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A.M. Best Affirms Group Rating of GeneralCologne Re Core Affiliates

OLDWICK, N.J., July 5, 2001—A.M. Best Co. has affirmed the A++ (Superior) group financial strength rating of **General Reinsurance Corp.**, Stamford, Connecticut, and its core affiliated property/casualty and life/health insurance and reinsurance companies.

The rating applies to General Reinsurance Corporation and its thirteen core US and International property/casualty and life reinsurance and insurance affiliates as listed below. A.M. Best considers these companies to be core operations of the GeneralCologne Re Group, as they are integral to its overall strategy and important to its ongoing success and viability. In addition, these companies, which generate a large majority of its total revenues, are material contributors to the group's market position, operating performance and financial strength and are generally well established within their individual market segments.

The rating reflects the group's exceptional balance sheet strength, historical level of operating profitability and leadership position in the global reinsurance marketplace, ranking among the top four reinsurers worldwide. GeneralCologne Re has maintained a sustainable competitive advantage in terms of its direct distribution approach, client-focused organizational structure and substantial risk management capabilities, which has reinforced strong long-term relationships with its clients. Despite depressed underwriting performance over the past two years and significant 1998 losses stemming from the Unicover Pool, the group has sustained a five-year average return on equity and pretax return on revenue of 12%.

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The sustainability of its historical performance is due to its exceptional long-term underwriting results in its core businesses and a robust level of investment earnings. In addition, through its increased controlling interest in Cologne Re, the group has further enhanced the diversification of its property/casualty and life/health reinsurance businesses globally. It has successfully drawn upon the strengths of its international operations to share underwriting and product expertise and, where practical, form worldwide underwriting centers of excellence. Through its global alternative solutions business unit, it also possesses a platform for the distribution of financial reinsurance products, enabling the group to venture into non-traditional business thereby complementing its traditional reinsurance businesses. Collectively, the group is well positioned to meet the risk management needs of its global client base by offering a broad portfolio of products and services and significant limits of available capacity, which should enable the group to take full advantage of the current upturn in the reinsurance market. These strengths are also augmented by the operational and financial flexibility afforded the group as a wholly-owned subsidiary of Berkshire Hathaway Inc., a listed Fortune 500 company and one of the largest diversified financial holding companies in the United States.

These strengths are partially offset by the group's weak underwriting and operating performance of the past two years. Although the group's historical return on equity has averaged 12% over the past five years, this has been supported by substantial realized capital gains associated with the liquidation of its equity portfolio in 1998, which has helped to mitigate higher underwriting losses in subsequent years. Operating performance for 1999 and 2000 has been below A.M. Best's expectations, with pretax returns on revenue of 3.2% and 4.5%, respectively. While this relatively recent trend is reflective of the severe market competition in the global

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reinsurance sector over the past several years, its is also reflective of GeneralCologne Re's significant market share in business segments impacted by weak market fundamentals, namely, traditional non-life and health reinsurance.

Non-life operations produced a combined ratio of 117% in 2000 compared to 120% in 1999. The recent year was impacted by adverse reserve development relating to prior years and higher loss picks for the 2000-accident year, reflective of inadequate pricing and greater than expected loss cost trends in select markets and business classes. In the life operations, the global businesses continue to benefit from favorable mortality experience and improved underwriting in its health reinsurance business. Although underwriting performance of the group's U.S. operation—specifically the health reinsurance business—showed improvement in 2000 following the \$275 million reserve charge in 1998 relating to losses stemming from the Unicover Pool, overall, the segment's health reinsurance underwriting performance continues to fall short of A.M. Best's expectations. Nonetheless, the overall group continues to maintain a conservative overall reserve position and the balance sheet strength to retain its dominant market leadership position. In 2000, GeneralCologne Re reemphasized its focus on bottom line performance, reorganized its business operations to enhance service capabilities, demonstrated a willingness to shed unprofitable business and increased its share of non-proportional business globally. Further, the group has the strong global franchise, distribution, underwriting skill and discipline to sustain and benefit from the recent improvement in the reinsurance market. Accordingly, the rating outlook is contingent on the group's success in executing its strategy and restoring its earnings to historical levels.

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The A++ group financial strength rating applies to the following General Re Corporation core property/casualty and life/health insurance and reinsurance companies worldwide:

- General Reinsurance Corp., United States
- General Star Indemnity Co., United States
- General Star National Insurance Co., United States
- Genesis Indemnity Insurance Co., United States
- Genesis Insurance Co., United States
- Kolnische Ruckversicherungs-Gesellschaft AG, Germany
- The Faraday Reinsurance Co. Ltd, United Kingdom
- General & Cologne Life Re UK Limited, United Kingdom
- Cologne Reinsurance Co. (Dublin) Ltd., Ireland
- Kolnische Ruck Wien A.G., Austria
- General & Cologne Life Re Australasia Ltd., Australia
- General & Cologne Reinsurance Australasia Ltd., Australia
- General Cologne Re UK Limited, United Kingdom
- The General & Cologne Re Africa Limited, South Africa

Concurrently, A.M. Best has affirmed the A+ (Superior) financial strength rating of General & Cologne Life Re of America, Stamford, Connecticut. The rating recognizes the company's strategic role as the U.S. life reinsurance platform for General Re Corporation. The rating also reflects the explicit financial support provided by Cologne Re and ultimately by General Re Corporation. While on its own, General & Cologne Life Re of America has not achieved the performance levels commensurate with its current rating, in 2000, underwriting performance demonstrated some improvement. A.M. Best recognizes General Re Corporation's demonstrated commitment to the company's important market segment and the prospective contribution the segment will make to the overall group.

Separately, the A- (Excellent) rating of the General & Cologne Life Re of America's wholly owned subsidiary, Idealife Insurance Company was also affirmed, based on its standalone capitalization and operating performance.

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