GeneralCologne Re

Your *Knowledge* Partner

Annual Report 2000

Top Row
Cheng Siong Gan — Hong Kong
Leonardo Berinstein — Buenos Aires
Jonathan Hewitt — Hong Kong
Rainer Isringhaus — Cologne
Joseph I. Meli — Stamford
Joan LaFrance — Stamford

2nd Row
J. Frederick Coon — Stamford
Suzanne Lodge — Sydney
Ralph Sabbagh — Stamford
Michael Lay — London
Tom Goodwin — Stamford
Steven N. Franklin — Hartford
Jean Soberanis — Stamford

3rd Row
Ernest Leffelaar — Cologne
Robert A. Costa, J. Daniel Hickey and
Christopher J. Migel — Stamford
Kenneth B. Lundgren — Stamford
Choi-Meng Soo — USAU, New York

4th Row
Bernard Duterque, Emmanuel Valin,
Gilles Berline, Sylvie Martin, Alain Letheux,
Emmanuel Brouquier and Eric Michot — Paris
Willfried Schnabel — Cologne
Thomas M. West — Stamford
David B. Schoeonrock — New York
Suzanne Belisle — Montreal
Alois Bredl — Cologne

5th Row
W. Larry Maxwell and Jeremy J. Schokora — Boston
Heimo Gruber — Vienna
Jürgen Meisch — Cologne
Angelika Trotta — Cologne
Norbert Sprung — Cologne

Driven by personal commitment and integrity, we pursue underwriting excellence and enduring client relationships.

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To our *Clients and Colleagues,*

The year 2000 was an important year for us, as we focused more intensely on our core competency of underwriting, established a unifying global brand and implemented a new organizational structure designed to create a more seamless global company, while remaining highly dedicated to meeting our clients' needs. Despite all of our efforts, 2000 was another difficult year for us, as it was for the insurance and reinsurance industries worldwide. This year, GeneralCologne Re reported an improved, but still very unsatisfactory, calendar year combined ratio of 110.7% on a consolidated basis, compared to 117.1% in 1999. Although the significant re-underwriting efforts on the part of our 3,868 associates worldwide have not yet fully emerged in our reported results, we believe that we are now very well positioned to see the fruits of those efforts in our results to come.

Ronald E. Ferguson
Chairman and Chief Executive Officer

We have spent a great deal of time analyzing the disappointing results of the past two years. The insurance industry experienced a beneficial period of claims disinflation in the first half of the 1990s, but as that trend came to an end in the late 1990s, industry pricing did not adequately cover newly rising loss costs. To compound this situation, underwriting disciplines weakened and rate levels actually decreased throughout the 1990s in most lines of insurance. An intense competitive environment hurt the entire insurance and reinsurance industry, and we were not immune.

Our property/casualty and life/health operations reported underwriting losses for 2000. Our property/casualty operations had combined ratios in excess of 110%, and our life/health results, while improved from 1999, continued to be unsatisfactory. Catastrophe losses were relatively modest and had only a minor impact on our overall results. As a company that has prided itself on a strong record of profitable underwriting, these results were disappointing and unacceptable.

Moving forward, we have intensified our commitment to underwriting discipline. We have examined our books of business in great detail and have re-underwritten certain lines, products and specific transactions. Our efforts around the world, our expertise and relationships, will continue to make us the company where underwriting skills deliver profitable results both for us and for our clients.

To be mutually beneficial, the structure of our relationship with each client needs careful consideration. We found that in some cases, our interests and our clients' interests were not sufficiently aligned. As we strive to build close personal ties with clients, we also need to ensure that our understanding of our clients, their goals and needs, are aligned with how we are delivering risk solutions. We need to make certain that reinsurance and risk transfer solutions are structured and priced so that we both realize benefits.

The insurance business is indeed a noble and vital business, and we should all be proud of the role this industry plays in making our market economies work around the globe. Our industry provides an economic safety net that allows individuals and businesses to take the day-to-day risks that are core to economic commerce. Yet we need to ask ourselves whether we within the industry are doing all that we can and should to invest in people and skills for the future of the insurance business. There are some signs that are not very encouraging—signs that we are slipping away from the underwriting standards and investment in underwriting skills of earlier decades. If we look at the U.S. property/casualty industry's results over the last two decades, we would see that underwriting cash flow in the 1980s was a positive $60 billion, while it became a negative $65 billion over the course of the 1990s. As to industry training, exams written for the Insurance Institute of America have declined 46% from their high point in the early 1990s. CPCU exams have fallen 60% from their peak early in that decade. These are only some of the indications of the fall off in education and training by insurance companies in general. These trends must not continue. It behooves all of the leaders in the industry to ensure they are planting the best seeds for our industry's future by investing fully in the underwriting skills of our people. Underwriting excellence requires expertise, experience, specialization and continuous learning.

During 2000, we took important steps to enhance our specialization in the Property Facultative area. Over the last half of the 1990s, we recognized an important change developing in the international markets: a shift towards non-proportional facultative reinsurance covers. Insurers around the world are increasingly seeking non-proportional property facultative solutions as a much more effective, price efficient tool to manage volatility, helping them to operate with increased flexibility. We also recognized that we had greater capabilities to offer our clients in the non-proportional facultative area. As a result, we decided to discontinue our proportional property facultative business on a go-forward basis and focus exclusively on non-proportional products as solutions for our property facultative clients.

Our efforts around the world, our expertise and relationships, will continue to make us the company where underwriting skills deliver profitable results both for us and for our clients.

Even with the difficult environment for reinsurers around the world, our hard work over the last year has led to some encouraging signs that the actions we've taken to correct our problems are working. Our much improved accident year combined ratio in North America in 2000 gives us evidence that we're heading in the right direction, and we are encouraged by early indications on our January 2001 treaty renewals in our international property/casualty operations. Life/health operations reported an underwriting gain in the fourth quarter. We expect that trends in this business will become more favorable. We also believe that, in aggregate, our loss reserves are set appropriately.

We were very pleased to report the adoption of GeneralCologne Re as our new direct reinsurance brand, announced in June 2000. Today, GeneralCologne Re is one seamless organization, offering an array of risk transfer and risk assessment skills, including: reinsurance, insurance asset management, insurance capital optimization, alternative financial solutions and related services around the globe. Over 2,700 associates in our direct reinsurance operations offer our combined services from some 70 locations around the world. This repositioning and reorganization has helped us simplify our internal structure, making us better able to serve our clients and reach out to new prospects and clients. We share knowledge and expertise with our clients on a daily basis, and are better positioned to form enduring and successful relationships. By delivering our products and services on a decentralized basis, tailored to each client's needs, GeneralCologne Re can provide superior solutions to complex needs more quickly and efficiently.

The breadth and depth of our reinsurance and risk transfer skills, and our knowledge around the globe, will be even more evident because of our efforts to build a unified, direct reinsurance brand. We have put into action the right mix of exceptional individuals, products, and services to deliver the best risk transfer solutions to our clients around the world. We are confident that we've begun the work to return to our long tradition of underwriting profitability. Ultimately, GeneralCologne Re's success is, of course, directly linked to the success of our clients. We dedicate ourselves to helping them achieve their goals and business plans and in the process develop a mutually beneficial relationship based on trust, respect, underwriting skill and hard work.

Dal Luby

Our people are the key to our success and it will always be so. This year, we say thank you and goodbye to a few of our very senior colleagues who retired. Dal Luby retired in March 2000 after working with us for 38 years. During those years, Dal led the Underwriting and Actuarial departments for General Reinsurance beginning in 1988 and led its Treaty and Claims departments beginning in 1992. Then in 1998, he was appointed Chairman of Herbert Clough. We thank him for his many contributions to GeneralCologne Re.

Georg Lorenz

After almost 20 years with us, Georg Lorenz retired during 2000. Georg joined the Cologne Re Group in 1981 and became a Member of the Board of Executive Directors at the beginning of 1987. As a trained engineer, he played a key role in the development of our worldwide engineering business. He established our market presence and formed numerous enduring client relationships in Asia, Australia, Africa and some of the European countries. We thank him for his special contributions and wish him well for the future.

Tom Kellogg

In 2001, Tom Kellogg, a member of our Executive Committee, retired after 33 years of service. Tom has played an extraordinarily important role in the development of our company. Tom's counsel on client relationships, as well as his vision to build our reinsurance brand and franchise, have contributed significantly to our position as the world's premier reinsurer. His ability to assess a client's need and find the right solutions has been his hallmark. In honor of his service to our company, GeneralCologne Re has established the Tom N. Kellogg scholarship award at The College of Insurance in New York. This fund will provide opportunities for deserving students and faculty at TCI. With his retirement, GeneralCologne Re loses an outstanding colleague. Those who had the privilege of working with Tom are losing a warm-hearted, inspiring colleague and friend. We thank him for the remarkable footprints he leaves behind that will guide our organization for many years to come.

Behind even disappointing numbers, there is some good news: the stories of what our people are doing every day around the world to make a difference for our company and for clients. This year is no exception. As you read the following pages, you'll hear about the momentum we're building with our e-services initiatives. You'll read about how we're building on our global brand and have developed global teams to bring our clients every day the best expertise around the world. You'll read about the people inspiring each innovation, handling each claim, and exploring the depths of science and mathematics to provide better risk management advice and support for our insurance clients. Every day, we seek to earn the trusted position of being the knowledge partner for each and every one of our clients.

In closing, I thank each of our colleagues for their important contributions in the past year, and I thank each of our clients for choosing us as their knowledge and business partner. I look forward to a strong and mutually profitable 2001.

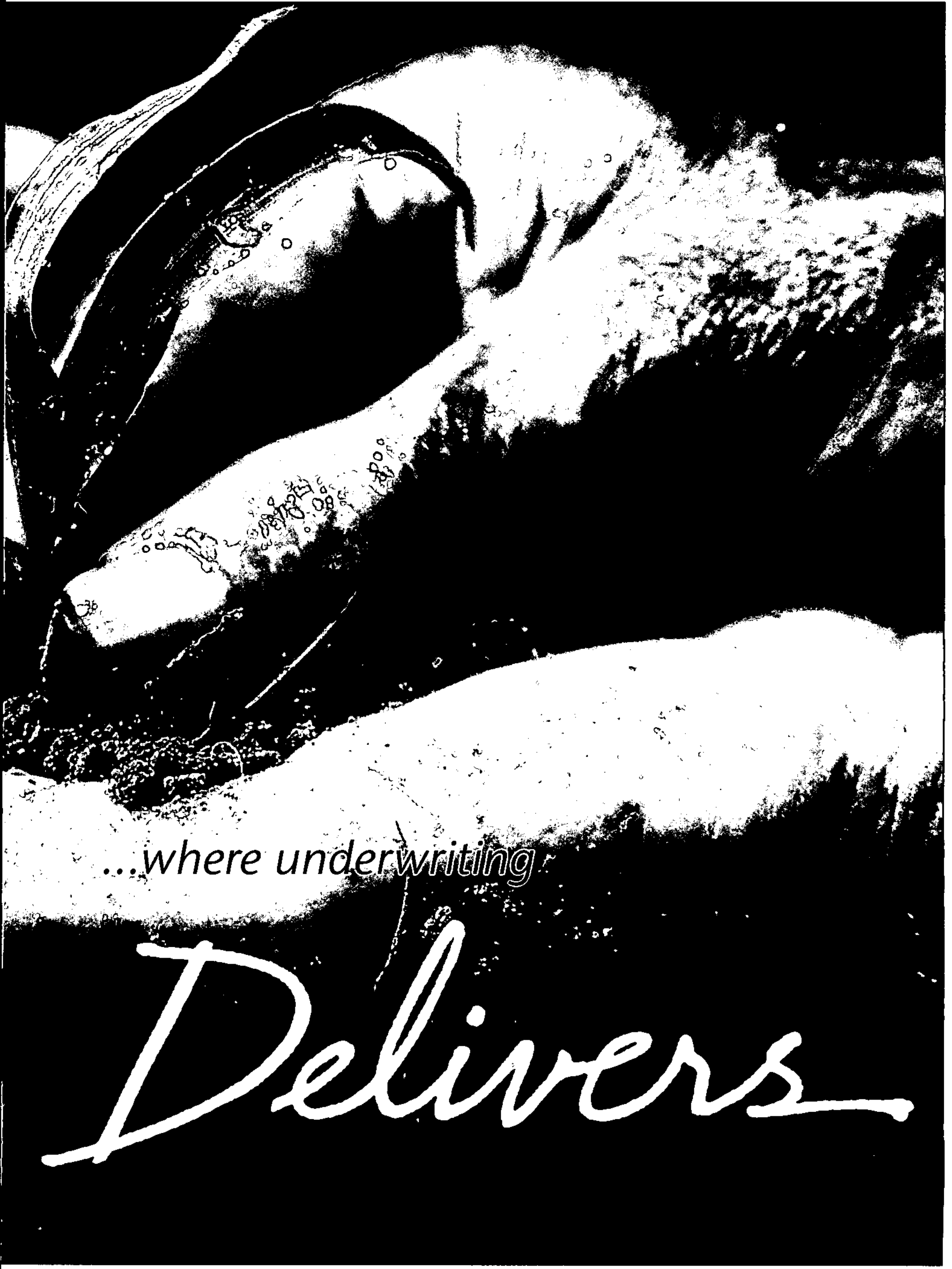
Ronald E. Ferguson

Ronald E. Ferguson
Chairman and Chief Executive Officer

A world...

