

REPORT ON EXAMINATION
OF THE
GENERAL REINSURANCE CORPORATION
AS OF
DECEMBER 31, 2008



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The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

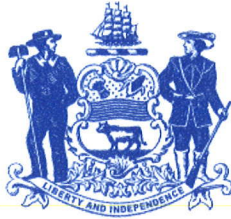
Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to be "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 29th day of June, 2010



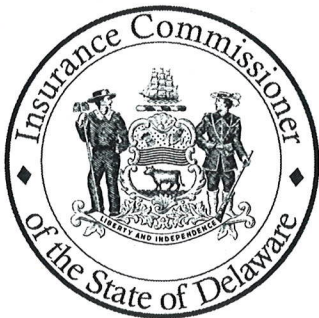
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2008 of the

GENERAL REINSURANCE CORPORATION

is a true and correct copy of the document filed with this Department.

Attest By: Sonia C. Harris

Date: 29 June 2010



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 29th day of June 2010.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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SALUTATION

June 30, 2010

Honorable Alfred W. Gross
Chairman, Financial Condition (E) Committee,
NAIC
Commissioner
Bureau of Insurance
Virginia State Corporation Division
P.O. Box 1157
Richmond, Virginia 23219

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Secretary, Southeastern Zone
Commissioner
Louisiana Dept. of Insurance
1702 N. 3rd Street
P.O. Box 94214
Baton Rouge, Louisiana 70802-9214

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Honorable Paulette J. Thabault
Secretary, Northeastern Zone
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Montpelier, Vermont 05620-3101

Honorable Mary Jo Hudson
Secretary, Midwestern Zone
Director
Ohio Department of Insurance
50 West Town Street
Third Floor, suite 300
Columbus, OH 43215

Honorable Karen Weldin Stewart, CIR-ML
Commissioner
Delaware Department of Insurance
Rodney Building
841 Silver Lake Blvd.
Dover, Delaware 19904

Commissioners/Directors:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority Number 09.012, dated May 13, 2009, an examination has been made of the affairs, financial condition and management of the

GENERAL REINSURANCE CORPORATION

hereinafter referred to as "Company" or "GRC" and incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at 1209 Orange Street, Wilmington, Delaware, 19801. The examination was conducted at the main administrative offices of the Company, located at 120 Long Ridge Road, Stamford, CT, 06902-1843.

The report of such examination is submitted herewith.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 2005. This examination covers the period since that date through December 31, 2008. Transactions subsequent to the latter date were reviewed where deemed necessary.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (FCEH Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. The FCEH Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing current and prospective inherent risks to which the Company is exposed, and evaluating its system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This examination report only addresses regulatory information revealed by the examination process.

During the course of this examination, consideration was given to work performed by the Company's Internal Audit Department (IAD) and by the external accounting firm, Deloitte & Touche, LLP (D&T), of New York, New York. Certain auditor workpapers have been incorporated into the workpapers of this examination and have been utilized in determining the scope and areas of emphasis in conducting the examination.

General Reinsurance Corporation

The examination was conducted concurrently with that of affiliates National Reinsurance Corporation (NRC) and North Star Reinsurance Corporation (NSR), also Delaware domestic insurance companies. Separate reports of examination were filed for each company.

HISTORY

The Company was incorporated under the laws of Delaware on October 8, 1970, and received its Certificate of Authority to commence business effective January 1, 1973. The Company was incorporated to act as the vehicle for the transfer of the corporate domicile from New York to Delaware of a predecessor company, General Reinsurance Corporation, which had originally been incorporated under the laws of New York on March 21, 1921.

On October 31, 1980, the Company, by merger and reorganization, became a wholly-owned subsidiary of General Re Corporation (GRN), a publicly traded holding company domiciled in the State of Delaware. Effective December 21, 1998, the Company then became a member of the Berkshire Hathaway Inc. (Berkshire) holding company structure when, through a merger agreement, the parent company GRN became a wholly owned subsidiary of Berkshire.

On October 31, 2008, the Company completed a transaction with White Mountains Insurance Group, Ltd (White Mountains) as proposed in the Exchange Agreement entered into between the Company, White Mountains and Berkshire. The transaction involved an exchange of the Company's common stock ownership in White Mountains (approximately a 16% interest) for 100% ownership of a White Mountains subsidiary and its four (4) wholly-owned subsidiaries. In conjunction with this transaction, White Mountains restructured its holdings and the Company ultimately acquired Railsplitter Holdings Corp., which in turn owns directly and indirectly Commercial Casualty Insurance Company, International American Group Inc., American Centennial Insurance Company, British Insurance Company of Cayman and International American Management Company.

General Reinsurance Corporation

Capitalization

The Company has 11,000 shares of common stock authorized, with a par value of \$ 1,000 per share. All shares are issued and outstanding and are currently held by the Company's immediate parent, GRN. There were no changes to the \$2,787,425,590 of gross paid in and contributed surplus during the examination period.

During the examination period, the Company paid dividends as follows to its parent GRN:

2006	\$775,000,000
2007	\$825,000,000
2008	\$0

The dividends were considered ordinary in accordance with 18 *Del. C.* § 5005.

