General Re Corporation

1999 Financial Statements

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholder of
General Re Corporation:

We have audited the accompanying consolidated balance sheet of General Re Corporation and subsidiaries as of December 31, 1999, and the related consolidated statements of income, changes in stockholder equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of General Re Corporation for the years ended December 31, 1998 and 1997 were audited by other auditors whose report, dated March 5, 1999, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of General Re Corporation and subsidiaries as of December 31, 1999, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

Deloitte + Touche LLP

February 2, 2000

GENERAL RE CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 1999, 1998 and 1997
(in millions)

	1999	1998	1997
Premiums and other revenues			
Net premiums written			
Property/casualty	$5,307	$4,779	$5,326
Life/health	1,736	1,304	1,219
Total net premiums written	$7,043	$6,083	$6,545
Net premiums earned			
Property/casualty	$5,179	$4,803	$5,414
Life/health	1,726	1,292	1,193
Total net premiums earned	6,905	6,095	6,607
Investment income	1,347	1,309	1,288
Other revenues	309	368	352
Net realized gains on investments	218	2,564	4
Total revenues	8,779	10,336	8,251
Expenses			
Claims and claim expenses	4,587	3,345	3,788
Life/health benefits	1,435	1,263	883
Acquisition costs	1,540	1,374	1,414
Other operating costs and expenses	745	854	810
Goodwill amortization	33	32	29
Total expenses	8,340	6,868	6,924
Income before income taxes and minority interest	439	3,468	1,327
Income tax expense (benefit):			
Current	207	1,173	254
Deferred	(115)	(38)	48
Income tax expense	92	1,135	302
Income before minority interest	347	2,333	1,025
Minority interest	24	16	57
Net income	$323	$2,317	$968

See accompanying notes to these consolidated financial statements.

GENERAL RE CORPORATION
CONSOLIDATED BALANCE SHEETS
December 31, 1999 and 1998
(in millions, except share amounts)

ASSETS	1999	1998
Investments:		
Fixed maturities, available-for-sale (cost: $17,760 in 1999; $16,377 in 1998)	$17,864	$17,561
Preferred equities, at fair value (cost: $713 in 1999; $757 in 1998)	696	796
Common equities, at fair value (cost: $796 in 1999; $873 in 1998)	1,059	1,175
Short-term investments	525	-
Other invested assets	1,075	903
Total insurance investments	21,219	20,435
Cash and cash equivalents	1,163	4,742
Accrued investment income	353	353
Accounts receivable	2,783	2,334
Funds held by reinsured companies	512	473
Reinsurance recoverable	2,877	2,496
Deferred acquisition costs	565	487
Goodwill	1,115	1,010
Income taxes	186	-
Other assets	1,250	1,126
Assets of finance and financial products businesses	10,742	11,242
Total assets	$42,765	$44,698
LIABILITIES		
Claims and claim expenses	$16,621	$16,024
Policy benefits for life/health contracts	1,641	1,251
Unearned premiums	2,052	1,872
Other reinsurance balances	2,648	2,747
Notes payable	282	284
Income taxes	-	1,256
Other liabilities	752	940
Minority interest	937	1,089
Liabilities of finance and financial products businesses	10,122	10,644
Total liabilities	35,055	36,107
COMMON STOCKHOLDER EQUITY		
Common stock (1,000 shares issued in 1999 and 1998, par value $0.01)	-	-
Capital in excess of par value	1	1
Accumulated other comprehensive income:		
Unrealized appreciation of investments, net of taxes	265	968
Cumulative translation adjustments, net of taxes	(111)	(110)
Total accumulated other comprehensive income	154	858
Retained earnings	7,555	7,732
Total common stockholder equity	7,710	8,591
Total liabilities, and common stockholder equity	$42,765	$44,698

See accompanying notes to these consolidated financial statements.

GENERAL RE CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER EQUITY
Years ended December 31, 1999, 1998 and 1997
(in millions)