"Everything that we do at GeneralCologne Re, from analyzing natural catastrophes to working on the vanguard of actuarial sciences, contributes to our ultimate goal of achieving underwriting excellence with every single client we have around the world."

Franklin Montross IV
Executive Vice President
Global Chief Underwriter


...where underwriting
Delivers

Underwriting Due Diligence

Insurers around the globe turn to GeneralCologne Re for our expertise and unique perspective on the insurance and reinsurance industries. Our knowledge of underwriting and the sheer size of our book of business put us in a singular position to help companies make sound decisions. Oftentimes, we are asked to review books of business for many reasons, including underwriting audits, to write loss portfolios or finite risk covers, or to perform due diligence.

Applying our expertise across many lines of business and geographic boundaries, our teams develop exceptional solutions to the uncommon problems facing our clients.

Our capability to perform in-depth analysis in a very short time frame allows clients to turn to us to provide second opinions in the due diligence process. To aid clients through this process, interdisciplinary teams of GeneralCologne Re professionals are brought together to review the relevant business plans, underwriting guidelines and other important information such as policy and claims lists and reserve data.

Our teams tailor their work to meet the needs of our clients. For example, our underwriters may focus on individual underwriting files to assess whether guidelines have been understood and consistently applied. They can study terms and pricing of selected risks. Our claim professionals may delve into liability and reserve evaluations. Our actuarial experts may supplement data on books of business with file-specific findings to gauge overall rate and reserve adequacy. Depending on the particular needs of our clients, we can conduct interviews with management and underwriting staff to assess operational effectiveness.

Harold J. Sofield, John W. Dattner
Global Claims, Stamford

Performing due diligence on a book of business is never commonplace. Applying our expertise across many lines of business and geographic boundaries, our teams develop exceptional solutions to the uncommon problems facing our clients.

Calibrating Catastrophe Risks

Late December of 1999 saw severe storms sweep across France and neighboring countries, with losses running into the billions of francs. There was scarcely a single building in Paris that was not damaged in some way. European insurers faced significant losses and claims numbering more than 3 million.

Predicting risk and damage from natural hazards has never been an easy task. The science of loss prediction has improved in recent years, and GeneralCologne Re has been on the forefront of those advancements. Our work enables our clients around the world to make better informed business decisions.

After the Paris storms of 1999, we put our knowledge to work. We were able to make early estimates of our clients' losses that allowed us to prepare for the severity of these claims. In one of the worst series of storms in recent European history, we served most of our clients with 24–48 hour turnaround on cash calls, allowing our clients to provide uncompromising service in funding their insureds.

Dr. Thomas Grollmann, Ernst Leffelaar Corporate Underwriting Services, Cologne

International Catastrophe Risk Management

An important service to our clients outside of North America is our ability to run simulations of the effects of a natural catastrophe on a given book of business. Employing highly specialized scientific and underwriting models, along with detailed information about a client's portfolio, our Cologne-based Natural Hazards and Risk Management team is able to assess exposure to storm, earthquake, and flood hazards. The team develops and calibrates loss models. Data on allocated capital and anticipated or realized profit is then used to draw conclusions about the profitability of a client's business, allowing capital to be employed in the most efficient manner.

Today, we are able to better manage risk from the forces of nature, sharing our insights, our historical perspective and scientific research with clients around the world.

North American Catastrophe Risk Management

- Where should a client expand its writings without a material increase in loss potential or reinsurance costs?
- How should a client exploit its underwriting portfolio characteristics and territorial rating schemes to maximize the positive impact of additional risk assumption?
- How should capital be allocated to catastrophe-exposed zones?

These are the types of questions that Herbert Clough Inc. ("Clough"), GeneralCologne Re's reinsurance intermediary, can help answer. Clough associates work with our clients in assessing the risk characteristics of their catastrophe-exposed portfolios. Our goal is to provide risk mitigation, along with a seamless vehicle for worldwide market syndication of catastrophe risk.

Clough has access to six major third-party vendor models that have been calibrated using an industry-wide database of loss experience and sophisticated research sources. Our U.S. specific models have the ability to do analysis down to the street level. We combine this information with our expertise to empower clients in discovering which risks produce the most favorable risk-return tradeoffs based on their in-force book's characteristics.

In 2000, we put our expertise to work for a major North American P&C insurance company. In formulating its strategy for a Midwest expansion, the insurer needed to contain accumulated earthquake exposures while achieving meaningful top-line growth. Clough acted as a strategic consultant to assist the client in not only structuring the appropriate reinsurance program but also in designing an insurance agency incentive plan to align the interests of these production sources with the carrier's target risk-adjusted return hurdles.

Focus on Facultative

About a half century ago we became the first professional reinsurer to establish an operation dedicated to underwriting facultative risks. Today, with nearly 500 facultative associates in 70 locations worldwide, GeneralCologne Re provides premier property and casualty facultative services throughout the world, serving one customer at a time. Through FacWorld™ (www.facworld.com), our clients have an efficient, easy way to buy facultative reinsurance on-line around the clock.

Every day, we help our clients use facultative coverage for their industrial and non-industrial risks as an efficient means to "carve out" exposures they would like to reduce.

Bernard Duterque, Emmanuel Valin, Gilles Berline, Sylvie Martin, Alain Letheux, Emmanuel Brouquier, Eric Michot, Global Property Facultative, Paris

Since its founding, GeneralCologne Re facultative units have delivered the highest level of underwriting expertise and client services. Our clients buy facultative reinsurance from us for a variety of reasons. As examples, our clients may seek to:

- address exposures excluded from treaties;
- enhance capacity in excess of treaty limits;
- manage profit-center volatility in achieving planned results;
- enter new lines of insurance or provide their agents and producers with a wider range of products; or
- reduce exposures that can not be diversified across their own portfolio.

Casualty Facultative

Our casualty facultative business experienced significant growth in 2000. As primary insurers responded to the difficult underwriting environment of the latter part of the 1990s, many increased their casualty facultative purchases as a means to test their underwriting opinions and reduce exposure to their most challenging risks. Casualty facultative underwriters field requests from customers around the globe to assist them with difficult risks. A typical day's activity of client submissions could include:

Timson Hui, Karen Ching, Rita Tsang, Victor Chan, Jackie Ng, Stephen Chu, Sinclair Y. Chan, Global Property Facultative, Hong Kong

- A long-term client planned to enter a new line of business—in this case, Directors and Officers liability coverage. The insurer approached us for both underwriting counsel and facultative support.
- A Japanese client seeks facultative advice for a construction risk in the Middle East. Our Tokyo office contacted our Boston branch where we had specific expertise.

- A client wants advice on handling exposure to copyright and trademark infringement for a Fortune 1000 business that is expanding its e-commerce initiatives.

- A school district with adverse claims history has added Employment Practices Liability Insurance (EPLI) to its requested coverages from a client who is comfortable with the other coverages provided. The insurer prefers to use facultative reinsurance to reduce its EPLI exposure.

Timothy S. Pasik, Robert D. Olsen, Global Casualty Facultative, Stamford

- A major commercial trucking operation transporting time-sensitive packages seeks auto coverages from a client whose commercial auto book had performed poorly over the past two years. The insurer turns to its facultative reinsurer for support and a second opinion on the pricing of excess layers for this business.

- A client provides high net worth individuals with all their personal lines coverages, but the insurer does not have the treaty capacity for the small number of policies seeking higher limits. The client buys facultative reinsurance coverage for the $10 million layer above the $5 million of umbrella coverage.

- A men's clothing retailer in Asia had the idea to market its suits along with an accident policy: affording cover in the event of death or injury while wearing the suit. Although clearly an unusual concept, we concluded that it was just a form of contingent accident and health cover and could be priced. We offered terms to our Asian insurance client. While we ultimately didn't write the risk, the client appreciated our creativity and willingness to participate in the unusual proposition.

- A large captive insurer had handled medical malpractice claims for hospitals for many years, accumulating a large claim portfolio. When it needed an exit

Timothy S. Pasik, Jeffrey M. Headden, J. Frederick Coon, Robert D. Olsen, Anthony L. Tufariello, Douglas A. Clark, Global Casualty Facultative, Stamford

strategy, it turned to one of our clients for a run-off proposal. Our multi-disciplined teams from actuarial, claims and Global Casualty Facultative assisted with evaluation and deal-structuring ideas to support a successful transaction for our client.

Property Facultative

Our Global Property Facultative business features a network of 300 property, engineering and marine specialists around the world. These underwriters are ready to provide a wide variety of creative solutions to help insurance companies—both large and small—manage the risks in their own portfolios.

GeneralCologne Re is recognized as the world leader in non-proportional business, having specialized in this type of structuring for more than 30 years. It is our belief that the flexibility, reduced administrative cost, and efficiently priced volatility protection provided by non-proportional structuring will become the "solution of choice" for insurance companies around the world. There is a clear trend across the global market towards utilizing more non-proportional business solutions, and we are leading the way.

Every day, we help our clients use facultative coverage for their industrial and non-industrial risks, international risks,

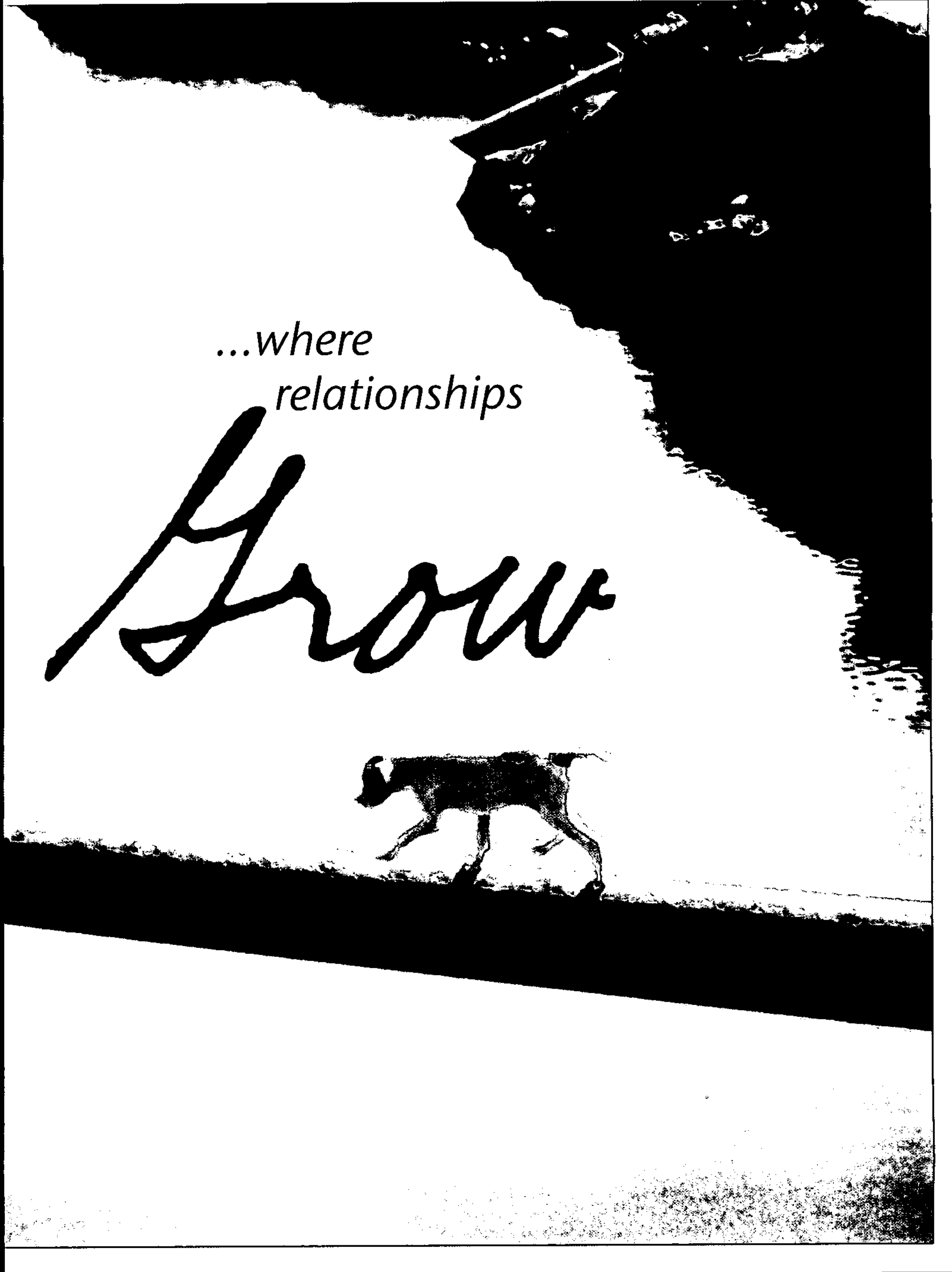
Jeffrey M. Headden, J. Frederick Coon, Anthony L. Tufariello, Global Casualty Facultative, Stamford

"carve out" exposures from a schedule of properties, or other risks on which they seek to reduce their retained exposures.

By utilizing non-proportional structures, our customers can systematically implement efficient risk transfer to their reinsurer and manage volatility. Only through non-proportional facultative reinsurance can insurers create protections for their own account and generate capacity on a selective basis, rather than making a cession for the entire original risk.

"In a business where success is based on how we deal with probabilities, one certainty is that when we get close to our clients, when we spend more time understanding their specific business issues, we raise the odds of having a mutually successful and profitable relationship."