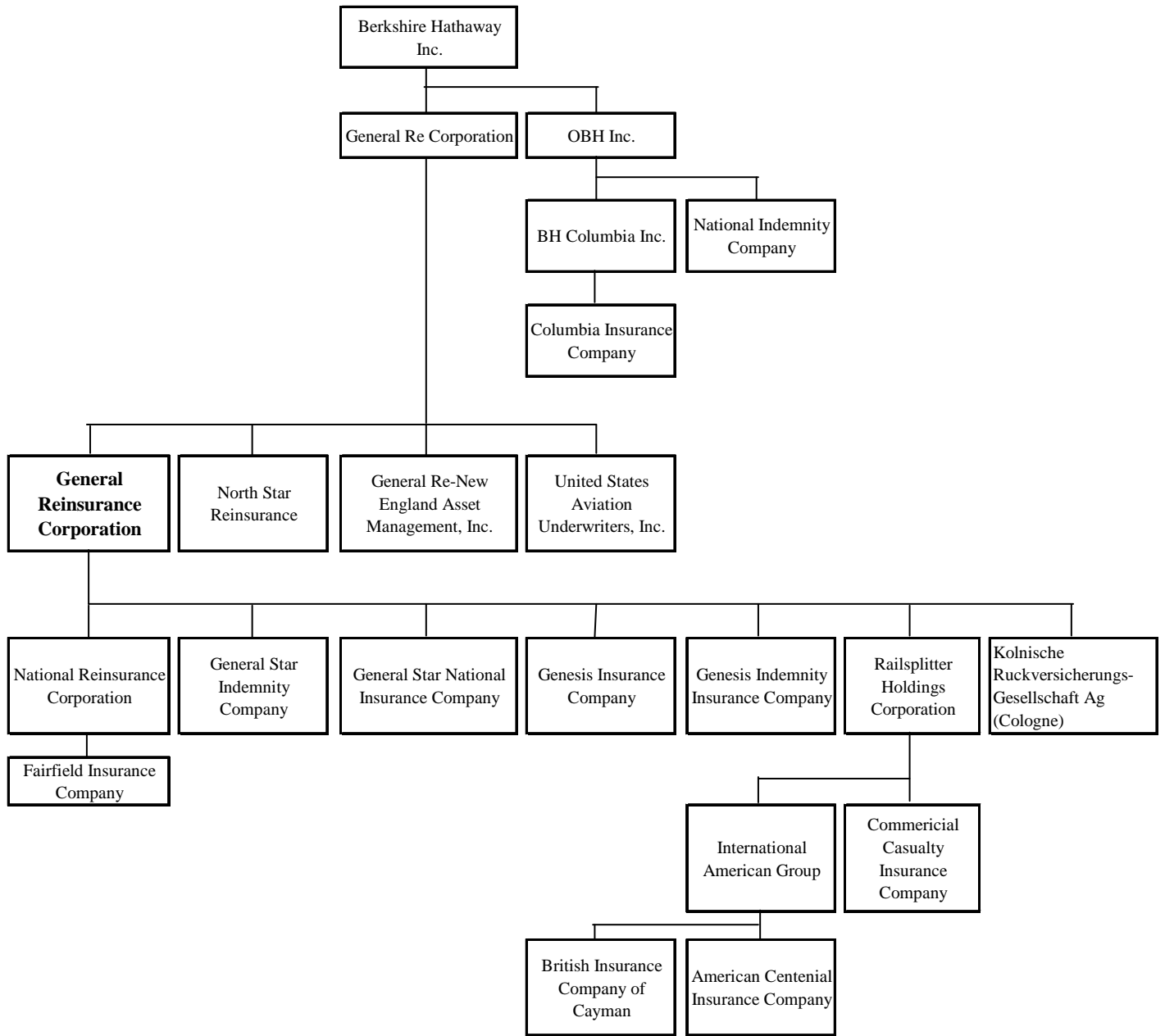
MANAGEMENT AND CONTROL

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined at 18 *Del. C.* § 50, "Insurance Holding Company System Registration." At December 31, 2008, the Company owned approximately 73 subsidiaries and, along with 26 other entities, was in turn owned by GRN, a Delaware holding company. The GRN group of companies provides global reinsurance and financial service operations in over 75 cities in 29 countries, and provides reinsurance in approximately 136 countries. GRN in turn is owned by Berkshire, a publicly traded holding company whose subsidiaries overall engage in a number of diverse business activities including property and casualty insurance and reinsurance, utilities and energy, finance, manufacturing, services and retailing.

The following is an abbreviated organizational chart as of December 31, 2008.

General Reinsurance Corporation



The above entities are all 100% owned. Mr. Warren Buffett is considered the ultimate controlling person over the holding company system, owning approximately 31.8% of Berkshire.

Board of Directors and Officers

The business affairs and corporate activities are vested in a Board of Directors. The bylaws provide that the number of directors shall be established by the Board of Directors or by

General Reinsurance Corporation

action of the stockholder and shall consist of not less than seven (7) members. Directors are elected annually at the annual stockholders' meeting, and serve until a successor is elected and qualified. A majority of the Board of Directors, but no less than five (5) members, shall constitute a quorum for the transaction of business. Prior to July, 2008, Board resolutions were primarily voted by the members by providing written consent; however, beginning with the July 2008 meeting, the Company has indicated that its Board is being "reconstituted" in respect to maintaining corporate governance and compliance programs, and will hold meetings in which the Board will be in physical attendance three (3) or four (4) times a year.

The bylaws provide that the Officers of the Company shall be a Chairman of the Board, a President, a Treasurer and a Secretary, all of whom shall be elected by the Board of Directors at the next regular meeting after the Annual Meeting of the stockholder. The Chief Executive Officer may from time to time appoint other officers.