	Common Stock	Capital in Excess of Par Value	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Comprehensive Income
Balance December 31, 1996	$ 51	$ 1,041	$ (2,046)	$ 6,708	$ 1,572	
Common stock issued under stock option and other incentive arrangements	-	47	1	-	-	
Other	-	21	-	-	-	
Dividends paid on common stock	-	-	-	(174)	-	
Dividends paid on preferred stock, net of income taxes	-	-	-	(10)	-	
Cost of shares acquired during year	-	-	(864)	-	-	
Net income	-	-	-	968	-	$ 968
Unrealized appreciation of investments net of tax expense of $483	-	-	-	-	835	835
Currency translation adjustments net of tax benefit of $87	-	-	-	-	11	11
Other comprehensive income						846
Balance December 31, 1997	$ 51	$ 1,109	$ (2,909)	$ 7,492	$ 2,418	$ 1,814
Common stock issued in connection with acquisitions of businesses	-	48	-	-	-	
Common stock issued under stock option and other incentive arrangements	-	44	108	-	-	
Other	-	72	-	-	-	
Recapitalization	(51)	(1,272)	3,255	(1,932)	-	
Dividends paid on common stock	-	-	-	(135)	-	
Dividends paid on preferred stock, net of income taxes	-	-	-	(10)	-	
Cost of shares acquired during year	-	-	(454)	-	-	
Net income	-	-	-	2,317	-	$ 2,317
Unrealized appreciation of investments net of tax expense of $130	-	-	-	-	178	178
Reclassification adjustment for appreciation included in net earnings, net of tax benefit of $894	-	-	-	-	(1,670)	(1,670)
Currency translation adjustments net of tax expense of $50	-	-	-	-	(68)	(68)
Other comprehensive income						(1,560)
Balance December 31, 1998	$ -	$ 1	$ -	$ 7,732	$ 858	$ 757
Dividends paid on common stock	-	-	-	(500)	-	
Net income	-	-	-	323	-	$ 323
Unrealized depreciation of investments net of tax benefit of $338	-	-	-	-	(562)	(562)
Reclassification adjustment for appreciation included in net earnings, net of tax benefit of $77	-	-	-	-	(141)	(141)
Currency translation adjustments net of tax benefit of $30	-	-	-	-	(1)	(1)
Other comprehensive income						(704)
Balance December 31, 1999	$ -	$ 1	$ -	$ 7,555	$ 154	$ (381)

See accompanying notes to these consolidated financial statements.

GENERAL RE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 1999, 1998 and 1997
(in millions)

	1999	1998	1997
Cash flows from operating activities:			
Net income	$323	$2,317	$968
Adjustments to reconcile net income to cash flows from operating activities:			
Change in claim and claim expense liabilities	597	227	(180)
Increase in policy benefits for life/health contracts	390	344	156
Change in reinsurance recoverable	(381)	210	229
Change in unearned premiums	180	(2)	(83)
Amortization of acquisition costs	1,540	1,374	1,414
Acquisition costs deferred	(1,618)	(1,384)	(1,433)
Trading account activities:			
Change in trading account securities	(425)	(90)	1,515
Securities purchased under agreements to resell	519	11	(903)
Securities sold under agreements to repurchase	(301)	(434)	(955)
Change in other trading balances	295	1,230	301
Other changes in assets and liabilities	(934)	780	443
Net realized gains on investments	(218)	(2,564)	(4)
Net cash from (used in) operating activities	(33)	2,019	1,468
Cash flows from investing activities:			
Fixed maturities: available-for-sale			
Purchases	(5,375)	(6,219)	(6,664)
Calls and maturities	1,152	886	564
Sales	2,402	5,113	5,751
Equity securities			
Purchases	(674)	(906)	(1,119)
Sales	783	4,724	652
Net (purchases) sales of short-term investments	(1,274)	-	-
Net (purchases) of other invested assets	(176)	(127)	(151)
Cash used for acquisitions	-	(130)	-
Net cash from (used in) investing activities	(3,162)	3,341	(967)
Cash flows from financing activities:			
Issuance of notes payable	668	1,163	-
Repayment of notes payable	(22)	(1,108)	-
Commercial paper borrowing (repayment), net	(311)	(379)	549
Decrease in contract deposits	(442)	(536)	42
Cash dividends paid to stockholders	(501)	(145)	(185)
Acquisition of treasury stock	-	(463)	(867)
Other	(222)	5	(18)
Net cash used in financing activities	(830)	(1,463)	(479)
Change in cash and cash equivalents	(4,025)	3,897	22
Cash and cash equivalents, beginning of period	5,550	1,653	1,631
Cash and cash equivalents, end of period	$1,525	$5,550	$1,653

See accompanying notes to these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations

General Re Corporation and its subsidiaries ("General Re") have global reinsurance and financial service operations in 71 cities in 28 countries on six continents and provide reinsurance coverage in approximately 126 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 is among the four largest reinsurers in the world based on premiums and capital.

General Re's North American property/casualty operations produced operating revenues (revenues excluding realized gains) of $3,700 million, or 43%, of consolidated operating revenues in 1999. The principal business of these subsidiaries is treaty and facultative reinsurance underwritten on a direct basis throughout North America. General Re writes predominately excess reinsurance across various lines of business.

General Re's international property/casualty operations produced operating revenues of $2,681 million, or 32%, of consolidated operating revenues in 1999. The international property/casualty operations write proportional and excess reinsurance for both property and casualty risks throughout the world. On December 28, 1994, General Re acquired a controlling interest in Kölnische Rückversicherungs-Gesellschaft AG ("Cologne Re"), which accounts for approximately 80% of General Re's international property/casualty premiums written. The transaction is described in more detail in Note 3.

