

Fitch Upgrades Lloyd's Ratings

Fitch Ratings-London-28 March 2007: Fitch Ratings has today upgraded Lloyd's of London's ("Lloyd's") Insurer Financial Strength ("IFS") rating by one notch to 'A+'. At the same time, the agency has upgraded the Society of Lloyd's Issuer Default rating ("IDR") by one notch to 'A'. Both ratings have stable outlooks. Additionally, the agency has upgraded the subordinated debt issues rating, details of which are listed below, by one notch to 'A-' (A minus).

The rating action follows the confirmation yesterday that Berkshire Hathaway ("Berkshire") and Equitas (the vehicle established to reinsure and run-off the 1992 and prior-years' liabilities of Lloyd's members) have finalised the transaction announced in October 2006. Under this agreement, Berkshire will reinsure all of Equitas' liabilities and provide up to USD5.7bn in reinsurance protection above Equitas' current reserves. In addition to reinsurance cover, Berkshire will take on the staff, operations and management of the run-off of Equitas. As part of the transaction, Equitas paid Berkshire GBP358m, of which Lloyd's contributed GBP72m.

Fitch previously regarded the potential for reserve deterioration through Equitas as being a significant drag on the Lloyd's ratings. The additional buffer provided by the transaction with Berkshire removes much of this risk and is the prime driver behind the upgrade.

It is possible that the relationship between Equitas and Berkshire will proceed to a second phase. This second phase would involve the transfer of Lloyd's members' pre-1993 liabilities into Equitas or a UK-based subsidiary of Berkshire and the provision of additional reinsurance protection of up to USD1.3bn. A premium of up to GBP40m would be paid to Berkshire, with Lloyd's paying a further GBP18m.

Although the upgrade is based largely on the completion of the Berkshire transaction, Fitch also notes the absence of catastrophic losses in 2006, which the agency expects to enhance Lloyd's results when they are announced tomorrow. Fitch also draws comfort from the progress of Lloyd's management reforming the market's operating practices and managing underwriting exposures as most lines of business experience price softening.

Fitch's ratings on the Lloyd's Market:

Lloyd's of London

-IFS rating upgraded to 'A+' from 'A'

Society of Lloyd's

-IDR upgraded to 'A' from 'A-' (A minus)

-GBP300m 6.875% subordinated debt with a final maturity in November 2025 callable from November 2015 upgraded to 'A-' (A minus) from 'BBB+'

-EUR300m 5.625% subordinated debt with a final maturity in November 2024 callable from November 2014 upgraded to 'A-' (A minus) from 'BBB+'

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