The Board of Directors and Officers duly appointed or elected and serving as of December 31, 2008 were as follows:

<u>Director</u>	<u>Primary Business Affiliation</u>
Franklin Montross IV	Chairman, Chief Executive Officer General Re Corporation and General Reinsurance Corporation President General Re Corporation
Imre John Chelnoky	President General Reinsurance Corporation
William George Gasdaska, Jr.	Chief Financial Officer, Treasurer and Senior Vice President General Re Corporation and General Reinsurance Corporation
Damon Nicholas Vocke	General Counsel, Secretary and Senior Vice President General Re Corporation and General Reinsurance Corporation
Nicholas Stavros Canelos *	Senior Vice President and Global Claims Manager General Reinsurance Corporation

General Reinsurance Corporation

Kenneth Bruce Lundgren * Senior Vice President and Chief Underwriter-Treaty
General Reinsurance Corporation

Daniel Kevin Lyons * Senior Vice President and Chief Actuary
General Reinsurance Corporation

Officers

Title

Franklin Montross IV * Chairman, Chief Executive Officer

Imre John Cholnoky * President

William George Gasdaska, Jr. Chief Financial Officer, Treasurer, Senior Vice President

Damon Nicholas Vocke General Counsel, Secretary, Senior Vice President

* Indicates newly appointed/elected during the examination period.

Committees

The bylaws provide for the Board to appoint such standing committees and/or special committees, each consisting of two (2) or more directors, to perform such duties and make such investigations and reports as the Board by resolution may determine. Additionally the Board of Directors may appoint an Executive Committee with the powers and authority of the Board in the management of the Company. During the examination period there were no such committees appointed by the Board. It was noted, however, that certain committees have been appointed by the GRN Board of Directors whose decisions can impact the entire GRN group of companies, and four (4) of the eight (8) GRN Board members also serve on the Company's Board. The committees include an Audit Committee, a Risk Committee (oversees the corporate governance and risk assessment process), and a Complex Transaction Committee (oversees risk transfer related issues and contracts issued by its entities).

Members of these committees serving as of December 31, 2008 were as follows:

General Reinsurance Corporation

GRN Risk Committee

Franklin Montross IV
Imre John Cholnoky
William Gasdaska, Jr.
Damon Vocke
Salvatore Curiale*
John Regan
Daniel Lyons
Nicholas Canelos
Adrienne Mageras
Kenneth Lundgren
Jonathan Hewitt
Sigfried Kuon
Winfried Heinen
Teresa McTague
Janice Englesbe
Sandra Bell

GRN Audit Committee

Franklin Montross IV
Imre John Cholnoky
William Gasdaska, Jr.
Damon Vocke
Salvatore Curiale*
Members of the Berkshire
Audit Committee also
participate in these meetings

GRN Complex Transaction Committee

Franklin Montross IV
William Gasdaska, Jr.
Damon Vocke
Other individuals are also invited
to participate, including the
Chief Actuary and GRN's
independent Board member

* Indicates member is independent

Corporate Governance

The Company operates under a corporate governance environment that includes certain oversight and corporate direction from both the upstream parent Berkshire and from GRN, and the Board of Directors and management of the Company. The control consciousness is developed throughout the organization through a sound organizational structure that allows for ease of communication across the entity, a conscious commitment to integrity, promoting ethical values and competence of employees, the assignment of clear authority and responsibility, an open management philosophy and operating style and a commitment to the development of resources.

General Reinsurance Corporation

In addition, the governance process establishes the roles of the GRN board, and the GRN Audit, Risk, and Complex Transactions Committee in the establishment of a sound risk management process that has a pervasive influence on the way business activities are structured, objectives and strategies are established and risks identified. It also influences risk assessment, control activities, information and communication systems, monitoring activities, and antifraud programs.

The Audit Committee assists management in significantly influencing the “tone at the top”. In its fiduciary role, the Board along with the Risk Committee is responsible for overseeing the internal controls over financial reporting established by management and the process by which management satisfies itself that they are working effectively. They are also responsible for assessing the risk of financial fraud by management and ensuring that controls are in place to prevent, deter and detect such fraud. The oversight controls extend to understanding management’s strategic initiatives, risk management processes (including antifraud programs) and controls as well as the internal and external audit plans and procedures for addressing risks within the organization.

Internal audit, in its oversight capacity, has broad knowledge about the Company which enables it to identify operational deficiencies as well as indicators of fraud. Internal audit assists in the monitoring of organizational objectives, the adherence with policies and procedures and the deterrence of fraud by examining and evaluating the effectiveness of the operational processes and the adequacy and effectiveness of internal controls as part of their audits. The scope of the Internal Audit program is coordinated with the Company’s independent accountants to ensure adequate coverage and maximum efficiency. Each year, a comprehensive risk-based audit plan is prepared and presented to the Audit Committee and to senior management.

General Reinsurance Corporation

Conflict of Interest Policy

The immediate parent company, GRN, maintains a formal written Policy Statement on Conflict of Interest procedures under which the subsidiaries participate. In accordance with these procedures, conflict of interest compliance questionnaires are required to be completed by all directors, officers and employees on an annual basis. Currently compliance is ensured through the use of an electronic process which tracks completed and outstanding forms, and the Company was noted to have complied with its conflict of interest procedures for the period under review.

Intercompany Agreements

The Company participated in the following inter-company service and administrative type agreements that were in effect as of December 31, 2008:

Expense and Tax Allocation Agreement

Effective January 1, 1984 and amended January 1, 1988, the Company and its immediate parent, GRN, entered into an expense and tax allocation agreement.