General Re's global life/health reinsurance operations produced operating revenues of $1,823 million, or 21%, of consolidated operating revenues in 1999. Approximately 58% of life/health premiums were written in North America and the remaining 42% were written throughout the rest of the world. Life reinsurance premiums represent 52% of the segment's net premiums, and health reinsurance represents the remaining 48%.

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 interest rate, currency, credit and equity swaps and options, and structured finance products. The financial service operations produced $357 million, or 4%, of General Re's 1999 operating revenues. In February 2000, General Re announced that it is exploring strategic alternatives for GRFP.

Merger

On June 19, 1998, General Re and Berkshire Hathaway Inc. ("Berkshire") executed a Merger Agreement and Plan of Merger. In September 1998, shareholders of the two companies approved the merger and during the fourth quarter all regulatory approvals and tax rulings were received. The transaction was completed on December 21, 1998. General Re shareholders received merger consideration consisting of approximately 272,200 Class A equivalent shares.

Prior to the closing, General Re's cumulative convertible preferred stock held in its Employee Savings and Stock Ownership Plan ("ESSOP") was converted into General Re common stock. The conversion of the preferred stock increased paid-in capital by $52 million based on the historical value of the preferred stock of $85.50 per share.

As a result of the merger, General Re's capital structure was changed whereby General Re Corporation has authorized capital of 1,000 shares outstanding with a par value $0.01 per share. All of General Re's former common stock outstanding and treasury stock was retired. For the post-merger period, General Re's capital accounts have been adjusted to reflect the new capitalization.

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 and include the accounts of General Re Corporation and its subsidiaries. These financial statements are based on General Re's historical reporting and exclude the effects of purchase accounting adjustments arising from the merger with Berkshire. International property/casualty and global life/health subsidiaries report their results on a quarter lag. Notwithstanding, General Re provides for losses from major catastrophic and other events during the period in which the related loss occurred, when material. All significant intercompany transactions have been eliminated. Certain reclassifications have been made to the 1998 and 1997 financial statements to conform with the 1999 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*. Such securities are carried at fair value, with unrealized gains and losses, net of deferred income taxes, excluded from income and reported in other comprehensive income. 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 other comprehensive income. Gains and losses on derivatives not qualifying for hedge accounting treatment are included in realized gains and losses 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" in the statement of income. Limited partnership investments are carried at estimated fair value, with related income recognized primarily under the equity method. Real estate is carried 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 established 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 estimated 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, which principally consist of commission 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 individual case estimates received from ceding companies and an estimate of incurred but not reported ("IBNR") claims and claim expenses. IBNR claims are actuarially estimated based on past experience and are reduced by anticipated salvage and subrogation recoverable. The methods for 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 consistent with General Re's method for establishing the related liability.

Life/Health Operations

Premiums Earned: Premiums for life contracts are recognized in income when due. Premiums for health contracts are earned over the contract 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 net of retrocessions.

Acquisition Costs: Acquisition costs, which primarily consist of commissions, are deferred and amortized with interest over the premium-paying period of traditional life and health insurance policies. Deferred acquisition costs are reviewed to determine that they do not exceed recoverable amounts, after considering investment income.

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 rates anticipated at the later of either the acquisition of Cologne Re (Note 3) or at the date of contract issuance. These assumptions include a margin for adverse deviation and vary with the characteristics of the reinsurance contract's date of issuance, policy duration and country of risk. The interest rate assumptions used vary by country and range principally from 3.0% to 7.0%. 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 life/health 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% through 16.0%. The interest rates selected for the valuation were determined based on the applicable interest rates in the country of risk and the risk inherent in the realization of the estimated future profits. PVP of $104 million and $120 million at December 31, 1999 and 1998, 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% 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 in which funds are held.

Goodwill: General Re amortizes goodwill from acquired businesses 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 (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 stockholder 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 included in other comprehensive income. 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.

Financial Services: GRFP's derivative contracts are carried at estimated fair value based on financial models which 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.

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. The most important estimates relate to (1) property/casualty claims and claim expenses, (2) policy benefits for life/health contracts, (3) estimated premiums when General Re has not received ceding company reports, and (4) the valuation of non-exchange 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 financial statements.

2. ACCOUNTING DEVELOPMENTS

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities.* This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts. It requires that all derivatives be recognized as either assets or liabilities in the balance sheet and measured at fair value. If certain conditions are satisfied, a derivative may be designated as a hedge of an exposure to changes in the value of an asset or liability, variable cash flows for forecasted transactions, or certain foreign currency exposures. For derivatives designated as hedging instruments, net income will be affected by the extent to which the derivative is not effective as a hedge of the underlying instrument. For derivatives not designated as hedges, the gain or loss would be recognized in income in the period of change. Pursuant to Statement No. 137, the effective date of Statement No. 133 was delayed for one year to fiscal years beginning after June 15, 2000. The statement is not expected to have a material effect on General Re's financial position or results of operations.