Joseph P. Brandon
Executive Vice President


...where
relationships
Grow

Eye on Integrated Solutions

GeneralCologne Re had a German client who approached us with a very specific need. Our client needed to develop an insurance product specifically tailored to the needs of municipalities. Working closely with the client, we designed an integrated insurance product that met those needs and helped them to stand out from their competition.

Working closely with the client, we designed an integrated insurance product that met their needs and helped them to stand out from their competition.

Our Civic Solution

Municipalities have very specific, yet broad insurance needs. They require comprehensive protection against many and varied exposures. At the same time, cities and towns need to keep their insurance coverage simple and cost-effective. To tackle our client's needs, we tapped the knowledge of our product specialists. We used a team-based approach that allowed us to help our client develop an improved product that was superior to traditional insurance solutions.

The strategy behind this new product was to combine covers on a multi-year basis. Also, instead of having our client reduce premium to fend off brokers and its competitors, we extended coverage on a pool basis with a finite amount of funds. The focus of these coverage extensions was risk management.

To illustrate how the product worked, consider an example in which burglars destroyed a school door. A traditional insurance product would only pay for the property destroyed. The extended cover provides for repair with better protected doors, and the underlying risk is improved.

Not only did we help our client protect its current client base, but they were so pleased with the new approach that they formed a specialty department focused on this and other integrated insurance products. GeneralCologne Re benefited from the combined efforts as well. We strengthened the client relationship through our expert advice and service. We have written profitable new municipality business with our client, and we were rewarded with other new non-municipality business—a true win-win for both of us!

Reiner Hoffmann, Thomas Raschewski, Helga Broich, Integrated Solutions & Consulting, Cologne

Focus on Life

We consult with client underwriters on all risk-related questions —on underwriting policy, market benchmarks, or the underwriting approach to new products and risk factors.

In life reinsurance, GeneralCologne Re clients know they will get three key things from us:

- strong underwriting skills, our core competency developed over 100 years of being in the life reinsurance business;
- superior service delivered by professionals all around the world; and
- expert consulting and related services.

We provide advice to our clients' underwriters in all risk-related questions—advice on underwriting policy, market benchmarks, or the underwriting approach to new products and risk factors. We have the expertise to underwrite both the traditional and the "substandard," or severe risks.

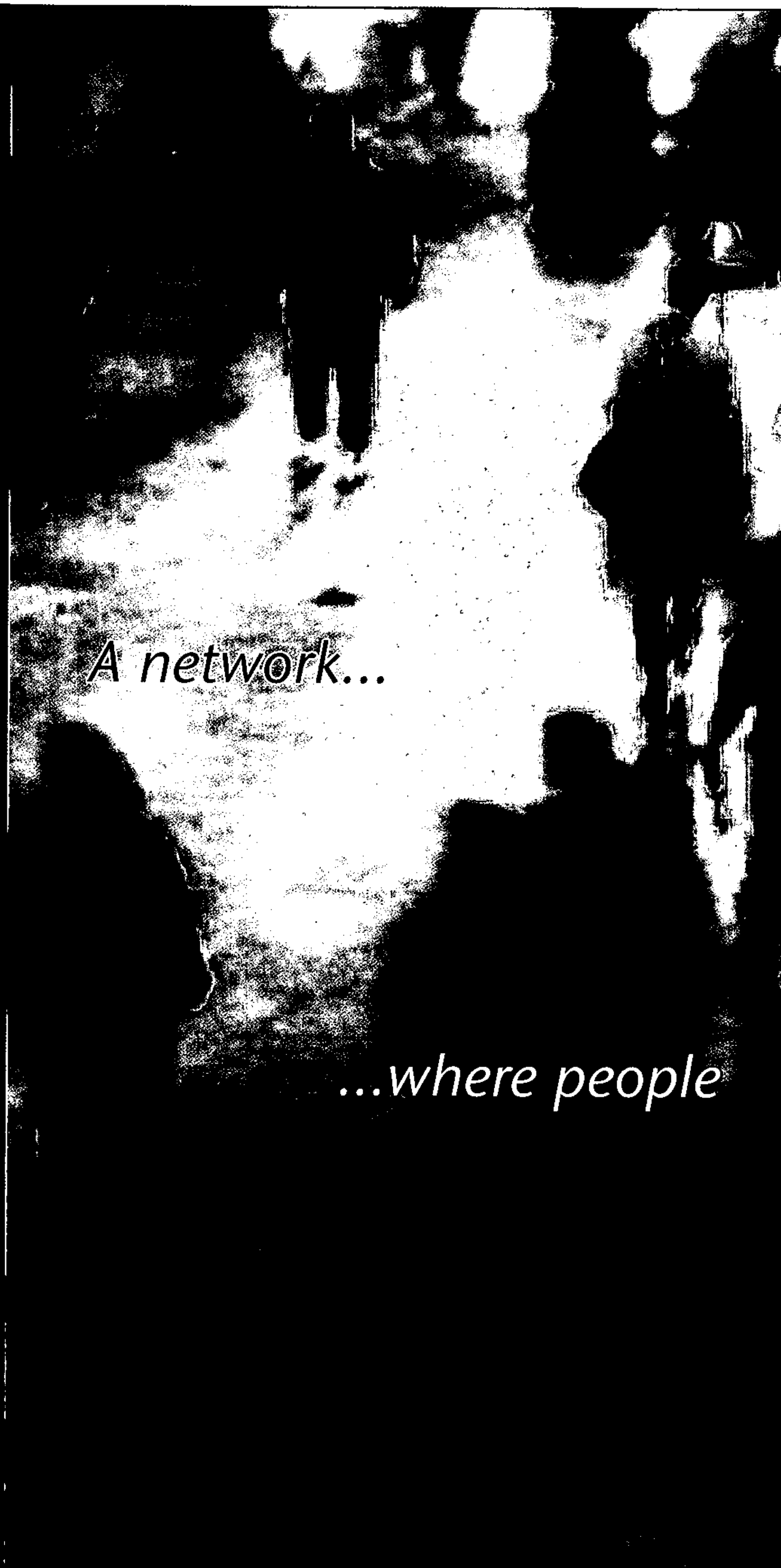
To help our clients streamline their life and health underwriting, we can provide proprietary, expert systems in questionnaire format. Our proprietary systems combine information on virtually all important diseases with special individual risk factors linked to a person's medical history, profession and hobbies. We tailor these systems to the special needs of clients around the world. Another role we can play with our clients is in product development—both in life and health products. Our global presence allows us to leverage ideas imported from other markets or use an internal team-based approach to develop new products. We match this global knowledge with teams of actuaries, underwriters, claims experts and marketers, working hand-in-hand to design products that are both commercially feasible and appealing to their insureds.

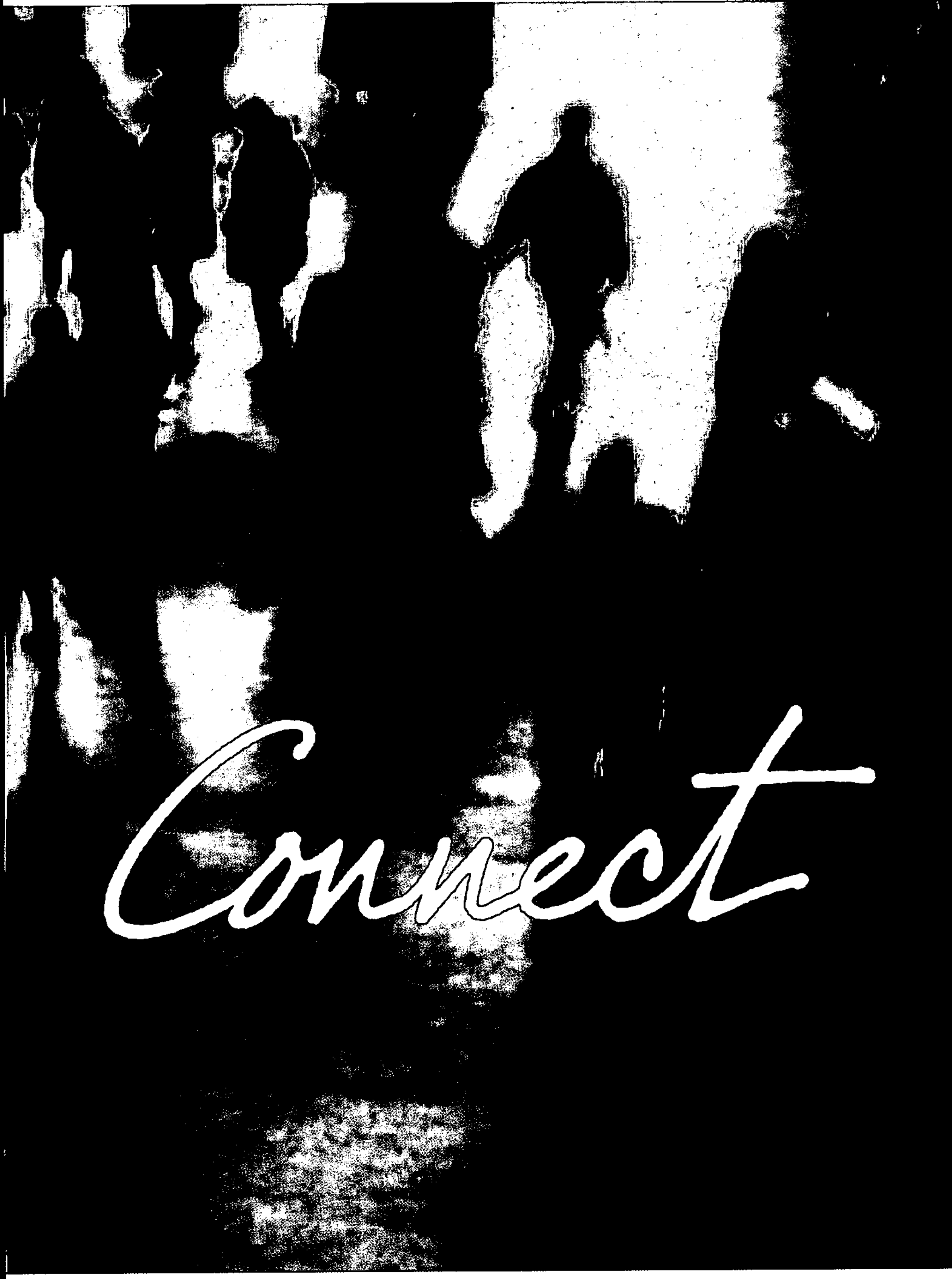
We supplement our comprehensive service with underwriting and claims audits to aid our client companies in managing the quality and consistency of their underwriting and claims handling. On a global scale, our skills and innovation in the life, health and disability fields make us the first choice advisor to life insurance clients around the world.

Jürgen Warstat, Sabine Fischer-Hamm
Life/Health Client Services, Cologne

"Our people have always been our most important asset; and now, with our new global brand and decentralized structure, they have the freedom and support to provide the best client service around the world."

Peter Lütke-Bornefeld
Executive Vice President




Connect

Balancing Risk and Reward

What are the sources of financial risks for my firm? Which assets drive these risks? Which liabilities? What segments of my business are most profitable on a risk-adjusted basis? How can I achieve higher returns on my capital?

Insight into risk and capital management generates better operating results in the short term and better strategic decisions over the long term.

Managers of insurance companies face these questions daily. Stamford-based GeneralCologne Re Capital Consultants and Cologne-based GeneralCologne Re Capital are dedicated to answering these questions – applying rigorous quantitative analysis, expert technical systems, and an experienced team of capital market and insurance professionals to help insurance companies around the world better manage capital, risk and return.

How We Help Companies Succeed

In 2000, GeneralCologne Re Capital Consultants worked with the insurance subsidiary of a multinational corporation to answer questions regarding its capital adequacy and return on capital. Our goal was to use these answers to help set business strategy and articulate that strategy to shareholders, regulators and rating agencies.

We began by applying our proprietary financial risk-modeling tool. We learned that based on our client's risk tolerance, the company had sufficient capital to dividend funds to the parent company without jeopardizing future business plans or key ratings. We also evaluated the sources of risk to capital on a detailed, product line basis and allocated capital to those products on the basis of the risk they contributed to the firm.

Getting Profitable Results

Our analysis provided an objective, independent verification of the capital adequacy of the company, which was used to set strategic plans and growth strategies, inform rating agencies, and develop a sustainable dividend policy. Our capital allocation work highlighted the importance of asset risk and provided new insights into the profitability of their products.

Greater insight into risk and capital management generates better operating results in the short term and better strategic decisions over the long term. As an immediate action, our client chose to return over 10% of their surplus to its owners, stabilize dividend policy, and focus resources on those products that provide them with the highest returns on capital. In the long term, the insight management gained into their risk and capital position provides a solid, rational foundation for future capital management.

Joseph W. Wallen, Thomas A. Hulst, Joan Lamm-Tennant, GeneralCologne Re Capital Consultants, Stamford

Ulrike Jäger, Andreas Hogh, Susanne Fromme, Carola Schroeder, Jürgen Rechenberg, Patrick Justen, Christian Wodarg, GeneralCologne Re Capital, Cologne

Commitment to the Business through Specialization

GeneralCologne Re has been a leading reinsurer of medical malpractice insurance for more than 25 years. We offer this line on both a portfolio and facultative basis. Today, the health care insurance industry is undergoing a period of dislocation, financial stress, and uncertainty. The poor results are startling. Social inflation, erosion of tort reform, a backlash against managed care and underlying pressures placed on health care providers are just some of the factors affecting the medical malpractice market. U.S. juries are awarding higher amounts for medical malpractice claims than ever before, and are approving new causes of action against health care administrators and providers. Now, more than ever, GeneralCologne Re's ongoing commitment to our medical malpractice insurance clients is critical.

