated A++ (Superior) by A.M. Best and has a AAA Claims-Paying Ability Rating from Standard & Poor's. During 1997, General Star created a new London-based company to market non-standard property and casualty insurance business through brokers and agents. Authorization from HM Treasury's Insurance Directorate to begin writing business was granted in January 1998.

## Herbert Clough

Herbert Clough, Inc. is the intermediary for the placement of reinsurance on behalf of General Re clients, ensuring continuity of coverage. Clough also coordinates and places the retrocessional programs for General Reinsurance and its subsidiaries. Clough's services include accessing the worldwide reinsurance and risk transfer markets, preparing catastrophic risk analyses, evaluating markets for clients, and continuous monitoring of regularory and accounting developments affecting the industry.

## Genesis

The Genesis companies specialize in providing insurance and reinsurance solutions for qualified self-insurers and other alternative risk market clients. Genesis' business is written by affiliated insurers and produced by retail and specialty brokers. Genesis targets clients with well defined loss prevention and risk management programs. In 1997, net premiums written declined by roughly two percent to $126 million, reflecting the continuation of vigorous competition for alternative risk transfer business. Additionally, the extended softness of the traditional commercial insurance market has significantly reduced the rate of growth in the number of accounts seeking alternative solutions.

Genesis conducts its operations primarily through regional offices in Atlanta, Georgia; Beachwood, Ohio; Chicago, Illinois; White Plains, New York; and San Francisco, California. Genesis is rated A++ (Superior) by A.M. Best and has a AAA Claims-Paying Ability Rating from Standard & Poor's.

## Ardent Risk Services

Ardent Risk Services, Inc. was formed in October 1997 to provide business development services to clients. Ardent assists its clients in developing innovative business strategies, products and programs designed to create profitable premium growth. Ardent also structures and places reinsurance on behalf of its clients. In addition, Ardent places attractive portfolios of insurance premium with various insurance markets, including clients of General Reinsurance Corporation.

## General Re Financial Products

General Re Financial Products Corporation (GRFP) is a global derivative products dealer that specializes in managing and structuring financial risks, and offering clients interest rate, currency and equity swaps and options, as well as structured finance and structured credit products. GRFP's clients are principally financial institutions, insurance companies, sovereigns, and major corporations who use derivative products as part of their asset/liability risk management strategies.

GRFP was founded in 1990 to provide the Group and its clients with the financial risk management capabilities and capital market expertise to assess and manage risk on a more integrated basis. GRFP conducts its business through its offices and/or affiliates in New York, London, Tokyo, Toronto and Hong Kong.

## General Re-New England Asset Management

General Re-New England Asset Management, Inc. (GR-NEAM) is a registered investment advisor that specializes in offering investment management and advisement services and integrated enterprise risk and capital management analytics to the insurance and health care industries. GR-NEAM, in combination with General Reinsurance and its affiliates, is uniquely positioned to provide customized, integrated asset, liability and capital management solutions to its clients. GR-NEAM's goal is to be the premier provider of investment management services to the insurance and health care industries.

## United States Aviation Underwriters

United States Aviation Underwriters, Inc. (USAU) manages the United States Aircraft Insurance Group (USAIG), a group of independent insurance companies that collectively function as a global insurance market for all types of aviation and aerospace accounts. USAU is responsible for selecting business, specifying rates, binding coverages, issuing policies, arranging reinsurance, collecting premiums and settling claims on USAIG's behalf through a home office and 19 branch offices in the United States and Canada.

### Corporate Headquarters

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FAX (203) 328-6423
website: http://www.genre.com

### Corporate Secretary

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### Investor Relations Contacts

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Director of Investor Relations
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(203) 328-6448
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dnelson@genre.com

### Securities and Exchange Commission Filings Available

The Annual Report on Form 10-K and other Securities and Exchange Commission filings are available upon request. Please contact:

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695 East Main Street
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(203) 328-6323
FAX (203) 328-6474
dtracy@genre.com

### Stock Listing

The common stock of General Re Corporation is traded on the New York Stock Exchange under the symbol GRN.

