

Press Release - MAY 22, 2009

## A.M. Best Affirms Ratings of National Indemnity Group and Its Members

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### FOR IMMEDIATE RELEASE

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**A.M. Best Co.** has affirmed the financial strength rating (FSR) of A++ (Superior) and issuer credit ratings (ICR) of "aaa" of **National Indemnity Group** (National Indemnity) and its reinsurance and insurance member companies. All companies are headquartered in Omaha, NE. The outlook for all ratings is stable. (See below for a detailed listing of the companies and ratings.)

The ratings reflect National Indemnity's superior risk-adjusted capitalization and market profile, historically excellent operating and total return measures, strong management team and solid liquidity. Despite a sizable reduction of policyholder surplus reported at year-end 2008 and further declines reported through first quarter 2009, the group maintains strong financial flexibility.

A.M. Best's view on National Indemnity's capitalization also assesses its capital position after an extreme catastrophic event as well as a material erosion in market valuation of common stock holdings. A key component of the ratings also takes into account National Indemnity's core importance within the **Berkshire Hathaway Inc.** [NYSE: BRK.A and BRK.B] organization given the amount of "float" that has been accumulated by National Indemnity and other Berkshire Hathaway insurance operations, which constitute a significant source of Berkshire Hathaway's total earnings and revenue base.

A.M. Best believes that National Indemnity's financial position benefits from the significant asset value, cash flow generation and diversified earnings of Berkshire Hathaway's non-insurance segments as well as Berkshire Hathaway's financial flexibility and holding company cash resources and financing ability. Including operational debt, Berkshire Hathaway maintains conservative financial leverage, with total debt-to-total capital at approximately 25%, and strong interest coverage measures.

Somewhat offsetting these positive rating factors is the organization's considerable common stock leverage, increased liability leverage related to retroactive reinsurance contracts that are expected to run off over a long duration and recent deployment of capacity that is magnified by a reduced surplus position. Management's long-standing investment philosophy has been to maximize its average annual rate of return through a buy and hold strategy of a limited number but diversified group of well-developed and stable companies. However, given the global financial crisis, unrealized pre-tax capital losses of approximately \$13 billion contributed to a 20% reduction of the group's statutory surplus at year-end 2008, which have reduced its excess capital position. Further declines of equity market values through March 31, 2009 have adversely affect the group's statutory surplus, in particular, **National Indemnity Company**, the largest member of National Indemnity. However, its capitalization remains supportive of current ratings, and equity valuations in certain securities have improved with the recent upturn of the equity markets. A.M. Best believes that there is ample capitalization to withstand the market stresses at the group level given the nominal underwriting leverage of many group members with excess capital.

Management's conservative enterprise risk management strategy has enabled National Indemnity to absorb significant catastrophe losses in recent years, while maintaining ample capacity to support its ongoing business risks. National Indemnity monitors its catastrophe exposure on a zonal aggregate limit basis and has significantly reduced its catastrophe exposures in recent years. Additionally, A.M. Best believes that despite the volatility in the public equity markets, the group's earnings should benefit from an estimated \$1.3 billion of after-tax income derived through the recent debt and preferred stock investments made by Berkshire Hathaway.

National Indemnity has demonstrated underwriting expertise to achieve favorable operating returns over the long term, despite volatility in earnings stemming from high severity losses and irregular earned premiums derived from retroactive reinsurance or single large risk contracts. This is evidenced by the group's five-year average statutory combined ratio of 88.8%, which significantly outperforms peer multi-line reinsurance groups on a comparable basis. Additionally, National Indemnity has exceptionally managed through property/casualty insurance pricing cycles and will enter markets when pricing is appropriate and withdraw capacity when rates become inadequate, which is a competitive advantage. A.M. Best will monitor National Indemnity's capital position as it relates to equity market volatility as well as the group's ongoing operating performance. A further material deterioration of the group's capitalization could result in downward pressure on the ratings and outlook. However, A.M. Best believes that given the group's historically strong and diversified operating performance, National Indemnity has the earnings power and financial flexibility to maintain and replenish its capital through these challenging market conditions.

Separately, A.M. Best has downgraded the ICR to "aa+" from "aaa" and affirmed the FSR of A++ (Superior) of **Berkshire Hathaway Life Insurance Company of Nebraska (BHLN)** (Omaha, NE). The outlook for these ratings is stable.

These rating actions reflect BHLN's lack of new business development in recent years, its concentration in affiliated equity holdings and the significant exposure the company has to holdings in below investment grade bonds. At year-end 2008, an assumed block of life insurance business was recaptured, which will significantly reduce operating income going forward, barring any new business. BHLN currently administers a block of payout annuities and has limited activity in the current marketplace.

The FSR of A++ (Superior) and ICRs of "aaa" have been affirmed for **National Indemnity Group** and its following members:

- **National Indemnity Company**
- **Columbia Insurance Company**
- **Wesco-Financial Insurance Company**
- **National Fire & Marine Insurance Company**
- **National Liability & Fire Insurance Company**
- **National Indemnity Company of Mid-America**
- **National Indemnity Company of the South**

The FSR of A- (Excellent) and ICR of "a-" have been affirmed for **Finial Reinsurance Company**.

The ICR of "bbb-" has been affirmed for **Finial Holdings, Inc.**

The following debt rating has been affirmed:

**Finial Holdings, Inc.—**

-- "bbb-" on \$200 million 7.125% senior unsecured notes due 2023

For Best's Credit Ratings, an overview of the rating process and rating methodologies, please visit [Best's Ratings & Analysis](#).

The principal methodologies used in determining these ratings, including any additional methodologies and factors that may have been considered, can be found at [Best's Credit Rating Methodology](#).

**Founded in 1899, A.M. Best Company is a global full-service credit rating organization dedicated to serving the financial and health care service industries, including insurance companies,**

**banks, hospitals and health care system providers.**

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