Each of the parties can provide services to the other that includes administration, underwriting services, personnel, investment, EDP, treaty services, medical and such other expenses and taxes of any kind, rent, employee benefits and directors fees. Fees charged shall be based on time, number of employees, company assets, rent space or other agreed upon cost allocation methods.

The consolidated tax liability is allocated among affiliates in the ratio that each affiliate's separate return tax liability bears to the sum of the separate return tax liabilities of all affiliates that are members of the consolidated group. Estimated payments are required to be made by the respective affiliates to GRN and if such member is in a tax loss position that member will establish an account receivable from GRN.

General Reinsurance Corporation

Underwriting Management Agreement

Effective April 1, 1988 and amended on July 1, 1989, the Company is a party to an underwriting management agreement with Genesis Underwriting Management Company (GUMC). GUMC acts on behalf of the Company in underwriting excess workers' compensation and employers' liability insurance and reinsurance in support of alternative risk financing programs including self and captive insurance. Management services include developing sources of production of contracts of insurance, underwriting of risks, issuance of insurance and reinsurance contracts, receipt of premiums and processing of claims (including the establishment of loss reserves), appointment of loss adjusters and defending and settling losses under the policies of the agreement.

General Services Agreements

The Company has entered into 30 separate general service and/or administrative agreements with affiliates whereby the parties may provide, without limitation, such services as; administration, communications and public relations, actuarial, audit, executive, legal, personnel, comptroller, employee benefits and benefit plans, accounting, tax and other financial services.

Additionally, the Company has entered into another two (2) agreements covering more specified technical assistance or underwriting support.

Investment Management Agreement

Effective June 1, 2003 and last amended October 1, 2006, the Company entered into an investment management agreement with General Re-New England Asset Management, Inc. (NEAM), whereby NEAM will make investment decisions for the Company in accordance with investment restrictions and guidelines as stated in the agreement. All investment transactions require prior approval from the Company except for transactions in the "short term pool" account.

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This agreement was amended and restated effective January 1, 2009. No significant changes in the overall provisions in the agreement were noted.

Joint Asset Agreement

Effective January 1, 1989 and as amended and restated on February 1, 2007 with amendments through July 1, 2009 (to reflect changes in non-insurance participants), a joint asset agreement was established between and among the Company and certain other subsidiaries of GRN in order to improve the investment returns on contributed funds. The companies joined together, creating a short term pool fund to which each participant contributes cash in excess of general working capital. Each participant jointly owns a percentage of the assets in the pool and shares in the investment income/loss in proportion to its contributed assets. Participants may cancel their participation and withdraw their contributions upon notice to the manager. The Company has been appointed as the manager and investment advisor for the jointly owned assets comprising the pool fund.

Master Loan Agreement

Effective March 1, 1993 and as amended and restated on February 1, 2007 with amendments through July 1, 2009, a master loan agreement was established between and among GRN and certain of its subsidiaries to create an inter-company short term loan facility to reduce each participant's level of short term investments while retaining sufficient liquidity to pay current obligations through affiliate borrowings as needed. The Company manages the short term loan facility and is authorized to make loans by affiliates to affiliates requesting such a loan. Loans bear interest from the date funds are advanced until the date repaid and the rate of interest shall be the average rate currently received by participants on their short term investments. Loans are to be outstanding for no longer than six months, and borrowing affiliates may repay the loans at any time without penalty. Where necessary to allow for the loaned amount to be an

General Reinsurance Corporation

admissible asset, the borrowing entity is responsible for providing collateral sufficient to cover 100% of the value of the loan.

The amended and restructured Master Loan Agreement was properly submitted to and approved by the Delaware Department of Insurance. As of December 31, 2008, there were no loans outstanding due to the Company and only minimal transactions during the year in conjunction with this agreement.

Guaranty Agreement

Effective May 28, 1996, as a way of inducement for client insurance companies to enter into reinsurance agreements with its subsidiary, General Reinsurance UK Limited, the Company unconditionally guarantees the payments of all amounts due and payable under those agreements in the event the subsidiary fails to pay and/or perform as required.

Cash Flow Funding Agreement

Effective March 29, 2007, the Company entered into an agreement with United States Aviation Underwriters, Inc. as managers of the United States Aircraft Insurance Group (collectively known here as USAU). USAU managed the United States Aircraft Insurance Group III Satellite Pool, which was discontinued in June 2006 and is now in run-off, with the Company being the sole participant. This agreement was entered into to provide the funding mechanism for the run-off of claims, and provides for the Company to establish an initial \$500,000 in an account with JPMorgan Chase and to provide additional funding when necessary to pay the claims. USAU is managing the run off. Upon final settlement, any remaining funds are to be returned to the Company.

Specific Loan and Investment Transactions

The following long-term loans were issued by the Company and remain outstanding as of December 31, 2008:

General Reinsurance Corporation

- Loan agreements were entered into with Berkshire, the ultimate parent company, and are evidenced by two (2) 10-year promissory notes issued to the Company on March and August of 2002. Face values of the initial notes were for \$283 million and \$500 million, respectively, with reported values of \$169.8 million and \$157.9 million at December 31, 2008.
- Loan agreements entered into with Fruit of the Loom, an affiliate, are evidenced by two (2) 10-year promissory notes issued to the Company in August 2006 and April 2007. Face values of the initial notes were for \$940 million and \$350 million, respectively, and provide for interest only semiannual payments. Both of these loans were guaranteed as to payment by Berkshire.

These agreements were submitted to and approved by the Delaware Department of Insurance.