Scott A. Whipp, Global Casualty Facultative, San Francisco, Victoria J. Wixtead, Healthcare Business Segment, Stamford

Some specialty health care insurers have left the market. Most others are actively re-examining rate adequacy, underwriting protocols, and claim and risk management capabilities. This is not an easy task. It takes the full commitment of both the primary insurance company as well as their reinsurance partner to weather the changing environment and determine how best to proceed in this unique segment of the insurance marketplace.

Given the rapidly changing dynamics of the industry, GeneralCologne Re constantly is taking steps to ensure that we are positioned to assist our clients today and in the coming years. We believe we have the most experienced team, dedicating more professionals to marketing, underwriting, claims and actuarial sciences. The sheer size of our health care book and our 25 years of experience give us an unparalleled ability to analyze trends that underlie the health care industry. Our analysis and knowledge of this business allow us to help prepare our clients for the future.

Our deep understanding of the health care segment, coupled with the worldwide resources of GeneralCologne Re, enables us to provide support not only on technical issues, but also on broader insurance company operating concerns. For example, in 2000 our health care group:

- sponsored a symposium for insurance clients focused on day-to-day operating challenges facing specialty insurance company executives;
- conducted a seminar on underwriting long term care insurance;
- shared with our clients the invaluable observations of our claims professionals on the increase in severity of catastrophic claims and national trends seen in our malpractice book; and
- increased non-U.S. resources to keep pace with the changing medical malpractice legal environment outside of North America.

Now, more than ever, GeneralCologne Re's ongoing commitment to our medical malpractice insurance client is critical.

Because we have expertise on a broad, national level, we are able to see trends quickly and help our clients act, rather than react to those trends. We know the "business" of health care, and "talk" the language of these specialized clients. GeneralCologne Re's portfolio and facultative health care specialists work in tandem with each of our clients to ensure that we are able to develop the best solutions for each situation. This means not only providing viable and attractive reinsurance solutions, but also helping to manage the changing landscape in which we operate together. We were supporting clients 25 years ago, and we intend to support our clients well into the future.

Publishing our Expertise

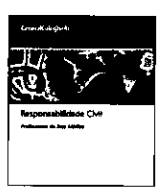
Our publications have a strong purpose—written not by professional writers but by our underwriters for underwriters.

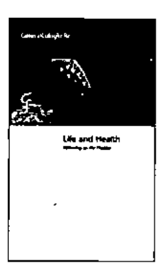
From issues of general interest to the insurance industry to detailed, niche-specific analysis, GeneralCologne Re publications draw from our global capabilities and local knowledge. We strive to offer our clients knowledge that will help them make profitable underwriting decisions. Our publications have a strong purpose—written not by professional writers but by our underwriters for underwriters.

Critical insurance issues can develop quickly. GeneralCologne Re responds by providing comprehensive education and training, running timely seminars and publishing material on a vast array of topics of vital interest to our clients.

For comprehensive guidance on a line of business, teams of underwriters and claim professionals worldwide compile legal surveys of laws governing that field. These surveys cover automobile, workers' compensation, employment liability, fraud and environmental regulations and have become leading resources for insurers writing a broad range of risks. Some examples of our publications are listed below.

- *Topics* provides a comprehensive overview of current themes in the insurance and reinsurance industries.
- *Employment Practices Liability Jurisdictional Survey* addresses legal and insurance coverage questions affecting employers.





- *50 State Long Term Care and Tort Liability Survey* provides underwriters with analysis of state laws pertaining to U.S. patient rights so they may better rate those risks.

- *Facultative Matters* covers emerging topics for global facultative risks.

- *Risk Insights* provides a compendium of articles on management and underwriting topics pertinent to life insurers.

- *PHI-Produkthaftpflicht International* provides an overview of product liability questions under different jurisdictions around the world.

- *Insurance Issues* covers a variety of timely topics of interest to our clients. Recent issues highlighted new trucking and uninsured motorist liabilities.

- *Medical/Rehabilitation Management of Bodily Injury Claims* is a recent publication of our Rehabilitation Advisory Services unit, focusing on topical subjects related to case management.

- *Hazardous Times* focuses on late breaking environmental pollution news written from an underwriting viewpoint. Recent issues have covered global tobacco and toxic mold claims.

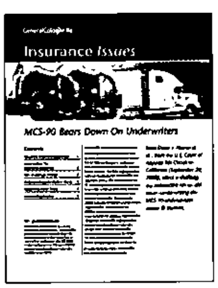
- Four separate publications, *Capital Matters*, *Asset & Liability*, *VersicherungsPortfolio* and *General ReView* address our capabilities about balance sheet optimization tools and asset management.

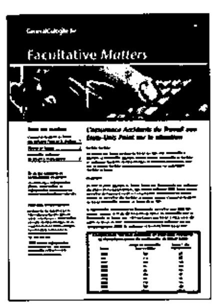
- *Guide on Insurance Fraud* provides an in-depth analysis of insurance fraud issues, methods of fraud detection and state-by-state statutes for the auto, property, health care and workers' compensation lines of business.

- *BUZaktuell* is a publication for underwriters in the German market specializing in claims evaluation for occupational disability insurance.

- *RPaktuell* provides perspective on life/health underwriting in the German market.

For more information on any of the publications mentioned here or for a more complete list of publications, please log onto our website (www.gcr.com) or contact your local GeneralCologne Re representative.

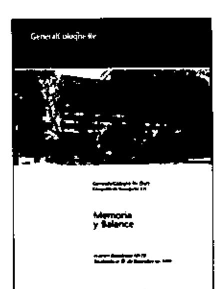

Insurance Issues
MCS-90 Bears Down On Underwriters


Facultative Matters


REexperiencias


Hazardous Times

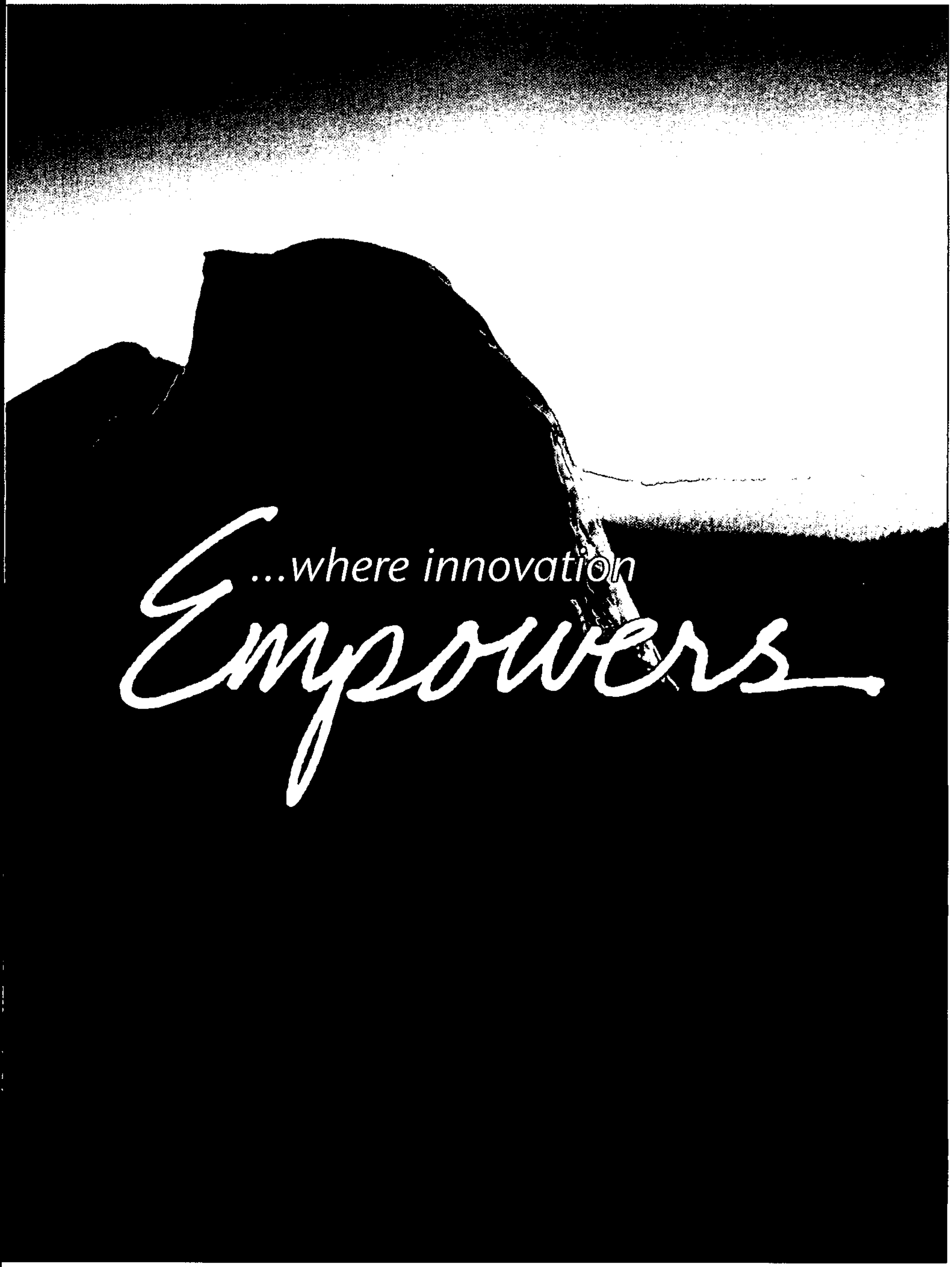

VersicherungsPortfolio


Memoria y Balance

An environment...

"GeneralCologne Re will continue to harness technology, to reward creativity, to open our minds and expand our knowledge in order to bring our worldwide clients unsurpassed risk-management capabilities."

Hans-Peter Gerhardt
Executive Vice President


...where innovation
Empowers

Innovating Claims Management

Last year we set our sights on helping claim departments worldwide find better methods for identifying and dealing with the problem of fraudulent claims, and streamlining the difficult job of claims processing.

Eberhard Fähnrich, Norbert Sprung, Global Claims, Cologne

Diane V. Bistany, Arthur C. Harris, Global Claims, Stamford

An important part of an insurer's profitability lies with the claims process. To support its clients in this regard, GeneralCologne Re has built one of the the largest and most professional claim units of any reinsurance company in the world. GeneralCologne Re claim executives actively engage in the claims management process with our clients to obtain the best possible resolution, one that often results in savings for our clients. Our assistance provided the recent examples of savings for our clients:

- referred a client to experts who assisted in proving claim fraud, resulting in a winning defense verdict and saved the client $2 million;
- provided the client with support to help get a stipulated judgment set aside, saving the client $10 million;
- assisted the client in defeating a bad faith suit and avoiding $8.5 million of loss for the client; and
- supported a client in settlement negotiations that saved the client $13.5 million from a runaway jury verdict.

Our claim experts, like other GeneralCologne Re associates, strive to be our clients' knowledge partner. We do this through:

- seminars and publications dedicated to the claims process and settlement issues;
- our renowned rehabilitation department that provides world-class advice on rehabilitating the most dire injury cases;
- special fraud detection systems; and
- our extensive contacts within the legal profession for expert witnesses and litigation strategies.

A New Approach to Fraud Detection

Working together with five well-known German primary insurers and a software company, GeneralCologne Re's claims specialists developed Intelligent Claims Examination software (ICE) that identifies fraudulent claims in German motor insurance.

Based on fraud patterns established by our experts, ICE scrutinizes each claim to spotlight suspicious claims for further investigation. The ICE module for Auto Liability was integrated into the claim systems of several insurance companies in September 2000. Early results indicate that the software is identifying a very high percentage of fraudulent claims.

Reinventing Rehabilitation

GeneralCologne Re has set up a new company to support victims from car accidents to regain their physical fitness and to reintegrate into their normal social and business life. We are working with a network of more than 100 specialists—doctors, psychologists, etc., who at the earliest possible stage step in to rehabilitate an injured person. This unique service has been extended to deliver case management not only for personal injury claims but also for products like health and disability insurance. The company currently operates in Germany, Austria and Switzerland and will enlarge its activities to other European countries as well.

Internet Risk and Client Solutions

Underwriting Internet risk is a new challenge for the insurance industry. Together with our clients, GeneralCologne Re works to understand Internet risk and exposures, and develop appropriate insurance solutions. Many companies in the marketplace focus on the various Internet business models. However, it is important to look beyond the business models to some fundamental issues and risks that the Internet presents.

Together with our clients, GeneralCologne Re works to understand Internet risk and exposures, and develop appropriate insurance solutions.

Kevin Rooney, R. Philip Sandercox, Elizabeth W. Benet, Portfolio Group – Programs, Stamford

The increasing use of the Internet brings new exposures in terms of information control, legal liability, and business interruption, to name just a few. For example:

- Once a company sets up a website, it is a global business and is open to various legal systems around the world—a new risk overnight.

- Once a company has a website, it cannot control information the way it had in the past. The pace of business picks up dramatically and data, in and of itself, becomes a business.

To better serve our clients, we developed and personally delivered our CD-ROM based Internet Risk Seminar. In conjunction with this seminar, we created technical underwriting tools that analyze clients' risk exposures and appetites. These tools, coupled with our deep technical understanding of the topic, which is often used in consultation, is just one example of how we work with our clients on an emerging issue.