In 1998, the American Institute of Certified Public Accountants issued Statement of Position No. 98-7, *Deposit Accounting: Accounting for Insurance and Reinsurance Contracts That Do Not Transfer Insurance Risk.* The Statement provides guidance for deposit accounting that varies depending on whether the related contracts have indeterminate risk or transfer significant timing risk, underwriting risk or neither form of risk. The statement is effective for fiscal years beginning after June 15, 1999 and is not expected to have a material effect on General Re's financial position or results of operations.

3. ACQUISITIONS AND REINSURANCE VENTURES

DP Mann Holdings Limited

On December 15, 1998, General Re acquired DP Mann Holdings Limited, which owns an independent underwriting managing agency, DP Mann Limited. DP Mann Limited is the managing agent of Syndicate 435 at Lloyd's of London. DP Mann Holdings Limited also owns DP Mann Corporate Name Limited, which is a dedicated capital provider to Syndicate 435. The Corporate Name vehicle underwrote 31.6% of the Syndicate's 1999 capacity and underwrites 39.7% of its 2000 capacity. The transaction was accounted for as a purchase.

Cologne Re

On December 28, 1994, General Re and Colonia Konzern AG formed a new company that acquired 75% of the ordinary shares and approximately 30% of the bearer shares of Cologne Re, which collectively represented a 66.3% 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% 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% 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% annually to GR-CK and are due on December 30, 2004. The intercompany notes have been eliminated in consolidation.

The Class A shares have 49.9% 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. The Class B shares have 50.1% of the votes of GR-CK and are entitled to the earnings of GR-CK in excess of the Class A dividend. Dividends related to the 1998 calendar result, which were paid in 1999 with respect to the Class A and B shares, were $22 million and $20 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 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 was recorded as a purchase. General Re has consolidated GR-CK and Cologne Re in its financial statements and recorded as minority interests the ownership of CKAG in GR-CK and of the other stockholders in Cologne Re.

In addition to its ownership in Cologne Re through GR-CK, General Re has purchased for its own account an additional 28.8% of the ordinary and preference shares of Cologne Re through December 31, 1999 for aggregate consideration of $534 million. General Re, directly and indirectly through the joint venture arrangement, holds an 87.7% economic interest in Cologne Re. 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.

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, 1999 and 1998 was $4,697 million and $5,627 million, respectively. Combined statutory net income of these operations for 1999, 1998 and 1997 was $243 million, $2,345 million and $968 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 an insurer's domiciliary state. General Re discounts certain workers' compensation liabilities at an annual rate of 4.5%. These discounted liabilities were $1,326 million and $1,428 million at December 31, 1999 and 1998, respectively. Included in the discount recognized for statutory purposes at December 31, 1999 and 1998 was $645 million and $656 million, respectively, 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 require 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.

Insurance holding company laws require prior regulatory approval for extraordinary distributions made to insurance company stockholders. General Reinsurance Corporation ("GRC") is subject to the insurance laws of Delaware, its state of domicile. Under Delaware law, dividends in a rolling twelve-month period exceeding the greater of 10% of an insurance company's surplus or 100% of net income, excluding realized gains, for the previous calendar year are generally considered extraordinary and require prior regulatory approval. During 1999, GRC paid $920 million in dividends to General Re Corporation. For 2000, GRC's ordinary dividend capacity will be $464 million.

5. INVESTMENTS

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

(in millions) December 31, 1999	Cost[1]	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
INSURANCE INVESTMENTS				
Short-term investments	$525	—	—	$525
Fixed maturities - available-for-sale				
U.S. Government	1,311	$19	$27	1,303
German federal and state governments	400	29	5	424
Tax-exempt	6,734	193	60	6,867
Corporate	5,506	143	160	5,489
Mortgage-backed and asset-backed	2,395	5	75	2,325
Other foreign government	1,414	58	16	1,456
Fixed maturities - available-for-sale	17,760	447	343	17,864
Preferred equities	713	10	27	696
Common equities	796	307	44	1,059
Other invested assets	964	120	9	1,075
Total insurance investments	$20,758	$884	$423	$21,219
Total financial services investments	$3,174	$47	$13	$3,208
December 31, 1998				
INSURANCE INVESTMENTS				
Short-term investments	—	—	—	—
Fixed maturities - available-for-sale				
U.S. Government	$1,176	$69	—	$1,245
German federal and state governments	515	55	—	570
Tax-exempt	7,068	662	$1	7,729
Corporate	4,379	266	42	4,603
Mortgage-backed and asset-backed	1,089	50	10	1,129
Other foreign government	2,150	142	7	2,285
Fixed maturities - available-for-sale	16,377	1,244	60	17,561
Preferred equities	757	43	4	796
Common equities	873	348	46	1,175
Other invested assets	822	104	23	903
Total insurance investments	$18,829	$1,739	$133	$20,435
Total financial services invested assets	$3,163	$10	$4	$3,169

[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.