Net Worth Maintenance Agreement

Pursuant to the Net Worth Maintenance Agreement, effective January 1, 2005, Berkshire has unconditionally and irrevocably guaranteed to provide capital contributions and/or liquid assets, up to a maximum of \$1.5 billion, in order to support the insurance operations of GRN's subsidiaries. Specific to the Company, Berkshire agrees, under the guarantee, to:

- Ensure that the reinsurance contracts remain in force between National Indemnity Company, Columbia Insurance Company and the Company and its subsidiaries (these are presently the only current active ceding agreements, comprised of a loss portfolio agreement splitting the losses on a 50/50 basis for contracts through 2004, and the 50/50 quota share agreement covering business written starting in 2005):

General Reinsurance Corporation

- Make capital contributions, in the form of common equity, sufficient to ensure that the Company records policyholder's surplus of at least \$3 billion and to raise the Company's capital adequacy ratio to levels required by A.M. Best and Standard & Poor's.

The Net Worth Maintenance Agreement was submitted to and approved by the Delaware Department of Insurance.

TERRITORY AND PLAN OF OPERATION

Territory

The Company is authorized to transact the business of insurance in all states except Hawaii (where the Company operates as an accredited reinsurer), and is also licensed in the District of Columbia, Puerto Rico, Guam and Canada. There were no changes to the states or territories in which the Company is authorized to do business during the period under review.

The principal office facilities of the Company are located in Stamford, Connecticut and are supplemented by primary branch operations in Atlanta, Boston, Charlotte, Chicago, Columbus, Dallas, Hartford, Kansas City, Los Angeles, Montreal, New York City, Philadelphia, San Francisco, Seattle, St. Paul, Toronto, and Trumbull.

Plan of Operation

The Company and certain of its United States affiliates and subsidiaries represent the North American (N.A.) property/casualty reinsurance operations of the Gen Re Group. The N.A. group operates as a treaty and facultative reinsurer underwriting all lines of property and casualty business, and is one of the largest professional property and casualty reinsurers in the United States and in the world based on premiums and capital.

The Company is considered the "flagship" of these reinsurance operations, and operates under the Direct Business model which encompasses underwriting the business through its employees as opposed to utilizing reinsurance brokers or intermediaries to obtain and/or

General Reinsurance Corporation

underwrite its business. The core of the Company's book of business is excess of loss property and casualty treaty contracts, currently executed primarily with smaller, regional insurance entities.

In addition to its assumed reinsurance business, the Company, through its participation in the United States Aircraft Insurance Group pool in 2003, also indirectly writes a modest sized block of aircraft business, 100% of which is reinsured with non-affiliated reinsurers, and through 2007 directly wrote a small block of direct excess indemnity coverage for qualified workers' compensation self insurers business. A majority of the excess workers' compensation business beyond the Company's retention was reinsured with several of the Company's affiliates.

As of December 31, 2008, the Company was rated A++ Superior by the rating agency A.M. Best.

GROWTH OF THE COMPANY

The following information was extracted from the Company's filed Annual Statements and shows the changes in the Company since the last examination:

Year	Net Admitted Assets	Surplus as Regards Policyholders	Gross Premiums Written *	Net Premiums Earned	Net Income
2008	\$14,446,149,055	\$8,936,848,023	\$1,261,114,516	\$ 645,168,803	\$300,151,858
2007	\$16,414,666,605	\$9,887,606,700	\$1,412,489,185	\$ 727,328,019	\$763,059,637
2006	\$15,457,707,255	\$8,692,178,461	\$1,501,527,181	\$ 799,088,862	\$631,319,732
2005	\$14,632,646,158	\$7,894,084,717	\$1,721,457,921	\$(3,988,073,451)	\$721,128,937

* Direct premiums written and reinsurance assumed.

Written premiums continued to decline over the period consistent with the Company's strategy to pursue only business which was determined to be profitable. In 2005, the earned premiums were further impacted by the loss portfolio transaction in which business written prior

General Reinsurance Corporation

to 2005 was ceded to two (2) affiliates (see Reinsurance section below for further details). Overall the Company has maintained a positive net income.

The Company's direct and indirect writings and retention of the excess workers' compensation business from the prior examination date to December 31, 2008 were as follows:

Direct/Indirect Written Premiums

<u>Year</u>	<u>Aircraft</u>	<u>Excess Workers' Compensation</u>	<u>Total</u>	<u>Reinsured Ceded Premiums</u>	<u>Premiums Retained</u>
2008	\$51,349,303	\$ -0-	\$51,349,303	\$51,349,303	\$ -0-
2007	\$56,199,641	\$ 429,880	\$56,629,521	\$56,414,581	\$214,940
2006	\$56,977,263	\$ 677,562	\$57,654,825	\$57,316,044	\$338,781
2005	\$54,608,682	\$2,470,556	\$57,079,238	\$56,768,444	\$310,794

REINSURANCE

GRN together with its subsidiaries (including the Company), known collectively as Gen Re, is one of the world's largest professional reinsurers, writing a wide array of working layer reinsurance products.

The Company reported the following distribution of net premiums written in 2008:

Direct and indirect business	\$ 51,349,303
Reinsurance assumed (from affiliates)	8,038,654
Reinsurance assumed (from non-affiliates)	1,201,726,559
Total direct and assumed	<u>1,261,114,516</u>
Reinsurance ceded (to affiliates)	584,433,304
Reinsurance ceded (to non-affiliates)	51,070,994
Total ceded	<u>635,504,298</u>
Net premiums written	<u>\$ 625,610,218</u>

Ceded Reinsurance

Effective January 1, 2005, the Company and certain of the Company's N.A. property and casualty subsidiaries entered into a loss portfolio contract and a quota share reinsurance contract

General Reinsurance Corporation

with two (2) other affiliates, National Indemnity Company and Columbia Insurance Company. The agreements cover any retained direct and assumed business (with a few minor exceptions).