E-Services Momentum

We are creating new and better Web-enabled ways for our clients to do business with us.

GeneralCologne Re continually develops and enhances methods for using the Internet to provide value-added services to clients around the globe. We believe that the Internet is not another world, but rather a tool that can be used to further enhance the value GeneralCologne Re clients receive from us.

Today, we are creating new and better Web-enabled ways for our clients to do business with us. Client extranets give insurers the opportunity to make transactions of every kind more cost-effective, and to improve the client experience. The Internet provides another means for clients to access our knowledge and expertise—through publications, reports and surveys available online. See what we're doing online to make working with GeneralCologne Re a rewarding and profitable experience.

Web-Enabling Our Direct Business

We developed FacWorld™ (www.facworld.com) with the understanding that insurance companies want to manage their facultative business more effectively. The site is designed to assist and enhance the relationship between our clients and our local branch

Jean C. Gray, Information Technology, E-Services Support, Stamford, Nicholas Harrington, Global Property Facultative, Boston

underwriters, leveraging the benefits of the Internet. It gives our clients the ability to submit, quote, bind and request information online. All facultative activity is organized, searchable, and manageable through the site.

Today, FacWorld is the most widely used website of its kind. It has a rapidly growing user base of over one thousand clients, and submission and premium volume through the site has grown steadily since its launch in November 1999.

Designed by underwriters for underwriters, FacWorld is rich with valuable content such as our Casualty and Property Zones and the Specialist Network pages. A major project for FacWorld in 2001 is to bring facultative renewals online. FacWorld will be able to present clients with all of their current and renewable facultative business.

The FacWorld Report, our monthly e-mail newsletter, is sent to all FacWorld Profile holders. Editions are based on specific themes—for instance, we recently delivered a series of articles that discuss using the Internet as a powerful underwriting tool. We are also developing other online initiatives that will allow clients to conduct treaty and portfolio business with GeneralCologne Re online. We will offer our expertise and advice, and permit the exchange of key data such as loss information, risk reporting, rating modules and accounting through secure extranet facilities.

Lisa M. Pickard, Global Property Facultative, Boston, W. Larry Maxwell, Jeremy J. Schokora, Global Casualty Facultative, Boston

Moving forward, our goal online is to enrich our client relationships, focusing on underwriting as a centerpiece. We will achieve this goal in part by providing fast transaction capabilities and quality information through FacWorld, and future online initiatives.

Reporting Efficiency Through Extranets

The GeneralCologne Re Loss Memorandum Reporting Facility allows clients to deliver claims reports to GeneralCologne Re through their Web browsers. The facility provides a secure extranet for the dynamic handling of claims reporting for our major lines of business; including property, casualty,

Ralph Sabbagh, Global Property Facultative, Boston, Michael Lay, Global Casualty Facultative, London

workers' compensation, and catastrophe. The Loss Memo Facility maintains a historic record of submitted losses, readily available to clients whenever and wherever needed.

We offer this service as an alternative to the traditional methods of claims reporting. By establishing a standardized, reporting form, the Loss Memo Facility allows efficient internal control of client loss data. It makes it easy to locate historic records, and permits loss reports to be categorized and searched by date, claim number, policy number, insured and line of business. Since repeat and follow-up information can be entered without the need to reference, research, or re-key the previous submission, turnaround times are greatly reduced.

Both management and users are praising the efficiency of the Loss Memo Facility System:

"The Loss Memo Facility eliminates redundant entry as subsequent reports can be created from the last completed Loss Report submitted."

"Since the availability of this service, we no longer need to keep a separate record in a spreadsheet to monitor reinsurance reporting."

"With Extranet access, we are able to request and receive payments in just a matter of days. Our company is very appreciative of the Extranet and its use."

Financial Landscape

Management's Discussion and Analysis

General Re

General Re, Cologne Re and their affiliates (collectively, "GeneralCologne Re") are engaged in the global reinsurance business, and provide reinsurance coverage in 130 countries around the world. GeneralCologne Re's principal reinsurance operations are: (1) North American property/casualty, (2) international property/casualty, and (3) global life/health.

Although financial results were generally disappointing in 1999 and 2000, improved trends emerged in a number of areas during 2000. GeneralCologne Re reported net income of $417 million, an increase of 29.1% over the $323 million in 1999. Net premiums written were $8,816 million, an increase over 1999 levels. Cash flow from operations was $1,187 million, compared with an operating cash outflow of $33 million in 1999. Stockholder equity was $8,042 million at December 31, 2000, up 4.3% over the comparable 1999 level. Insurance invested assets were $23,288 million, at December 31, 2000, an increase of 9.8% over comparable 1999 levels. Consolidated investment income reached $1,424 million, rising 5.7% over 1999 levels.

GeneralCologne Re's consolidated underwriting results for the past two years are summarized below. These results are presented with and without the effect of a retrocessional commutation with a Berkshire affiliate, which is included in GeneralCologne Re's historical audited financial statements. Dollar amounts are in millions.

	2000(1) Amount	1999 Amount
Net premiums written	$ 8,816	$ 7,043
Net premiums earned	$ 8,695	$ 6,905
Underwriting loss, excluding affiliate commutation	$ (1,224)	$ (1,184)
Underwriting loss, including affiliate commutation	$ (994)	$ (1,184)

(1) During the fourth quarter of 2000, the international property/casualty and global life/health operations discontinued reporting their results on a one-quarter lag. Consequently, GeneralCologne Re's 2000 results include one additional quarter for these businesses. See Note 1 to the accompanying Consolidated Financial Statements for additional information.


Roger R. Jackson, Gloria Parker, Christopher J. Hartnett, Group Finance, Stamford

Generally, underwriting conditions within the reinsurance industry for 2000 remained difficult. GeneralCologne Re's overall underwriting results during 2000 and 1999 were unsatisfactory in both the property/casualty and life/health reinsurance businesses. GeneralCologne Re management continues to take underwriting actions to address these matters with the objective of returning underwriting results to acceptable levels. Although the underwriting losses for 2000 were considerable, $239 million of the loss was attributed to a single large aggregate excess contract written in 2000. Additional information regarding this arrangement is provided in the North American property/casualty discussion.

Excluding the effects of this large contract, GeneralCologne Re's results for 2000 were improved over 1999. The improvement is primarily the result of the actions taken both in the North American and international businesses, as well as signs of improvement in certain segments of the reinsurance market; however, the impact of underwriting initiatives on international business may take longer to become effective than on U.S. business. Additional information with respect to each of GeneralCologne Re's underwriting units is presented below. In the tables that follow, dollar amounts are in millions.

North American Property/Casualty

GeneralCologne Re's North American property/casualty underwriting results for the calendar years ending December 31, 2000 and 1999 are summarized below.

	2000		1999	
	Amount	%	Amount	%
Premiums written	$ 3,517		$ 2,801	
Premiums earned	$ 3,389	100.0	$ 2,837	100.0
Losses and loss expenses	3,161	93.3	2,547	89.8
Underwriting expenses	854	25.2	874	30.8
Total losses and expenses	4,015	**118.5**	3,421	**120.6**
Underwriting (loss) before commutation	$ (626)		$ (584)	
Underwriting gain (loss) after commutation	$ (396)	111.7	$ (584)	

GeneralCologne Re's North American property/casualty operations underwrite predominantly excess reinsurance across multiple lines of business. Premiums earned in 2000 exceeded premiums earned in 1999 by $552 million or 19.5%. A single large aggregate excess reinsurance contract affected premiums earned in the past two years. This reinsurance contract accounted for earned premiums of $404 million in 2000 and $154 million in 1999. The contract was not renewed in 2001. Excluding the effects of this contract, the growth in North American premiums during 2000 was primarily due to net increases in the national accounts, excess and surplus reinsurance lines and individual risk businesses. This net growth resulted from a combination of new business, the effects of rate increases on existing business, and was partially offset by the non-renewal of significantly under-performing business.

Underwriting results for 2000 included two large transactions. The commutation of a retrocessional treaty with a Berkshire affiliate resulted in an underwriting gain of $230 million. More than offsetting that benefit was a $239 million net underwriting loss from assumption of the aggregate excess reinsurance contract referenced above. Although this contract produced a sizable net loss, it is expected to provide more than commensurate investment benefits in future years due to the amount of float generated. Notwithstanding, this large excess contract added 5.5 points to the combined loss and expense ratio in 2000.

When the effects of the large aggregate excess reinsurance contract and the affiliate commutation are excluded, GeneralCologne Re's North American property/casualty combined ratio improved 8.9 points in 2000 over 1999. The improved results in 2000 were primarily due to the initial effects of underwriting actions on both property and casualty lines. In addition, catastrophe and large property losses were less in 2000 than in 1999. Losses arising from catastrophic events and other large property losses added 3.5 points to the North American property/casualty loss and loss expense ratio for 2000, as compared to 9.4 points for 1999. While the potential for catastrophe and large property losses are factors normally considered in underwriting decisions, the timing and magnitude of such losses can cause significant volatility in periodic underwriting results.

Anthony L. Tufariello, Global Casualty Facultative, Stamford

International Property/Casualty

GeneralCologne Re's international property/casualty underwriting results for the years ending December 31, 2000 and 1999 are summarized below.

	2000(1)		2000(2)		1999	
	Amount	%	Amount	%	Amount	%
Premiums written	$ 3,036		$ 2,505		$ 2,506	
Premiums earned	$ 3,046	100.0	$ 2,478	100.0	$ 2,343	100.0
Losses and loss expenses	2,577	84.6	2,091	84.4	2,041	87.1
Underwriting expenses	987	32.4	803	32.4	775	33.1
Total losses and expenses	3,564	117.0	2,894	116.8	2,816	120.2
Underwriting loss	$ (518)		$ (416)		$ (473)	

(1) Column includes 15 months of data due to elimination of one-quarter lag reporting in 2000.
(2) Column includes 12 months reported on a one-quarter lag and is shown for comparability with 1999.

The international property/casualty operations write quota-share and excess reinsurance on risks around the world. In recent years, the largest international markets have been in Germany and Western Europe. As previously noted, the international property/casualty operations discontinued reporting their results on a one-quarter lag during the fourth quarter of 2000. Results for the 2000 period contain fifteen months, or one additional quarter of information. The preceding table shows underwriting results for both the twelve month and fifteen month periods. The comparative analysis that follows excludes the additional quarter.

Premiums earned in the twelve months of 2000 exceeded 1999 amounts by 5.8%. Adjusting for the effects of overall declining foreign exchange rates, earned premiums in local currencies grew 16.7% during 2000. Growth in 2000 earned premiums was primarily due to increased premiums in European markets outside Germany, reinstatement premiums due in 2000 arising from the December 1999 European winter storm losses, new business in South America, and the effect of increased volume and participation in DP Mann's Syndicate 435 at Lloyd's of London. This growth was partially offset by the cancellation of some significant quota-share treaties.

Underwriting results for GeneralCologne Re's international property/casualty segment for 2000 remained disappointing. Loss and loss expense ratios for the twelve months of 2000 were 84.4% as compared to 87.1% for 1999. The decrease in the loss ratio from 1999 was primarily due to lower levels of catastrophe and other large losses in 2000. The effect of catastrophes and other large property losses represented 5.9 points of the loss and loss expense ratio for 2000, compared to 5.4 points for 1999. Due to the large amount of property business written in the international property/casualty operations, periodic underwriting results can be volatile.

Ralph S. Barbieri, Reid Johnson, Joseph S. Roberts, Group Finance, Stamford

A summary of underwriting and market highlights by international property/casualty region is presented below.

Europe

The European insurance market suffered from excess capacity and soft primary and reinsurance pricing for the past several years, including 2000. Industry consolidation, fierce competition, and inadequate rates had a negative impact on underwriting results. In Germany, the motor and industrial property lines have been particularly competitive, although the rate erosion experienced in the motor lines since 1995 abated somewhat. Underwriting results for 1999 and 2000 were adversely affected by several major natural catastrophes, including the winter storms in December 1999, floods in the United Kingdom and Italy and hailstorms in Austria during 2000. GeneralCologne Re's European underwriting results for 1999 and 2000 were unsatisfactory, and corrective actions were taken within under-performing areas of its business during the 2001 renewal period.

Asia

Thomas Connolly, Julie C. Salicrup, Group Finance, Stamford

While the economies in Southeast Asia and Greater China experienced favorable growth during 2000, property/casualty insurers experienced negative growth and underwriting results suffered from eroding rate levels. In addition, underwriting results in the industry and GeneralCologne Re were adversely affected by the Sydney hail storm (1999), Typhoon Bart (1999), Typhoon 14 (2000) and the Taiwanese earthquake (1999).

In Australia and New Zealand, the insurance industry continued its consolidation and will be subject to regulatory changes in the near future. In Australia, new solvency requirements will be instituted shortly, and a goods and services tax was introduced that resulted in a significant new cost for insurers and reinsurers. New Zealand reversed its recent initiative to privatize workers compensation insurance.

Although the market environment was difficult, GeneralCologne Re cautiously continued its regional expansion into Malaysia, China and India. We opened a branch office in Kuala Lumpur and additional offices are being established in Beijing and Mumbai. After a very disappointing 1999 underwriting year, the 2000 results for GeneralCologne Re showed some improvement across the Southeast Asian region, but results remained unsatisfactory.