(in millions)	December 31, 1999 Amortized Cost	Fair Value
Due in one year or less	$1,048	$1,058
Due after one year through five years	5,072	5,174
Due after five years through ten years	4,518	4,493
Due after ten years	5,720	5,808
Mortgage and asset-backed	2,399	2,329
Total	$ 18,757	$ 18,862

The tables that follow present the components of realized gains (losses) on available-for-sale securities and total investment income:

(in millions)	1999	1998	1997
REALIZED GAINS (LOSSES)			
Fixed maturities:			
Gross realized gains	$ 78	$ 78	$ 95
Gross realized losses	(39)	(15)	(55)
Total fixed maturities	39	63	40
Equity securities:			
Gross realized gains	216	2,734	64
Gross realized losses	(37)	(233)	(100)
Total equity securities	179	2,501	(36)
Total realized gains	$218	$2,564	$ 4
INVESTMENT INCOME			
Fixed maturities	$1,054	$1,040	$1,042
Equity securities	76	158	183
Short-term investments	194	76	53
Other	63	91	68
Investment income before expenses	1,387	1,365	1,346
Investment expenses	(40)	(56)	(58)
Net investment income	$1,347	$1,309	$1,288

Securities with a fair value of approximately $665 million at December 31, 1999 were on deposit with various state or governmental departments to comply with insurance laws.

6. INSURANCE LIABILITIES

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

(in millions)	1999	1998	1997
Gross claim and claim expense liability, January 1	$16,024	$15,797	$15,977
Reinsurance recoverables on unpaid claims and claim expenses	(2,122)	(2,356)	(2,572)
Net liability at January 1	13,902	13,441	13,405
Incurred claims and claim expenses related to:			
Current year	4,594	3,850	3,956
Prior years	(7)	(505)	(168)
Total incurred claims and claim expenses	4,587	3,345	3,788
Claim and claim expense payments related to:			
Current year	1,218	643	773
Prior years	2,825	2,340	2,644
Total payments	4,043	2,983	3,417
Effect of foreign exchange	(234)	99	(335)
Net unpaid claims and claim expenses from acquisitions	32	-	-
Net liability at December 31	14,244	13,902	13,441
Reinsurance recoverables on unpaid claims and claim expenses	2,377	2,122	2,356
Gross claim and claim expense liability, December 31	$16,621	$16,024	$15,797

Consolidated net claims and claim expenses for 1998 and prior accident years experienced favorable development of $7 million in 1999. Net claims and claim expenses for 1998 and prior accident years for the North American operations experienced favorable development of $25 million in 1999. Net claims and claim expenses for 1998 and prior accident years for the international operations, adjusted for the effects of foreign exchange, increased by $18 million in 1999. General Re's international operations generally experience some development of premium and losses due to late reported activity from European ceding companies. As a result, the table above presents the additional reported losses, but does not present the related additional premium.

Consolidated net claims and claim expenses for 1997 and prior accident years experienced favorable development of $505 million in 1998 due to $412 million of favorable development in the North American operations and $93 million in the international operations. The favorable development resulted from lower reported losses than anticipated in workers' compensation and other casualty lines of business.

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. 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.

Amounts included in the Company's balance sheets for environmental and latent injury claims and claim expenses at December 31 were as follows:

(in millions)	1999	1998
Gross environmental and latent injury liabilities	$1,608	$1,790
Reinsurance recoverable on related liabilities	386	392

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.

Life/Health Benefits: During 1998, the global life/health operations experienced a $275 million loss on United States workers' compensation business written through an underwriting facility in the London market on behalf of Cologne Re's United States life reinsurance subsidiary. In February 1999, Cologne Re suspended business with the London underwriting facility. An actuarial review of the current provision for this loss was conducted late in 1999. After considering settlement activity and other available information, no change to the reserve was warranted for 1999.

7. INCOME TAXES

General Re's consolidated income tax expense includes the following federal, foreign, state and local income taxes (benefit):

(in millions)	1999			1998			1997		
	United States	Foreign	Total	United States	Foreign	Total	United States	Foreign	Total
Current	$ 73	$ 134	$207	$1,107	$ 66	$1,173	$112	$142	$254
Deferred	(39)	(76)	(115)	(116)	78	(38)	(22)	70	48
Total	$ 34	$ 58	$ 92	$ 991	$144	$1,135	$ 90	$212	$302

Included in General Re's retained earnings are $272 million of cumulative undistributed income from wholly owned international subsidiaries for which no U.S. income tax provision has been made, as it is considered permanently reinvested. Applicable U.S. income taxes have been recorded for Cologne Re's earnings since it distributes dividends to its shareholders on an annual basis. Income taxes paid were $1,086 million, $301 million and $262 million in 1999, 1998 and 1997, respectively.