The loss portfolio contract provides a 50% reinsurance cover for losses paid on business written on or before December 31, 2004, subject to an overall aggregate limit of \$11,155 million. The 50% reinsurance cover under this contract is shared between National Indemnity Company (80%) and Columbia Insurance Company (20%).

The quota share contract provides a 50% reinsurance cover for net losses paid on business written on or after January 1, 2005. The 50% reinsurance cover under this contract is also shared between National Indemnity Company (80%) and Columbia Insurance Company (20%).

At December 31, 2008, the outstanding paids and reserves from the loss portfolio and quota share contracts described above totaled over \$3,907 million, comprising over 86% of the total ceded recoverable and reserve balances.

Assumed Reinsurance – Affiliates

The Company assumed premium in 2008 under reinsurance agreements with twelve (12) affiliates, of which 94.2% of its affiliated business was from the five (5) affiliates shown below:

U.S. Affiliates:

Genesis Insurance Company	20.9%
General Star Indemnity Company	20.0
Fairfield Insurance Company	9.7
General Star National Insurance Company	<u>7.1</u>
Total U.S. Affiliates	<u>57.7%</u>

Non U.S. Affiliates:

General Re Australia, Ltd.	36.5%
Total Non-U.S. Affiliates	<u>36.5%</u>
Total	<u>94.2%</u>

The balance of the total (2.6%) was derived from nine other affiliates.

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Assumed Reinsurance – Non-Affiliates

While GRC assumed business from a wide range of insurance companies, both U.S. domiciled and from non-U.S. based insurers, including some of the largest in the industry, the Company focuses a significant portion of its treaty business by marketing efforts to small and medium-sized property and casualty insurers. Business is marketed on a direct basis and is subject to parameters established by the underwriting department in conjunction with top-level management. All new clients are evaluated for financial stability and performance results.

The Company has continued its implementation of a more disciplined underwriting program, focusing on risk selection, pricing, profitability and maintenance of conservative reserve margins. These actions, together with controlled catastrophe exposure, contributed to improvements in the accident year combined ratios for the Company for years 2006 and 2007 (93.0% and 89.8%, respectively), while the increase in 2008 (ratio of 108.8%) was attributed to Hurricanes Ike and Gustav, with incurred losses of approximately \$90 million. The gross and net premiums written have continued to decline over the past three (3) years as a result of the actions undertaken by the Company and the current market conditions.

Finite Reinsurance

During 2005, allegations arose involving GRN when American International Group (AIG) announced that its subsidiary, National Union Fire Insurance Company of Pittsburgh, PA (NUF) had engaged in and applied improper reinsurance accounting to an agreement executed between itself and Cologne Re Dublin, an alien subsidiary of the Company.

Upon investigations performed by the Securities and Exchange Commission (SEC), the Department of Justice (DOJ) and insurance regulators, the facts related to this transaction indicated that the transaction resulted in NUF artificially increasing its loss reserves for the years 2000 through 2004, by an approximate amount of \$500 million. As a result of these transactions and subsequent investigations, the SEC and DOJ alleged (and subsequently settled) in formal

General Reinsurance Corporation

complaints that certain unlawful activities were committed by AIG and certain (now former) employees of AIG, GRN, the Company, and Cologne Re Dublin (please see Legal Actions below for additional information related to the SEC and DOJ complaints).

The Company in 2005 effectively exited the finite reinsurance market by discontinuing the marketing of new “non traditional” reinsurance products and placing Cologne Re Dublin in run-off. Management’s representation regarding the discontinuance was substantiated by a review performed at that time by the Delaware Department of Insurance.

LEGAL ACTIONS

The Company is a party to various litigation and claims, common to its business. In addition, during the examination period and subsequent thereto, as discussed above, Berkshire, GRN, and both U.S. and international affiliates of GRN (including the Company) have been involved in on-going governmental investigations by the DOJ, SEC and other US and international regulatory agencies of its non-traditional (Finite) products and certain transactions involving these products, along with certain civil litigation. These investigations resulted in the resignations of certain top level officers as well as the conviction of some of these individuals. Information and updates related to these ongoing investigations were received and reviewed during this examination, which indicated that the involved entities continued to cooperate fully and respond to inquiries related to these investigations during the examination period.

The long ongoing governmental legal issues of GRN and the Company related to the finite reinsurance reached settlement in January 2010 with both the DOJ and the SEC, and included the following provisions:

- The settlements will result in a total of approximately \$97.2 million being paid out, comprised of

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- \$5,000,000 Previously paid. Relates to reimbursement of the fee received by the company from AIG under the transactions in question.
- \$ 60,500,000 Additional amount agreed to in settlement with the DOJ
- \$ 12,200,000 Settlement amount agreed to with SEC
- \$ 19,500,000 Penalty amount agreed to with the DOJ, payable to the US Postal Inspection Service Consumer Fraud

The Company had accrued legal reserves sufficient to cover these amounts within its financial statements.