With respect to the Japanese market, inadequate rates have followed market consolidation, deregulation and intense competition. While underwriting results in Japan may have benefited from substantially reduced catastrophic events during the year, the market continues to suffer from inadequate rates relative to the risks. GeneralCologne Re opened a branch in Korea in early 2001. Although the Korean market also suffers from soft market conditions, reinsurance rates are expected to harden in 2001, following greater focus on underwriting profitability by its insurance industry.

Latin America

In Latin America, GeneralCologne Re experienced premium growth and modest improvement in underwriting results during 2000, most notably in the proportional motor liability line of the Argentine operations. Mexico, other Central American countries, and Colombia have been operating in an extremely competitive climate. In Brazil the government currently controls its reinsurance market, which is expected to be privatized. GeneralCologne Re has established a branch in Sao Paulo to serve clients upon the opening of this market.

Global Life/Health

GeneralCologne Re's global life/health underwriting results for the years ending December 31, 2000 and 1999 are summarized below.

	2000(1)		2000(2)		1999	
	Amount	%	Amount	%	Amount	%
Premiums written	$ 2,263		$ 1,781		$ 1,736	
Premiums earned	$ 2,261	100.0	$ 1,773	100.0	$ 1,725	100.0
Losses and loss expenses	1,869	82.6	1,473	83.1	1,434	83.2
Underwriting expenses	472	20.9	384	21.6	418	24.2
Total losses and expenses	2,341	103.5	1,857	104.7	1,852	107.4
Underwriting (loss)	$ (80)		$ (84)		$ (127)	

(1) Column includes 15 months of data due to elimination of one-quarter lag reporting in 2000.

(2) Column includes 12 months reported on a one-quarter lag and is shown for comparability with 1999 and 1998.

GeneralCologne Re's global life/health affiliates reinsure such risks worldwide. Global life/health operations previously reported their results on a one-quarter lag. As previously noted, the global life/health operations discontinued reporting results on a one-quarter lag during the fourth quarter of 2000. Reported results for 2000 contain fifteen months or one additional quarter of information. The table above shows underwriting results for both the twelve-month and fifteen-month periods. The analysis that follows excludes this additional quarter.

Global life/health premiums earned in 2000 increased 2.8% over 1999 amounts. Adjusting both the 2000 and 1999 periods for the effects of run-off business written by a former London-based managing underwriter, global life/health earned premiums increased 9.8% in 2000. The increase in earned premiums in 2000 is primarily due to increases in the U.S. individual health segment and reduced retrocessions of business.

The global life/health operations produced improved but still unsatisfactory underwriting results for 2000. Underwriting results weakened in the international life/health business, while the U.S. life/health operations continued to show improvement. Of the $84 million global life/health underwriting loss in 2000, $23 million was attributable to the U.S. operations and $61 million was incurred in the international operations. The U.S. life segment produced modest underwriting profits in 2000 and a significantly reduced loss in its health operations. Results in the international life operations deteriorated from 1999, primarily due to losses on personal accident and pension lines of business.

Consolidated Statements of Income

Years ended December 31, 2000 and 1999 (in millions)

	2000	1999
Premiums and other revenues	(Note 16)	
Net premiums written		
Property/casualty	$ 6,553	$ 5,307
Life/health	2,263	1,736
Total net premiums written	**$ 8,816**	**$ 7,043**
Net premiums earned		
Property/casualty	$ 6,434	$ 5,179
Life/health	2,261	1,726
Total net premiums earned	**8,695**	**6,905**
Investment income	1,424	1,347
Other revenues (losses)	(17)	309
Net realized gains on investments	349	218
Total revenues	**10,451**	**8,779**
Expenses		
Claims and claim expenses	5,508	4,587
Life/health benefits	1,868	1,435
Acquisition costs	1,726	1,540
Other operating costs and expenses	683	745
Goodwill amortization	36	33
Total expenses	**9,821**	**8,340**
Income before income taxes and minority interest	**630**	**439**
Income tax expense (benefit):		
Current	129	207
Deferred	38	(115)
Income tax expense	**167**	**92**
Income before minority interest	**463**	**347**
Minority interest	46	24
Net income	$ 417	$ 323

See accompanying notes to these Consolidated Financial Statements

Consolidated Balance Sheets

December 31, 2000 and 1999
(in millions, except share amounts)

	2000	1999
Assets		
Investments:		
Fixed maturities:		
Held-to-maturity, at amortized cost (fair value: $466)	$ 455	—
Available-for-sale (cost: $18,009 in 2000; $17,760 in 1999)	18,615	$ 17,864
Preferred equities, at fair value (cost: $691 in 2000; $713 in 1999)	666	696
Common equities, at fair value (cost: $697 in 2000; $796 in 1999)	1,062	1,059
Short-term investments	1,402	525
Other invested assets	1,088	1,075
Total insurance invested assets	**23,288**	**21,219**
Cash and cash equivalents	636	1,163
Accrued investment income	326	353
Accounts receivable	2,463	2,783
Funds held by reinsured companies	465	512
Reinsurance recoverable	3,144	2,877
Deferred acquisition costs	653	565
Goodwill	1,044	1,115
Income taxes	31	186
Other assets	1,122	1,250
Assets of financial products and service businesses	9,378	10,742
Total assets	**$ 42,550**	**$ 42,765**
Liabilities		
Claims and claim expenses	$ 17,453	$ 16,621
Policy benefits for life/health contracts	1,959	1,641
Unearned premiums	1,950	2,052
Other reinsurance balances	2,103	2,648
Notes payable	281	282
Other liabilities	974	752
Minority interest	758	937
Liabilities of financial products and service businesses	9,030	10,122
Total liabilities	34,508	35,055
Common Stockholder Equity		
Common stock (1,000 shares outstanding in 2000 and 1999, par value $0.01)	—	—
Capital in excess of par value	1	1
Accumulated other comprehensive income:		
Unrealized appreciation of investments, net of taxes	571	265
Cumulative translation adjustments, net of taxes	(202)	(111)
Total accumulated other comprehensive income	**369**	**154**
Retained earnings	7,672	7,555
Total common stockholder equity	8,042	7,710
Total liabilities, and common stockholder equity	$ 42,550	$ 42,765

See accompanying notes to these Consolidated Financial Statements

Consolidated Statements of Changes in Stockholder Equity

Years ended December 31, 2000 and 1999

(in millions)	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Comprehensive Income
Balance December 31, 1998	$ —	$ 1	$ 7,732	$ 858	
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)
Dividends paid on common stock	—	—	(300)	—	
Net income	—	—	417	—	$ 417
Unrealized appreciation of investments net of tax expense of $319	—	—	—	515	515
Reclassification adjustment for appreciation included in net earnings, net of tax benefit of $140	—	—	—	(209)	(209)
Currency translation adjustments net of tax benefit of $45	—	—	—	(91)	(91)
Other comprehensive income	—	—	—	—	215
Balance December 31, 2000	$ —	$ 1	$ 7,672	$ 369	$ 632

See accompanying notes to these Consolidated Financial Statements

Consolidated Statements of Cash Flows

Years ended December 31, 2000 and 1999 (in millions)

	2000	1999
Cash flows from operating activities		
Net income	$ 417	$ 323
Adjustments to reconcile net income to cash flows from operating activities:		
Increase in claim and claim expense liabilities	832	597
Increase in policy benefits for life/health contracts	318	390
Change in reinsurance recoverable	(267)	(381)
Change in unearned premiums	(102)	180
Amortization of acquisition costs	1,726	1,540
Acquisition costs deferred	(1,814)	(1,618)
Trading account activities:		
Change in trading account securities	522	(425)
Securities purchased under agreements to resell	(308)	519
Securities sold under agreements to repurchase	205	(301)
Change in other trading balances	(1,185)	295
Other changes in assets and liabilities	1,192	(934)
Net realized gains on investments	(349)	(218)
Net cash from (used in) operating activities	1,187	(33)
Cash flows from investing activities		
Fixed maturities		
Purchases	(6,060)	(5,375)
Calls and maturities	1,216	1,152
Sales - available for sale	3,654	2,402
Equity securities		
Purchases	(441)	(674)
Sales	539	783
Net (purchases) sales of short-term investments	(479)	(1,274)
Net (purchases) of other invested assets	(20)	(176)
Net cash used in investing activities	(1,591)	(3,162)
Cash flows from financing activities		
Issuance of notes payable	99	668
Repayment of notes payable	(269)	(22)
Commercial paper borrowing (repayment), net	500	(311)
Decrease in contract deposits	(140)	(442)
Cash dividends paid to stockholders	(304)	(501)
Other	(146)	(222)
Net cash used in financing activities	(260)	(830)
Change in cash and cash equivalents	(664)	(4,025)
Cash and cash equivalents, beginning of period	1,525	5,550
Cash and cash equivalents, end of period	$ 861	$ 1,525

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 (hereafter referred to collectively as "GeneralCologne Re") have global reinsurance and financial service operations in 76 cities in 28 countries on six continents and provide reinsurance coverage in approximately 130 countries. GeneralCologne Re operates four principal businesses: North American property/casualty reinsurance, international property/casualty reinsurance, global life/health reinsurance and financial services. GeneralCologne Re's principal reinsurance operations are based in North America and Germany, with other major operations in Asia, Australia, Europe and South America. GeneralCologne Re is among the four largest reinsurers in the world based on premiums and capital.

GeneralCologne Re's North American property/casualty operations produced operating revenues (revenues excluding realized gains) of $4,202 million, or 47%, of consolidated operating revenues in calendar year 2000. The principal business of these subsidiaries is treaty and facultative reinsurance underwritten on a direct basis throughout North America. GeneralCologne Re writes predominately excess reinsurance across various lines of business.

GeneralCologne Re's international property/casualty operations produced operating revenues of $2,755 million, or 31%, of consolidated operating revenues in calendar year 2000. 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 Corporation ("General Re") acquired a controlling interest in Kölnische Rückversicherungs-Gesellschaft AG ("Cologne Re"), which accounts for approximately 71% of GeneralCologne Re's international property/casualty premiums written. The transaction is described in more detail in Note 3.

GeneralCologne Re's global life/health reinsurance operations produced operating revenues of $1,982 million, or 22%, of consolidated operating revenues in calendar year 2000. Approximately 59% of life/health premiums were written in North America and the remaining 41% were written throughout the rest of the world. Life reinsurance premiums represent 54% of the segment's net premiums, and health reinsurance represents the remaining 46%.

GeneralCologne Re's financial service operations include derivative products, insurance brokerage and management, investment management, reinsurance brokerage and real estate management operations. General Re Financial Products Corporation and its affiliates (hereafter referred to collectively as "Gen Re Securities") offer interest rate, currency, credit and equity swaps and options, and structured finance products. The financial service operations produced operating revenues of $33 million, or less than 1%, of GeneralCologne Re's 2000 operating revenues. In February 2001, General Re announced that it had entered into an agreement to sell its majority ownership in Gen Re Securities; the transaction is expected to close in the third quarter of 2001.

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 of 1998, 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 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: GeneralCologne Re's consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America and include the accounts of General Re and its subsidiaries. These financial statements are based on GeneralCologne Re's historical reporting and exclude the effects of purchase accounting adjustments arising from the merger with Berkshire. The international property/casualty and global life/health operations previously reported their results on a quarter lag. Beginning with the fourth quarter of 2000, those operations now report their results on a current basis, consistent with GeneralCologne Re's other segments. Consequently, GeneralCologne Re's 2000 results include fifteen months or one additional quarter of information for the international property/casualty and global life/health operations. Notwithstanding, in previous periods when its international results were lagged, GeneralCologne Re provided 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 1999 financial statements to conform with the 2000 presentation.

Investments: Fixed maturity securities that GeneralCologne 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. Fixed maturity securities that GeneralCologne Re intends to hold to maturity are classified as *held-to-maturity*, and carried at amortized cost.

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 currency transaction gains and losses arising from the investments held by the North American operations and denominated in foreign currencies. GeneralCologne 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 GeneralCologne 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 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 GeneralCologne 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, morbidity 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 $92 million and $104 million at December 31, 2000 and 1999, 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. GeneralCologne Re generally earns investment income on these balances during the period in which funds are held.

Goodwill: GeneralCologne 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 Euro 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 GeneralCologne 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: Gen Re Securities' 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.

Accounting Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 GeneralCologne Re has not received ceding company reports, and (4) the valuation of non-exchange traded financial instruments. GeneralCologne 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 GeneralCologne 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* and subsequently amended that statement with Statements No. 137 and No. 138 in June 1999 and June 2000, respectively. 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. GeneralCologne Re adopted the new Statement as amended, on January 1, 2001. Adoption of Statement 133 is not expected to have a material effect on GeneralCologne Re's financial position.

In September 2000, the FASB issued Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, that replaces, in its entirety, FASB Statement No. 125. Although Statement 140 has changed many of the rules regarding securitizations, it continues to require an entity to recognize the financial and servicing assets it controls and the liabilities it has incurred and to derecognize financial assets when control has been surrendered in accordance with the criteria provided in the Statement. GeneralCologne Re has adopted the provisions of SFAS No. 140 that relate to disclosures of securitization transactions and collateral. GeneralCologne Re will adopt the remaining provisions of the new Statement as required beginning in the second quarter of 2001.

At December 31, 2000 and 1999, GeneralCologne Re, through Gen Re Securities, had accepted collateral that is permitted by contract or industry practice to sell or repledge with a fair value of $1,579 million and $1,945 million, respectively. Of the securities held as collateral, approximately $112 million and $77 million were repledged as of December 31, 2000 and 1999, respectively. At December 31, 2000, securities with a fair value of approximately $224 million were pledged against derivative transactions with a fair value of $321 million. Further, securities with a fair value of approximately $78 million were pledged against futures positions at two futures clearing brokers. Based upon current circumstances, GeneralCologne Re believes the application of the new rules will not have a material impact on its financial statements.