GENERAL RE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (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:

	1999	1998	1997
U.S. statutory tax rate	35.0%	35.0%	35.0%
Reduction in taxes resulting from:			
Tax-exempt bond interest	(27.0)	(3.6)	(9.5)
Dividends received deduction	(2.4)	(0.6)	(1.9)
Foreign tax rate differential/credits	10.2	1.8	0.3
Miscellaneous	5.1	0.2	(1.0)
Effective tax rate	20.9%	32.8%	22.9%

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

(in millions)	December 31, 1999	1998
Deferred income tax assets:		
Claim and claim expense liabilities	$41	$52
Unearned premiums	68	66
Accruals not currently deductible	112	116
U.S. temporary differences from foreign operations	223	108
Foreign exchange	97	27
Other	1	22
Total deferred tax assets	542	391
Less valuation allowance	(42)	-
Total deferred tax assets, net of valuation allowance	500	391
Deferred income tax liabilities:		
Unrealized appreciation of investments	183	563
Deferred acquisition costs	50	110
Deferred charges	3	7
Discount on fixed maturity investments	21	44
Other	35	8
Total deferred tax liabilities	292	732
Net deferred income tax asset (liability)	$208	($341)

8. 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:

(in millions)	Property/Casualty Premiums Written	Property/Casualty Premiums Earned	Property/Casualty Claims Expenses	Life/Health Premiums Written	Life/Health Premiums Earned	Life/Health Benefits
1999						
Direct	$ 566	$ 550	$ 421	-	-	-
Assumed	5,552	5,405	5,159	$1,981	$1,971	$1,676
Ceded	(811)	(776)	(993)	(245)	(245)	(241)
Net	$5,307	$5,179	$4,587	$1,736	$1,726	$1,435
1998						
Direct	$ 525	$ 524	$ 493	-	-	-
Assumed	5,001	5,035	3,447	$1,453	$1,442	$1,405
Ceded	(747)	(756)	(595)	(149)	(150)	(142)
Net	$4,779	$4,803	$3,345	$1,304	$1,292	$1,263
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

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.

Certain insurance subsidiaries of Berkshire provided retrocessional coverage for GRC. Approximately $105 million and $85 million of premium and $372 million and $82 million of losses were retroceded to these subsidiaries during 1999 and 1998, respectively. Prepaid reinsurance premiums and reinsurance recoverables on unpaid losses were $6 million and $413 million at December 31, 1999 and $5 million and $82 million at December 31, 1998.

9. NOTES PAYABLE AND COMMERCIAL PAPER

Parent and Reinsurance Operations

Notes payable of General Re Corporation and its reinsurance operations were as follows:

(in millions)	December 31, 1999	December 31, 1998
9.00% Note due in 2009	$150	$150
8.85% Note due in 2005	107	108
7.50% Note due in 2005	25	26
Total notes payable	$282	$284

The 9.00% note was issued in 1989 by General Re Corporation in connection with establishing the ESSOP. The note is non-callable 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% and 7.50% non-callable notes were issued by National Re Corporation during 1995, prior to being acquired by General Re in 1996. 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 the 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)	1999	1998
Outstanding at end of year	-	-
Average outstanding balance during the year	$ 2	$ 71
Average interest rate for the year	4.78%	5.52%

General Re has $3.9 billion in available lines of credit that provide additional financial flexibility and support the commercial paper program. The credit lines consist of a five-year credit facility of $1.0 billion and a 364-day facility for $2.9 billion. The credit agreements with the participating banks require General Re to maintain a minimum consolidated tangible net worth, as defined, of $2.7 billion. To date, General Re has not drawn against its corporate credit facilities.

Financial Services

Notes payable of the financial service operations were as follows:

(in millions)	December 31, 1999	December 31, 1998
Structured finance notes	$1,384	$703
General Re Funding Corporation Senior Accreting Notes 8.375% due in 2037	61	56
Medium-term notes	122	62
Total notes payable	$1,567	$821

The financial service operations issue notes payable 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% senior accreting note issued by GRFC matures on July 30, 2037 but is redeemable semiannually beginning July 30, 2004.

GRFC and its affiliates had $1,384 million of structured finance notes at December 31, 1999 with interest rates ranging from 5.1% to 6.7% for its U.S. dollar obligations, net of related hedges, and 4.6% to 4.8% for its British pound obligations. The structured finance notes have maturities from two to six years. GRFC's debt obligations are guaranteed by General Re Corporation.

General Re Corporation and GRFC established a $1.0 billion European Medium Term Note Program. Notes issued under the program by GRFC are guaranteed by General Re Corporation and are primarily used for match-funded investment transactions. With certain exceptions, the instruments may not be offered, sold, or delivered in the United States or to U.S. persons. The European medium-term notes have initial maturities ranging from one to ten years from the date of issue and generally bear interest at fixed rates ranging from zero coupon to 14.0%. GRFC has entered into swap transactions that convert the associated fixed interest expense into floating rates. The weighted average effective interest rate, including the effects of swap hedges, on the European medium-term notes at December 31, 1999 was 6.1%.