- The Company will be required to maintain, for a period of three (3) years, certain internal corporate remediation provisions, to include the appointment of an independent board member (who will also be an Audit Committee member), attendance at the Audit Committee by Berkshire representatives, maintaining the Complex Transaction Committee, enhancement of the review and reporting roles of the Internal Audit department, maintaining the Risk Committee, ensure training and ethical compliance with risk transfer protocols, and the dissolution of its then subsidiary, Cologne Re Dublin.

These provisions were noted to be in place and complied with during the 2008 audit period.

The settlement agreements should conclude all matters related to the regulatory investigations, including those related to any further potential for fines and/or arrests.

In accordance with NAIC *Annual Statement Instructions*, the Company has made adequate disclosure of its material contingent liabilities where required.

ACCOUNTS AND RECORDS

Premium and claim transactions are administered and maintained on legacy electronic data processing systems, which are shared by the GRN subsidiaries. Although data in many instances automatically feeds between these legacy systems, postings into the statutory general

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ledger, SAP, primarily occur on a manual basis. Personal computers and file servers support financial reporting and analysis. The systems are maintained by personnel located in Trumbull.

The Company's investments are managed and administered by an affiliate, General Re-New England Asset Management, Inc. (NEAM), which utilizes the CAMRA system. The investment related transactions are also posted manually by the Finance Department into the general ledger system.

The Company's financial statements were audited by the firm of D&T. D&T issued an unqualified opinion of the audited statutory financial statements for all years under examination review. Workpapers prepared by D&T in connection with the annual audit were reviewed and, where deemed appropriate, have been utilized and incorporated into the examination workpapers.

The accounts and records review included an assessment of the Company's risk management process in identifying and controlling risks in the key operational areas of the Company. In making the assessment in each key area, processes were reviewed, risks were identified, operational and organizational controls were identified and tested and the Company's methodology for assessing the effectiveness of the established mitigation factors was evaluated.

The primary systems used in the operations of the Company were also evaluated. The Information Systems (IS) portion of the examination was performed by INS Services, Inc. The review was performed in accordance with the FCEH Handbook. The review of IS controls included IS management and organizational controls; application and operating system software change controls; system and program development controls; overall systems documentation; logical and physical security controls; contingency planning; local and wide area networks, personal computers, and mainframe controls. Control testing performed by the Company's SOX and Internal Audit functions and by D&T was evaluated, and testing of end user computing and IS outsourcing controls were performed in making the evaluation. As a result of the procedures

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performed, the IS Examination Team obtained reasonable assurance that IS general controls and general application controls were functioning as management intended and that an effective system of controls is in place and conducive to the accuracy and reliability of financial information processed and maintained by the Company. There are no reportable items related to our review of IS controls.

FINANCIAL STATEMENTS

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2008, as determined by this examination:

Assets

Liabilities, Surplus and Other Funds

Statement of Income, inclusive of the Capital and Surplus Account

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Assets

As of December 31, 2008

	Ledger <u>Assets</u>	Non-Admitted <u>Assets</u>	Net Admitted <u>Assets</u>	<u>Notes</u>
Bonds	\$ 1,749,437,550	\$ 0	\$ 1,749,437,550	1
Stocks:				
Preferred	461,003,932		461,003,932	
Common	9,523,886,839	69,063,961	9,454,822,878	2
Cash, cash equivalents, and short-term investments	502,260,149		502,260,149	3
Other invested assets	1,657,403,186		1,657,403,186	4
Investment income due and accrued	102,703,153		102,703,153	
Uncollected premiums and agents' balances in course of collection	189,444,414	12,694,364	176,750,050	
Deferred premiums not yet due	5,710,321	176,552	5,533,769	
Accrued retrospective premiums	22,620,815	177,966	22,442,849	
Amounts recoverable from reinsurance	207,168,271		207,168,271	
Funds held by or deposited with reinsured co.'s	5,459,858	157,994	5,301,864	
Current federal and foreign income tax recoverable	274,031		274,031	
Net deferred tax asset	244,148,423	202,108,894	42,039,529	
Furniture and equipment	4,105,245	4,105,245	0	
Receivable from parent, subsidiaries and affiliates	15,686,469		15,686,469	
Other assumed reinsurance receivables-runoff	31,180,658		31,180,658	
Leasehold improvements	2,952,458	2,952,458	0	
Prepaid expenses	9,601,646	9,601,646	0	
Miscellaneous receivables	12,740,751	600,034	12,140,717	
	<hr/>	<hr/>	<hr/>	
Total assets	<u>\$ 14,747,788,169</u>	<u>\$ 301,639,114</u>	<u>\$ 14,446,149,055</u>	

General Reinsurance Corporation**Liabilities, Surplus and Other Funds
As of December 31, 2008**

		<u>Notes</u>
Losses	\$ 3,538,035,243	5
Reinsurance payable on paid losses and LAE	3,087,538	
Loss adjustment expenses	314,801,679	5
Contingent commissions	6,185,643	
Other expenses	662,555,784	
Taxes, licenses and fees	183,313	
Current federal and foreign income taxes	32,641,624	
Unearned premiums	236,489,441	
Ceded reinsurance premiums payable	81,828,574	
Funds held under reinsurance treaties	3,544,274	
Amounts withheld by company for account of others	3,163,633	
Remittances and items not allocated	12,906	
Provision for reinsurance	183,901,696	
Net adjustments due to foreign exchange rates	22,351,340	
Payable to parent, subsidiaries and affiliates	2,780,528	
Loss portfolio transfers	409,888,715	
Direct losses in course of payment	6,247,361	
Accounts payable	1,601,740	
Total liabilities	<u>\$ 5,509,301,032</u>	
Special surplus for retrospective reinsurance	\$ 20,727,874	
Common capital stock	11,000,000	
Gross paid-in and contributed surplus	2,787,425,590	
Unassigned funds (surplus)	6,117,694,559	
Surplus as regards policyholders	<u>\$ 8,936,848,023</u>	
Totals	<u><u>\$ 14,446,149,055</u></u>	