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 Capital Limited, which is a dedicated capital provider to Syndicate 435. The corporate name vehicle underwrote 39.7% and 31.6% of the Syndicate's 2000 and 1999 capacity, respectively, and underwrites 60.6% of its 2001 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 that 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 1999 calendar result, which were paid in 2000 with respect to the Class A and B shares, were $19 million and $16 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.

General Re, directly and indirectly through the joint venture arrangement, holds an 88.2% economic interest in Cologne Re.

4. Statutory Financial Information

GeneralCologne 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 GeneralCologne Re's North American property/casualty operations at December 31, 2000 and 1999 was $4,495 million and $4,697 million, respectively. Combined statutory net income of these operations for 2000 and 1999 was $340 million and $243 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. GeneralCologne Re discounts certain workers' compensation liabilities at an annual rate of 4.5%. These discounted liabilities were $1,377 million and $1,326 million at December 31, 2000 and 1999, respectively. Included in the discount recognized for statutory purposes at December 31, 2000 and 1999 was $682 million and $645 million, respectively, resulting from discounting permitted by the domiciliary insurance department.

GeneralCologne 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 GeneralCologne 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.

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 2000, GRC paid $350 million in dividends to General Re. For 2001, GRC's ordinary dividend capacity will be $444 million.

5. Investments

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

		Cost[1]	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
December 31, 2000 (in millions)	**Insurance Investments**				
	Short-term investments	$ 1,402	–	–	$ 1,402
	Fixed maturities—held-to-maturity				
	Corporate bonds	455	$ 11	–	466
	Total fixed maturities—held-to-maturity	455	11	–	466
	Fixed maturities- available-for-sale				
	Bonds:				
	U.S. government	679	24	$ 5	698
	Tax-exempt	6,240	440	3	6,677
	Corporate	4,479	167	117	4,529
	Foreign government	1,880	60	16	1,924
	Mortgage-backed and asset-backed	4,655	87	32	4,710
	Redeemable preferred	76	1	–	77
	Total fixed maturities—available-for-sale	18,009	779	173	18,615
	Preferred equities	691	5	30	666
	Common equities	697	732	367	1,062
	Other invested assets	1,078	24	14	1,088
	Total insurance investments	$ 22,332	$ 1,551	$ 584	$ 23,299
	Financial products and service investments	$ 2,595	$ 16	$ 17	$ 2,594
December 31, 1999 (in millions)	**Insurance Investments**				
	Short-term investments	$ 525	–	–	$ 525
	Fixed maturities—available-for-sale				
	Bonds:				
	U.S. government	1,311	$ 19	$ 27	1,303
	Tax-exempt	6,734	193	60	6,867
	Corporate	5,422	142	160	5,404
	Foreign government	1,814	87	21	1,880
	Mortgage-backed and asset-backed	2,395	5	75	2,325
	Redeemable preferred stocks	84	1	–	85
	Total 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
	Financial product and service investments	$ 3,174	$ 47	$ 13	$ 3,208

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 and held-to-maturity fixed maturity investments for both reinsurance and financial products 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, 2000
(in millions)

	Amortized Cost	Fair Value
Held-to-Maturity		
Due after five years through ten years	$ 455	$ 466
Total—held-to-maturity	$ 455	$ 466
Available-for-Sale		
Due in one year or less	$ 1,282	$ 1,342
Due after one year through five years	4,855	4,948
Due after five years through ten years	3,683	3,774
Due after ten years	4,411	4,718
Mortgage and asset-backed securities	4,658	4,713
Total—available-for-sale	$ 18,889	$ 19,495

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

(in millions)

	2000	1999
Realized Gains (Losses)		
Fixed maturities:		
Gross realized gains	$ 103	$ 78
Gross realized losses	(100)	(39)
Total fixed maturities	3	39
Equity securities and other invested assets:		
Gross realized gains	484	216
Gross realized losses	(138)	(37)
Total equity securities	346	179
Total net realized gains	$ 349	$ 218

	2000	1999
Investment Income		
Fixed maturities	$ 1,230	$ 1,054
Equity securities	84	76
Short-term investments	156	194
Other	(5)	63
Investment income before expenses	1,465	1,387
Investment expenses	(41)	(40)
Net investment income	$ 1,424	$ 1,347

Securities with a fair value of approximately $706 million at December 31, 2000 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 two years:

(in millions)

	2000	1999
Gross claim and claim expense liability, January 1	$ 16,621	$ 16,024
Reinsurance recoverables on unpaid claims and claim expenses	(2,377)	(2,122)
Net liability at January 1	14,244	13,902
Incurred claims and claim expenses related to:		
Current year	5,552	4,594
Prior years	(44)	(7)
Total incurred claims and claim expenses	5,508	4,587
Claim and claim expense payments related to:		
Current year	1,061	1,218
Prior years	3,141	2,825
Total payments	4,202	4,043
Effect of foreign exchange	(722)	(234)
Net unpaid claims and claim expenses from acquisitions	–	32
Net liability at December 31	14,828	14,244
Reinsurance recoverables on unpaid claims and claim expenses	2,625	2,377
Gross claim and claim expense liability, December 31	$ 17,453	$ 16,621

Consolidated net claims and claim expenses for 1999 and prior accident years experienced favorable development of $44 million in 2000. Net claims and claim expenses for 1999 and prior accident years for the North American operations experienced favorable development of $24 million in 2000. The net favorable loss development was experienced primarily in workers' compensation and property lines. The commutation of a retrocessional arrangement with an affiliate, National Indemnity, contributed to the favorable property development (Note 8). This favorable development was partially offset by the effect of discount accretion on workers' compensation reserves, additional losses reported on a large accident year stop loss cover which had substantially offsetting additional premiums, and unfavorable development on medical malpractice and commercial umbrella lines. After adjustment for the effects of foreign exchange, net claims and claim expenses for 1999 and prior accident years for the international operations experienced favorable development of $20 million in 2000. This favorable development arose primarily in certain German casualty proportional reinsurance lines, and was partially offset by adverse development on reserves for the December 1999 European winter storms. GeneralCologne Re's international operations generally experience some development of premium and losses due to late reported activity from European ceding companies. The preceding table above presents the additional reported losses, but does not present the related additional premium.

Consolidated net claims and claim expenses for 1998 and prior accident years experienced favorable development of $7 million in 1999 due to $25 million of favorable development in the North American operations offset by an increase in net claims and claim expenses of $18 million in the international operations. The favorable development resulted from lower reported losses than anticipated in workers' compensation and other casualty lines of business.

GeneralCologne 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, GeneralCologne 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. GeneralCologne 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. GeneralCologne 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 GeneralCologne Re's balance sheets for environmental and latent injury claims and claim expenses at December 31 were as follows:

(in millions)

	2000	1999
Gross environmental and latent injury liabilities	$ 1,505	$ 1,608
Reinsurance recoverable on related liabilities	376	386
Net	$ 1,129	$ 1,222

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. GeneralCologne 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 GeneralCologne 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.

7. Income Taxes

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

(in millions)

	2000			1999		
	United States	Foreign	Total	United States	Foreign	Total
Current	$ 94	$ 35	$ 129	$ 73	$ 134	$ 207
Deferred	161	(123)	38	(39)	(76)	(115)
Total	$ 255	$ (88)	$ 167	$ 34	$ 58	$ 92

Included in GeneralCologne Re's retained earnings are $149 million of cumulative undistributed income from its international subsidiaries for which no U.S. income tax provision has been made, as it is considered permanently reinvested. Income taxes paid were $96 million and $1,086 million in 2000 and 1999, respectively.

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

	2000	1999
U.S. statutory tax rate	35.0%	35.0%
Reduction in taxes resulting from:		
Tax-exempt bond interest	(17.6)	(27.0)
Dividends received deduction	(1.5)	(2.4)
Foreign tax rate differential/credits	3.3	10.2
Miscellaneous	7.3	5.1
Effective tax rate	26.5%	20.9%

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

December 31
(in millions)

	2000	1999
Deferred income tax assets		
Claim and claim expense liabilities	$ 258	$ 136
Unearned premiums	77	68
Accruals not currently deductible	230	112
Other	63	224
Total deferred tax assets	628	540
Less valuation allowance	(62)	(42)
Total deferred tax assets, net of valuation allowance	566	498
Deferred income tax liabilities		
Unrealized appreciation of investments	364	183
Deferred acquisition costs	85	50
Deferred charges	9	3
Other	12	54
Total deferred tax liabilities	470	290
Net deferred income tax asset	$ 96	$ 208

8. Reinsurance

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

(in millions)	Property/Casualty			Life/Health		
	Premiums Written	Premiums Earned	Claims Expenses	Premiums Written	Premiums Earned	Benefits
2000						
Direct	$ 669	$ 658	$ 496	–	–	–
Assumed	6,541	6,328	6,224	$ 2,520	$ 2,513	$ 2,098
Ceded	(657)	(552)	(1,212)	(257)	(252)	(230)
Net	$ 6,553	$ 6,434	$ 5,508	$ 2,263	$ 2,261	$ 1,868
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

GeneralCologne 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, GeneralCologne Re would be liable for such defaulted amounts. GeneralCologne Re holds partial collateral under these agreements and has never suffered a significant loss because of defaults. GeneralCologne Re utilizes various North American and international reinsurers as part of its retrocessional program. Prior to being included in GeneralCologne Re's retrocessional program, reinsurers are reviewed for their anticipated long-term creditworthiness by GeneralCologne Re's Retrocessional Market Committee.

Certain insurance subsidiaries of Berkshire provided retrocessional coverage for GeneralCologne Re. Approximately $64 million and $105 million of earned premium and $336 million and $372 million of losses were retroceded to these subsidiaries during 2000 and 1999, respectively. These amounts for 2000 include approximately $230 million of benefit from commuting certain retrocessional arrangements with a Berkshire subsidiary. Prepaid reinsurance premiums and reinsurance recoverables on unpaid losses were $3 million and $331 million at December 31, 2000 and $6 million and $413 million at December 31, 1999.

9. Notes Payable and Commercial Paper

Parent and Reinsurance Operations

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

December 31 (in millions)		2000	1999
	9.00% Note due in 2009	$ 150	$ 150
	8.85% Note due in 2005	106	107
	7.50% Note due in 2005	25	25
	Total notes payable	**$ 281**	**$ 282**

The 9.00% note was issued in 1989 by General Re 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 GeneralCologne 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 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:

December 31 (in millions)		2000	1999
	Outstanding at end of year	—	—
	Average outstanding balance during the year	—	$ 2
	Average interest rate for the year	—	4.78%

General Re has $3.4 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 $2.4 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:

December 31 (in millions)		2000	1999
	Structured finance notes	$ 1,018	$ 1,384
	General Re Funding Corporation Senior Accreting Notes 8.375% due in 2037	66	61
	Medium-term notes	66	122
	Total notes payable	**$ 1,150**	**$ 1,567**

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 $1,018 million of structured finance notes at December 31, 2000 with interest rates ranging from 5.3% to 6.9% for its U.S. dollar obligations, net of related hedges, and 4.4% to 4.5% for its British pound obligations. The structured finance notes have maturities from one to five years. GRFC's debt obligations are guaranteed by General Re.

General Re and GRFC established a $1.0 billion European Medium Term Note Program. Notes issued under the program by GRFC are guaranteed by General Re 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 7.2%. 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, 2000 was 6.5%.

Principal maturities on the outstanding notes payable of the financial service operations at December 31, 2000 were as follows:

(in millions)		
	2001	$ 17
	2002	240
	2003	420
	2004	397
	2005	1
	Remaining years after 2005	75
	Total	$ 1,150

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

(in millions)		2000	1999
	Year-end balance	$ 500	—
	Average interest rate at year end	6.55%	—
	Average maturity at year end (in days)	23	—
	Average outstanding balance during the year	$ 52	$ 232
	Average interest rate for the year	6.19%	4.93%

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

(in millions)		2000	1999
	Interest expense	$ 181	$ 164
	Interest paid	159	152

10. Retirement and Other Benefit Plans

Retirement Plan

GeneralCologne 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. GeneralCologne 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, GeneralCologne 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)	2000	1999
Service cost for benefits earned during the year	$ 23	$ 26
Interest cost on projected benefit obligation	32	28
Expected return on plan assets	(18)	(16)
Net amortization, deferral and other	1	2
Pension expense	$ 38	$ 40

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

December 31	North America		International	
	2000	1999	2000	1999
Discount rate	7.50%	7.75%	6.00%	6.00%
Expected return on plan assets	8.75%	8.75%	—	—
Rate of compensation increase	5.75%	5.75%	3.50%	4.00%

Changes in projected benefit obligation and plan assets, and funded status for 2000 and 1999 were as follows:

(in millions)		2000	1999
	Change in Projected Benefit Obligation		
	Net benefit obligation, beginning of year	$ 416	$ 401
	Service cost	23	26
	Interest cost	32	28
	Actuarial (gain)/loss	15	(23)
	Other	(20)	–
	Benefits paid	(15)	(16)
	Net projected benefit obligation, end of year	**$ 451**	**$ 416**

(in millions)		2000	1999
	Change in Plan Assets		
	Fair value of plan assets, beginning of year	$ 241	$ 226
	Actual return on plan assets	16	22
	Employer contribution	4	6
	Benefits paid	(15)	(16)
	Other	–	3
	Fair value of plan assets, end of year	**$ 246**	**$ 241**

December 31 (in millions)		2000	1999
	Funded Status	$ (205)	$ (175)
	Unrecognized net transition asset	(1)	(1)
	Unrecognized prior service cost	1	1
	Unrecognized net actuarial gain	(31)	(44)
	Accrued benefit cost liability	**$ (236)**	**$ (219)**

Substantially all of GeneralCologne Re's employees in the United States become eligible for certain health care and group life insurance benefits upon their retirement. GeneralCologne 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 GeneralCologne Re upon retirement. Through a trust, GeneralCologne Re funded $4 million for post-retirement health care benefits for current retirees at both December 31, 2000 and 1999 and had an accrued liability of $37 million and $34 million for current employees at December 31, 2000 and 1999, respectively. Initial and ultimate health care cost trends on covered charges were 7.00% and 5.50% at December 31, 2000, and 7.50% and 5.50% at December 31, 1999, respectively.