Principal maturities on the outstanding notes payable of the financial service operations at December 31, 1999 were as follows:

	(in millions)
2000	$47
2001	20
2002	260
2003	698
2004	469
Remaining years after 2004	73
Total	$1,567

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 is as follows:

(in millions)	1999	1998
Year-end balance	-	$311
Average interest rate at year end	-	5.16%
Average maturity at year end (in days)	-	56.3
Average outstanding balance during the year	$232	$778
Average interest rate for the year	4.93%	5.46%

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

(in millions)	1999	1998	1997
Interest expense	$164	$203	$84
Interest paid	152	190	86

10. RETIREMENT AND OTHER BENEFIT PLANS

Retirement Plan

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 net periodic benefit expense for both funded and unfunded pension plan benefits worldwide were as follows:

(in millions)	1999	1998
Service cost for benefits earned during the year	$26	$21
Interest cost on projected benefit obligation	28	25
Expected return on plan assets	(16)	(13)
Net amortization, deferral and other	2	5
Pension expense	$40	$38

The weighted-average assumptions as of the measurement date were as follows:

	December 31,			
	North America		International	
	1999	1998	1999	1998
Discount rate	7.75%	6.75%	6.00%	7.00%
Expected return on plan assets	8.75%	8.75%	-	-
Rate of compensation increase	5.75%	5.25%	4.00%	3.50%

Changes in projected benefit obligation and plan assets, and funded status for 1999 and 1998 were as follows:

(in millions)	1999	1998
Change in Projected Benefit Obligation		
Net benefit obligation, beginning of year	$401	$338
Service cost	26	21
Interest cost	28	26
Actuarial (gain)/loss	(23)	24
Other	-	9
Benefits paid	(16)	(17)
Net projected benefit obligation, end of year	$416	$401

(in millions)		
Change in Plan Assets	1999	1998
Fair value of plan assets, beginning of year	$226	$195
Actual return on plan assets	22	40
Employer contribution	6	6
Benefits paid	(16)	(17)
Other	3	2
Fair value of plan assets, end of year	$241	$226

	December 31,	
(in millions)	1999	1998
Funded Status	$(176)	$(175)
Unrecognized net transition asset	(1)	(2)
Unrecognized prior service cost	1	1
Unrecognized net actuarial gain	(43)	(12)
Accrued benefit cost liability	$(219)	$(188)

Substantially all of General Re's employees in the United States become eligible for certain health care and group life insurance benefits upon their retirement. 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 $4 million for post-retirement health care benefits for current retirees at both December 31, 1999 and 1998 and had an accrued liability of $34 million and $32 million for current employees at both December 31, 1999 and 1998, respectively. Initial and ultimate health care cost trends on covered charges were 7.50% and 5.50% at December 31, 1999, and 5.50% and 4.50% at December 31, 1998, respectively.

Employee Savings and Stock Ownership Plan

General Re has a leveraged ESSOP, in which substantially all U.S. employees may participate. This program is a defined contribution plan which allows employees to make regular contributions that the ESSOP matches up to a maximum of 6% of the employee's salary. During 1999 and 1998, General Re recognized ESSOP compensation expense based on the shares-allocated method of approximately $11 million and $5 million, respectively.

11. INCENTIVE PLANS

In 1999, General Re established a Long-Term Incentive Plan for officers and certain employees under which participants are granted units at the inception of a five-year performance cycle. The cash value of those units will ultimately be determined based on General Re's average combined ratio and average rate of growth in float over the five-year performance cycle. In addition, the value of the units will be adjusted for certain notional investment returns elected by the participants. No compensation expense was earned and accrued under the plan in 1999 due to unfavorable underwriting experience; however, since the ultimate payouts will be based on performance over a five-year cycle, there may be expense in future periods for the 1999 units. This plan was established in lieu of General Re's non-qualified stock options program, under which option grants subsequent to June 1998 have been discontinued.

In connection with the Berkshire merger, employees' existing stock options other than those granted in June 1998 vested and became exercisable. General Re employees elected either to exercise their existing options or to convert them into Berkshire options with equivalent economic terms. The June 1998 option awards vest in accordance with the existing five-year vesting schedule.

12. FINANCE AND FINANCIAL PRODUCTS BUSINESSES

Assets and liabilities of General Re's finance and financial products businesses are summarized below:

(in millions)	1999	1998
Assets		
Cash and cash equivalents	$ 362	$ 808
Investment securities, at fair value (cost: $1,746 in 1999; $745 in 1998)	1,747	744
Trading securities, at fair value (cost: $1,429 in 1999; $1,723 in 1998)	1,461	1,730
Trading account assets	5,881	6,234
Securities purchased under agreement to resell	372	891
Other assets	919	835
	$10,742	$11,242
Liabilities		
Securities sold under agreements to repurchase, at contract value	$ 294	$ 595
Securities sold but not yet purchased, at market value	368	1,005
Trading account liabilities	5,930	5,833
Commercial paper	-	311
Notes payable	1,567	821
Other liabilities	1,963	2,079
	$10,122	$10,644

General Re's finance and financial products businesses include GRFP and other businesses that provide investment management, insurance/reinsurance brokerage and management, and real estate management operations. GRFP is engaged as a dealer in various types of derivative instruments, including interest rate, currency and equity swaps and options. These instruments are carried at their current estimates of fair value, which are determined by 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 to be included in income. GRFP's gross trading revenues were $218 million in 1999, $207 million in 1998 and $175 million in 1997.

