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Research Update:

Ecclesiastical Insurance Office PLC Outlook Revised To Positive; 'A-' Ratings Affirmed

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Table Of Contents

Rationale

Outlook

Ratings List

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Rationale

On Jan. 21, 2008, Standard & Poor's Ratings Services revised the outlook on the long-term counterparty credit and insurer financial strengths ratings on U.K.-based non-life insurer Ecclesiastical Insurance Office PLC and on its subsidiary Ansvar Insurance Limited to positive from stable. This reflects our expectation that continued strong cross-cycle performance may permit an upgrade in the medium term. At the same time, we affirmed the 'A-' ratings on Ecclesiastical and the 'BBB+' ratings on Ansvar.

The ratings reflect the company's strong capitalization, strong operating performance, and strong competitive position. These positive factors are partially offset by the company's investment strategy, which exposes it to relatively high investment leverage.

Ecclesiastical's strong capitalization is based on its very strong risk-based capital adequacy, a strong track record of reserving, and prudent reinsurance protection. This is somewhat mitigated, however, by a dependence on the availability of reinsurance protection, and by the extensive use of preference stock within its capital structure.

The company's strong operating performance reflects our increasing confidence in Ecclesiastical's ability to achieve strong cross-cycle results with limited underwriting volatility. Following five reported years (2002-2006) of strong underwriting performance and four years of overall profitability and very strong returns on equity and on revenue, performance in 2007 was severely affected by weather-related and theft-of-metal losses. Nevertheless, underlying underwriting profitability has been maintained, albeit at a lower margin because of price competition. With this competition likely to persist into 2008, we expect the company to use its strong competitive position and underwriting discipline to keep further margin erosion to a minimum.

Ecclesiastical is a midsize non-life insurer with a strong competitive position centered on U.K. specialist property. The company has been focusing increasingly on its core specialist operations in recent years, and we expect it to continue to do so.

Ecclesiastical has a consistently high exposure to equities, which results in relatively high investment leverage. The risk of this investment strategy is moderated, however, by the company's very strong capital adequacy.

Outlook

The positive outlook reflects Standard & Poor's expectation that Ecclesiastical's senior management team will extend its track record of prudent growth and development of core U.K. specialist property lines, while

displaying strategic clarity of purpose in their other activities. Overall, we expect to see fundamentally strong and stable earnings throughout the economic and business cycles, with results that tend to be above average for their sectors and which, in the absence of exceptional events, will display consistently profitable underwriting results. Meanwhile, we expect management to maintain the investment strategy, with the still somewhat aggressive nature of the exposure to equity markets mitigated by consistently strong risk-based capital ratios that support a higher rating.

Over the two-year rating horizon, the ratings may be raised if Ecclesiastical continues to deliver strong cross-cycle performance in line with our expectations and without any appreciable increase in risk appetite or relative risk exposure. If our expectations prove to be optimistic, it is probable that the outlook would revert to stable at the current rating level.

Ratings List

	To	From
Ecclesiastical Insurance Office PLC		
Counterparty credit rating		
	A-/Positive/--	A-/Stable/--
Insurer financial strength rating		
	A-/Positive	A-/Stable
Ansvar Insurance Limited		
Counterparty credit rating		
	BBB+/Positive/--	BBB+/Stable/--
Insurer financial strength rating		
	BBB+/Positive	BBB+/Stable

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