General Reinsurance Corporation**Statement of Income
As of December 31, 2008****UNDERWRITING INCOME**

Premiums earned \$ 645,168,803

DEDUCTIONS

Losses incurred \$ 346,307,686
Loss expenses incurred 45,783,234
Other underwriting expenses incurred 300,987,433
Miscellaneous other (income) / loss (922,414)
Total underwriting deductions 692,155,939
Net underwriting gain or (loss) \$ (46,987,136)

INVESTMENT INCOME

Net investment income earned \$ 669,983,283
Net realized capital gains or (losses) (103,584,566)
Net investment gain or (loss) \$ 566,398,717

Net income before dividends to policyholders and before federal income taxes \$ 519,411,581
Dividends to policyholders 0
Net income after dividends to policyholder but before federal income taxes \$ 519,411,581
Federal and foreign income taxes incurred 219,259,723
Net income \$ 300,151,858

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2007 \$ 9,887,606,700

GAINS AND (LOSSES) IN SURPLUS

Net income \$ 300,151,858
Net unrealized capital gains or (losses) (1,111,261,649)
Change in net unrealized foreign exchange capital gain (241,912,207)
Change in net deferred income tax 378,981,090
Change in non-admitted assets (193,912,974)
Change in provision for reinsurance 18,818,645
Minimum pension liability adjustment (101,623,440)
Change in surplus as regards policyholders for the year \$ (950,758,677)

Surplus as regards policyholders, December 31, 2008 \$ 8,936,848,023

NOTES TO FINANCIAL STATEMENTS

Note 1 – Bonds

\$1,749,437,550

The above captioned amount is the same as that reported by the Company in its 2008 Annual Statement.

Bonds comprised 12.11% of total admitted assets, of which 66.3% were rated Class 2 or higher by the NAIC Securities Valuations Office. The total of all Mortgage/Asset backed type of securities comprised approximately 6% of the Company's bond portfolio at December 31, 2008, providing only minimal exposure to mortgage loans with below-prime borrowers.

Note 2 – Common stocks

\$9,454,822,878

The above captioned amount represents 65.4% of total admitted assets, and is the same as that reported by the Company in its 2008 Annual Statement.

The Company's investments in its subsidiaries, amounting to \$6.167 billion or 64.8 % of its common stock investments, were valued according to the book value reported in each company's respective 2008 Annual Statement and audited financial statements for the non-insurance subsidiaries.

Note 3 – Cash

\$502,260,149

The above captioned amount represents 3.5% of total admitted assets, and is the same as that reported by the Company in its 2008 Annual Statement.

The balance is comprised of cash \$18,176,980, cash equivalents \$166,663,733 and short term investments \$317,419,436. The entire cash equivalents balance of \$166,663,733 represents the Company's portion of the "Gen Re Short Term Pool" account as governed under the provisions of the Joint Asset Agreement.

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Note 4 – Other Invested Assets

\$1,657,403,186

The above captioned amount is the same as that reported by the Company in its 2008 Annual Statement, and represents 11.5% of total admitted assets.

Loans with the parent, Berkshire, and an affiliate, Fruit of the Loom, Ltd, comprised over 95% of the total Other Invested Assets balance. The two (2) Fruit of the Loom, Ltd loans were issued during the examination period, dated effective August, 2006 and April, 2007. In accordance with the 10-year Promissory Notes issued, interest payments are due and payable on a semi-annual basis with the face value due in full upon the maturity dates. Each loan was submitted to and approved by the Delaware Department of Insurance.

Note 5 – Losses

\$3,538,035,243

Loss Adjustment Expenses

314,801,679

Total

\$3,852,836,922

INS Consultants, Inc. was retained by the Delaware Insurance Department to conduct an actuarial review of the Company's reserve methodologies and adequacy. Based on the review, the Company's reported total loss and loss adjustment expense reserves as of December 31, 2008 of \$3,852,836,922 were found to be reasonably stated.

The underlying loss data was tested through a review of open and paid claims. The aggregated actuarial data provided by the Company was verified and balanced to Schedule P of the Company's filed Annual Statement.

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

There were five (5) recommendations contained within the prior examination report. Each of these recommendations was reviewed along with applicable follow up actions performed by the Company, and the Company was determined to be in compliance with the prior report recommendations.

SUMMARY OF RECOMMENDATIONS

There were no recommendations included within this report.

SUBSEQUENT EVENTS

There were no subsequent events noted that would have a significant impact on the Company.


CONCLUSION

The following schedule shows the results of this and the prior examination with changes between the three year periods:

<u>Description</u>	<u>December 31 2005,</u>	<u>December 31, 2008</u>	<u>Difference</u>
Assets	\$14,632,646,158	\$14,747,788,169	\$115,142,011
Liabilities	\$6,738,561,441	\$5,509,301,032	\$(1,229,260,409)
Capital and Surplus	\$7,894,084,717	\$8,936,848,023	\$1,042,763,306

The assistance of Delaware's consulting firms, INS Consultants, Inc., and INS Services, Inc. is acknowledged.

Respectfully submitted,



Mary L. Rodack, CFE
Examiner-In-Charge
State of Delaware