A one-percentage point change in assumed health care cost trend rates would have the following effects:

(in millions)		1-Percentage Point Increase	1-Percentage Point Decrease
	Effect on total of service and interest cost components	$ 1	$ (1)
	Effect on postretirement benefit obligation	4	(3)

Employee Savings and Stock Ownership Plan

GeneralCologne 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. GeneralCologne Re recognized ESSOP compensation expense based on the shares-allocated method of approximately $12 million and $11 million in 2000 and 1999, respectively.

11. Incentive Plans

In 1999, GeneralCologne 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 GeneralCologne 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. This plan was established in lieu of GeneralCologne Re's non-qualified stock options program, under which option grants subsequent to June 1998 have been discontinued. Expenses incurred under the plan for 1999 and 2000 have not been material.

In connection with the Berkshire merger, employees' existing stock options other than those granted in June 1998 vested and became exercisable. GeneralCologne 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. Financial Products and Service Businesses

Assets and liabilities of GeneralCologne Re's financial products and service businesses were as follows:

December 31
(in millions)

	2000	1999
Assets		
Cash and cash equivalents	$ 225	$ 362
Investment securities, at fair value (cost: $1,230 in 2000; $1,746 in 1999)	1,230	1,747
Trading securities, at fair value (cost: $1,365 in 2000; $1,429 in 1999)	1,364	1,461
Trading account assets	5,429	5,881
Securities purchased under agreement to resell	680	372
Other assets	450	919
	$ 9,378	$ 10,742

(in millions)

	2000	1999
Liabilities		
Securities sold under agreements to repurchase, at contract value	$ 499	$ 294
Securities sold but not yet purchased, at market value	715	368
Trading account liabilities	4,974	5,930
Commercial paper	500	—
Notes payable	1,150	1,567
Other liabilities	1,192	1,963
	$ 9,030	$ 10,122

GeneralCologne Re's financial products and service businesses include Gen Re Securities and other businesses that provide investment management, insurance/reinsurance brokerage and management, and real estate management operations. Gen Re Securities 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. Gen Re Securities' gross trading losses were $13 million in 2000 and gross trading revenues were $218 million in 1999.

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 60% of the notional volume outstanding for derivative contracts at December 31, 2000 have a term of five years or less and approximately 83% of the contracts have a term of less than ten years.

December 31
(in millions)

	2000	1999
Interest rate, currency and default swap agreements	$ 651,913	$ 531,645
Options written	91,655	121,683
Options purchased	103,143	151,001
Financial futures contracts:		
Commitments to purchase	9,535	32,377
Commitments to sell	17,069	11,368
Forward rate agreements	7,070	5,164
Foreign exchange spot and forward contracts	6,163	10,430

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

December 31
(in millions)

	2000		1999	
	Asset	Liability	Asset	Liability
Interest rate and foreign currency swaps	$ 16,840	$ 16,312	$ 22,593	$ 22,819
Interest rate and foreign currency and equity options	2,864	2,919	5,980	5,714
Gross fair value	**19,704**	**19,231**	**28,573**	**28,533**
Adjustment for counterparty netting	(14,275)	(14,275)	(22,692)	(22,692)
Net fair value	**5,429**	**4,956**	**5,881**	**5,841**
Security receivables/payables	—	18	—	89
Trading account assets/liabilities	**$ 5,429**	**$ 4,974**	**$ 5,881**	**$ 5,930**

(in millions)

	Average 2000		Average 1999	
	Asset	Liability	Asset	Liability
Interest rate and foreign currency swaps	$ 20,431	$ 20,533	$ 23,213	$ 23,071
Interest rate and foreign currency and equity options	3,147	3,174	4,657	4,687
Gross fair value	**23,578**	**23,707**	**27,870**	**27,758**
Adjustment for counterparty netting	(17,960)	(17,960)	(22,579)	(22,579)
Net fair value	**5,618**	**5,747**	**5,291**	**5,179**
Security receivables/payables	98	40	85	111
Trading account assets/liabilities	**$ 5,716**	**$ 5,787**	**$ 5,376**	**$ 5,290**

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. Gen Re Securities controls market risk exposures by taking offsetting positions in either cash instruments or other derivatives. Gen Re Securities 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. Gen Re Securities has established $22 million as its value at risk (VAR) limit with a 99th percentile confidence interval for potential losses over a weekly horizon.

Credit Risk arises from the possible inability of counterparties to meet the terms of their contracts. Gen Re Securities 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 $95 million at December 31, 2000. Counterparty credit limits are established, and credit exposures are monitored in accordance with these limits. Gen Re Securities 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. Gen Re Securities 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 Gen Re Securities.

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, 2000 approximated $4,223 million. The following table presents Gen Re Securities' derivatives portfolio by counterparty credit quality and maturity at December 31, 2000. The amounts shown under gross exposure in the table are before consideration of netting arrangements and collateral held by Gen Re Securities. Net fair value shown in 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 in the table that follows is net fair value less collateral held by Gen Re Securities.

December 31 (in millions)

	Gross Exposure						
Credit quality	0 – 5	5 – 10	Over 10	Total	Net Fair Value	Net Exposure	Percentage of Total
AAA	$ 1,044	$ 689	$ 684	$ 2,417	$ 1,133	$ 1,133	27%
AA	4,135	3,120	1,899	9,154	2,542	1,971	47
A	2,893	2,424	1,427	6,744	1,278	800	19
BBB	493	475	196	1,164	376	315	7
Below BBB	183	8	34	225	100	4	0
Total	$ 8,748	$ 6,716	$ 4,240	$ 19,704	$ 5,429	$ 4,223	100%

Liquidity Risk can arise from funding of Gen Re Securities' 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. GeneralCologne Re has developed strategies to ensure Gen Re Securities has sufficient resources to cover its potential liquidity needs through its access to GeneralCologne 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. GeneralCologne 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:

(in millions)

	2000		1999	
	Statement Value	Fair Value	Statement Value	Fair Value
Financial assets				
Mortgage receivable	$ 73	$ 94	$ 76	$ 97
Loan to ESSOP	132	121	137	115
Held-to-maturity securities	455	466	–	–
Financial liabilities				
Reinsurance operations notes payable	281	307	282	297
Financial services notes payable	1,150	1,150	1,567	1,567

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 GeneralCologne 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 GeneralCologne Re's mortgage and notes receivable/payable was estimated using discounted cash flow analyses, based on GeneralCologne Re's current incremental borrowing rates for similar types of arrangements. The fair value of GeneralCologne 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.

Financial products assets and liabilities—The carrying value for securities purchased under agreements to resell and securities sold under agreements to repurchase approximates their fair value. 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. The fair value for securities sold but not yet purchased was based on quoted market prices.

14. Leases

GeneralCologne 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 $50 million in 2000 and $53 million in 1999. At December 31, 2000, the future minimum annual rental commitments under non-cancelable leases were as follows:

(in millions)		
	2001	$ 43
	2002	37
	2003	33
	2004	30
	2005	29
	Subsequent to 2005	98
	Total	**$ 270**

Future minimum rental payments above have not been reduced by $35 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. 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.

16. Elimination of Reporting Lag for International Operations

As discussed in Note 1, the one-quarter lag in reporting of the international property/casualty and global life/health reinsurance activities of GeneralCologne Re was eliminated during the fourth quarter of 2000.

Earnings information with respect to the fifth quarter (October 1, 2000 to December 31, 2000) was as follows:

(in millions)	
Premiums and other revenues	
Total net premiums written	**$ 1,014**
Total net premiums earned	$ 1,056
Investment income	104
Net realized gains on investments	3
Total revenues	**1,163**
Expenses	
Claims and claim expenses	486
Life/health benefits	395
Acquisition and other operating costs	276
Total expenses	**1,157**
Income before income taxes and minority interest	6
Income tax expense	3
Minority interest	8
Net loss	$ (5)

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Deloitte & Touche

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of General Re Corporation and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, changes in stockholder equity and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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, these consolidated financial statements present fairly, in all material respects, the financial position of General Re Corporation and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

February 13, 2001

Deloitte
Touche
Tohmatsu

Executive Committee
(Counter-clockwise from center)

Ronald E. Ferguson
Joseph P. Brandon
Tom N. Kellogg
Franklin Montross IV
Dr. Peter Lütke-Bornefeld
Hans-Peter Gerhardt

Business Service Units

Regional Business Units	Unit Operating Manager	Chief Underwriter
North America	Joseph P. Brandon	
	J. Daniel Hickey, National	Kenneth B. Lundgren
	Christopher J. Migel, Regional/Specialty	Joseph I. Meli
Germany	Dr. Johannes Lörper	Dr. Arno Junke
Europe	Jürgen Meisch	Hans-Kristian Jacobsen
Latin America	Franklin Montross IV	Charles J. Veres
Southeast Asia	Dr. Wolfgang Droste	Jan Højgaard
Far East	Rainer Schürmann	Jan Højgaard
Global Business Units		
Aviation	Harold J. Clark	Michael Sweeney, Dorothea Eimermacher
Property Facultative	I. John Cholnoky	Cynthia B. Baldwin
Casualty Facultative	William E. Thiele	Geoffrey H. Ashworth
Alternative Solutions	Milan Vukelic	John B. Houldsworth
Integrated Solutions & Consulting	Thomas Raschewski	Timothy S. Pasik
Multinational	Peter M. Nance	Manfred Ott
Life/Health Reinsurance		
International	Rainer Isringhaus	Dr. Winfried Heinen
United States	Thomas M. West	Cris Downey

Global Service Units	Unit Manager	Unit
	Franklin Montross IV	Underwriting
	Elizabeth A. Monrad	Finance
	Lee R. Steeneck	Actuarial
	Jack E. Koepke	Claims
	Stephen P. Raye	Technology
	Timothy T. McCaffrey	Legal
	James P. Hamilton	Human Resources
	Dr. Christian Lawrence	Communications
	Eckhard A. Völkening	Retrocession
	Kevin Fitzgerald	E-Services
Other Financial Services		
	Dr. Norbert Kranz	GeneralCologne Re Capital GmbH
	Robert Meindl	Credit/Bond International
	Gerald T. Lynch	General Re-New England Asset Management
	Robert E. McGowan	Herbert Clough
	Joan Lamm-Tennant	GeneralCologne Re Capital Consultants
	Patricia H. Roberts	General Star
	Harry L. Richter	Genesis
	Frederick C. Ackermann	Fairfield Insurance Co.

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Boston	617 728 3800
Charlotte	704 556 0910
Chicago	312 207 5300
Columbus	614 221 7111
Dallas	214 691 3000
Hartford	860 547 0200
Kansas City	913 345 2011
Los Angeles	213 630 1900
Montreal	514 288 9667
New York	212 341 8000
Orlando	407 977 0703
Philadelphia	215 988 7100
Phoenix	602 992 5849
San Francisco	415 781 1700
Seattle	206 682 7386
St. Paul	651 293 0075
Toronto	416 869 0490

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Milan	+39 02 762 1181
Moscow	+7 095 956 1784
Paris	+33 1 5367 7676
Riga	+371 783 0107
Vienna	+43 1 536 860
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Shanghai	+86 21 5876 1122
Singapore	+65 438 7990
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GenRe Securities

Hong Kong	+852 2598 2488
London	+44 20 7448 4000
New York	212 307 2300
Tokyo	+81 3 5473 6655
Toronto	+416 360 2060

General Star Management Company

Atlanta	404 239 6777
Chicago	312 207 5400
Los Angeles	213 630 1930
New York	212 341 8200
Stamford	203 328 5700

General Re-New England Asset Management, Inc.

Farmington	860 676 8722
San Diego	858 794 1447

General Re-CKAG Reinsurance and Investment S.à r.l.

Luxembourg	+352 22 6110

Genesis Underwriting Management Company

Atlanta	404 365 6800
Beachwood	216 766 5416
Chicago	312 526 7500
San Francisco	415 984 5600
Stamford	203 328 6660
White Plains	914 390 4300

Herbert Clough Inc.

Stamford	203 357 8883

United States Aviation Underwriters, Inc.

Atlanta	404 728 9970
Chicago	847 298 5700
Dallas	972 239 7100
Denver	303 773 1606
Houston	713 654 0085
Los Angeles	626 577 6333
Memphis	901 366 0097
Minneapolis	612 831 3400
New York	212 952 0100
Pittsburgh	412 391 4830
St. Louis	314 576 2960
San Francisco	415 788 6300
Seattle	206 621 8506
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