### Stockholder Account Assistance

If you have questions about dividend payments, account consolidation, duplicate mailings, requirements for transfer of stock, registration changes or lost stock certificates, or if you change your address, please contact:

American Stock Transfer
& Trust Company
40 Wall Street
New York, NY 10005

In New York, call
1-718-921-8200
From all other areas, call
1-800-937-5449

### Annual Meeting of Stockholders

Stockholders are invited to attend the Corporation's Annual Meeting, which will be held at 9:00 a.m. on Friday, May 22, 1998 at its Corporate Headquarters.

Notice of the meeting and proxy statements will be mailed to stock-holders in advance of the meeting. There were 4,080 stockholders of record of General Re common stock as of December 31, 1997.

### Dividend Payments

The declaration of dividends and establishment of record and payment dates are subject to the discretion of the Board of Directors. Based on the current schedule, the payment dates are normally March 31, June 30, September 30 and December 31. Dividends have been paid every year since 1934 and the dividend payment has increased every year since 1976.

### Dividend Reinvestment Plan

The Dividend Reinvestment Plan, which is available to stockholders of record, provides a convenient and economical way to increase your holdings of General Re common stock. Under this plan, stockholders may have their quarterly cash dividends automatically invested in additional General Re stock.

Stockholders are also able to purchase General Re stock by direct payment to American Stock Transfer & Trust Company through voluntary cash payments of $10 to $10,000 per quarter. General Re pays all service charges and commissions on stock purchased under this plan.

For additional information, contact American Stock Transfer & Trust Company, Dividend Reinvestment Service.

In New York, call
1-718-921-8200
From all other areas, call
1-800-937-5449

### Glossary of Reinsurance Terms

For a copy of General Re's Glossary of Reinsurance Terms, please contact:

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### General Star Management Company

### General Star Indemnity Company

### General Star National Insurance Company

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*Chairman and President*

SENIOR VICE PRESIDENTS
Samuel C. Anderson
Patricia H. Roberts

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Atlanta, Chicago, Dallas,
Los Angeles and New York

### General Star International Indemnity Limited

Christopher H. S. Burbidge
*Managing Director*

50 Mark Lane
London EC3R 7QH, England

### Genesis Underwriting Management Company

### Genesis Indemnity Insurance Company

### Genesis Insurance Company

Harry L. Richter, Jr.
*Chairman*

G. Roger Greiner
*President*

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*Chairman*

James E. Gustafson
*President and*
*Chief Executive Officer*

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James P. Hamilton
Steven P. Raye

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Michael L. Sweeney

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San Francisco, Seattle, Toledo,
Toronto, Vancouver and Wichita

### General Re Financial Products Corporation

Joseph P. Brandon
*Chairman*

Anthony N. Iliya
*President and*
*Chief Executive Officer*

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Benjamin C. Iben
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*Chairman*

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*Chairman, President and*
*Chief Executive Officer*

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Dennis R. Richey
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### General Re Europe Limited

Richard H. Hinchcliff
*President and Managing Director*

Thomas J. McCarthy, Jr.
*Executive Vice President*

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### Ardent Risk Services, Inc.

Andrew P. DiLoreto
*President and*
*Chief Executive Officer*

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## General Re Corporation

Ronald E. Ferguson
*Chairman and*
*Chief Executive Officer*

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*President and*
*Chief Operating Officer*

Tom N. Kellogg
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*Senior Vice President and*
*Chief Financial Officer*

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*President and*
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*General Counsel and Secretary*

Elizabeth A. Monrad
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*and Chief Financial Officer*

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## General & Cologne Reinsurance Australasia Limited

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*General Manager*

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*Vice President and*
*Chief Representative*

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## Herbert Clough, Inc.

Dallas W. Luby
*Chairman, President and*
*Chief Executive Officer*

Lawrence C. Magnant, Jr.
*Executive Vice President*

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*"I have but one lamp by which my feet are guided,*
*and that is the lamp of experience.*
*I know no way of judging of the future*
*but by the past."*

Patrick Henry, 1775
Call to Arms, Virginia Convention

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