

Wellington Underwriting plc - Increase of capacity

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Wellington Underwriting PLC

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Wellington Underwriting plc

Arrangements with Berkshire Hathaway
to increase Wellington's underwriting capacity to £963 million for 2002

Wellington Underwriting plc ("Wellington") is pleased to announce a major initiative which will increase substantially its underwriting capabilities. Wellington has entered into an agreement in principle with Berkshire Hathaway, whereby certain of Berkshire Hathaway's wholly owned subsidiaries have agreed to provide a 30% qualifying quota share ("QQS") reinsurance to syndicate 2020 for the 2002 year of account and also to provide the funds at Lloyd's necessary for Wellington to form a new £150m syndicate which will underwrite on a consortium basis with syndicate 2020 for the 2002 year of account. Wellington has a 46% share on syndicate 2020.

These arrangements will:

- * Increase Wellington's managed capacity from £625m to £963m for the 2002 year of account, thereby enabling Wellington to meet its original planned premium income of £950m for the current underwriting year.
- * Substantially enhance Wellington's revenues through its receipt of:
 - a management fee of £0.9m from the new syndicate;
 - a profit commission of 17.5% of the profits of the new syndicate;
 - 46% of the commissions payable to syndicate 2020 on the QQS.
- * Reduce Wellington's costs through the allocation of a proportion of syndicate 2020's expenses to the new syndicate.

The proposed arrangements have been approved by Lloyd's in principle, but remain subject only to the approval of capital providers participating on syndicate 2020 for the 2002 year of account. It is anticipated that a circular seeking approval for the proposals will be sent to capital providers shortly. In accordance with Lloyd's normal requirements, capital providers will have a period of 21 days in which to vote for or against the proposed arrangements.

The arrangement with Berkshire Hathaway enables Wellington to meet its underwriting objectives for the 2002 year of account and provides the scope for Wellington to progress its longer-term strategic objectives. These objectives are expected to include a capital raising to strengthen Wellington's balance sheet and support its share of syndicate 2020's underwriting for the 2003 and subsequent years of account. As previously announced, Wellington has been in discussions with private equity providers to establish a new London based, FSA authorised, insurance company. These discussions continue.

The qualifying quota share reinsurance was arranged through Willis Reinsurance acting as brokers to syndicate 2020.

Commenting on today's announcement Wellington's Chief Executive Julian Avery said:

"Our agreement with Berkshire Hathaway is very exciting news and is an extremely strong endorsement of the Wellington franchise. As insurance rates continue to increase dramatically, the Group can now achieve its target premium income of £950m for the 2002 year of account. The arrangements will bring significant benefits to shareholders and capital providers and will mean that Wellington is now better positioned than ever before to take advantage of the continuing strong market conditions."

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