The following table presents a summary of notional amounts, which represent the principal volume referenced by the counterparties in computing payments to be exchanged. Approximately 53% of the notional volume outstanding for derivative contracts at December 31, 1999 have a term of five years or less and approximately 85% of the contracts have a term of less than ten years.

(in millions)	December 31, 1999	1998
Interest rate and currency swap agreements	$531,645	$514,935
Options written	121,683	88,245
Options purchased	151,001	90,826
Financial futures contracts:		
Commitments to purchase	32,377	26,041
Commitments to sell	11,368	6,872
Forward rate agreements	5,164	24,579
Foreign exchange spot and forward contracts	10,430	14,794

The following tables provide GRFP's carrying amount at fair value for each class of derivative financial contract, as well as the average fair value during the year:

	December 31, 1999		1998	
(in millions)	Asset	Liability	Asset	Liability
Interest rate and foreign currency swaps	$22,593	$22,819	$25,963	$25,444
Interest rate and foreign currency and equity options	5,980	5,714	4,338	4,439
Gross fair value	28,573	28,533	30,301	29,883
Adjustment for counterparty netting	(22,692)	(22,692)	(24,067)	(24,067)
Net fair value	5,881	5,841	6,234	5,816
Security receivables/payables	-	89	-	17
Trading account assets/liabilities	$5,881	$5,930	$6,234	$5,833

	Average 1999		Average 1998	
(in millions)	Asset	Liability	Asset	Liability
Interest rate and foreign currency swaps	$23,213	$23,071	$21,568	$20,690
Interest rate and foreign currency and equity options	4,657	4,687	3,179	3,139
Gross fair value	27,870	27,758	24,747	23,829
Adjustment for counterparty netting	(22,579)	(22,579)	(19,349)	(19,349)
Net fair value	5,291	5,179	5,398	4,480
Security receivables/payables	85	111	240	361
Trading account assets/liabilities	$ 5,376	$ 5,290	$ 5,638	$ 4,841

Risk Management

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. GRFP manages its exposures on a portfolio basis and 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. GRFP has established $15 million as its value at risk (VAR) limit with a 99th percentile confidence interval for potential losses over a weekly horizon. In 1999, the actual losses exceeded the estimated VAR once.

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 fair value adjustment for counterparty credit exposures and future administrative costs on existing contracts was $108 million at December 31, 1999. Counterparty credit limits are established, and 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 which 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.

Assuming non-performance 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, 1999 approximated $4,193 million. The following table presents GRFP's derivatives portfolio by counterparty credit quality and maturity at December 31, 1999. 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.

(in millions)	Gross Exposure						
Credit quality	0 - 5	5 - 10	Over 10	Total	Percentage of Total	Net Fair Value	Net Exposure
AAA	$ 682	$ 715	$1,283	$ 2,680	9%	$ 283	$ 283
AA	6,118	4,370	3,712	14,200	50%	3,102	2,569
A	3,708	3,261	2,049	9,018	32%	1,927	1,012
BBB	639	594	643	1,876	7%	400	238
Below BBB	397	149	253	799	2%	169	91
Total	$11,544	$9,089	$7,940	$28,573	100%	$5,881	$4,193

Liquidity Risk can arise from funding of GRFP's 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 developed strategies to ensure 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.

13. 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 which 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 as of December 31:

	1999		1998	
(in millions)	Statement Value	Fair Value	Statement Value	Fair Value
Financial assets				
Mortgage receivable (included in other assets)	$ 76	$97	$ 79	$111
Loan to ESSOP	137	115	140	183
Financial liabilities				
Reinsurance operations notes payable	282	297	284	329
Financial services notes payable	1,567	1,567	821	821

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 stockholders' 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.

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.

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, equity market prices 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.

14. LEASES

General Re leases office space and computer equipment under non-cancelable leases expiring in various years through 2010. Several of the leases have renewal options with various terms and rental rate adjustments. Rental expense was $53 million in 1999, $53 million in 1998 and $52 million in 1997. At December 31, 1999, the future minimum annual rental commitments under non-cancelable leases were as follows:

	(in millions)
2000	$ 43
2001	39
2002	34
2003	31
2004	28
Subsequent to 2004	111
Total	$286

Future minimum rental payments above have not been reduced by $42 million of anticipated sublease rental income on non-cancelable leases.

15. LEGAL PROCEEDINGS

General Re, through its subsidiaries, has been named occasionally 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.

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