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Tokio Millennium Re Ltd.

Primary Credit Analyst:
Neil Stein, New York (1) 212-438-5906; neil_stein@standardandpoors.com

Secondary Contact:
Eyal Nayowitz, New York (1) 212-438-3208; eyal_nayowitz@standardandpoors.com

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Tokio Millennium Re Ltd.

Operating Company Covered By This Report
Financial Strength Rating
Local Currency
AA-/Negative/--

Major Rating Factors

Strengths:

- Very strong support from the parent company through an existing guarantee on reinsurance policies.
- Very strong capital base.
- Strong liquidity and conservative investment portfolio.
- Focus on underwriting and strong enterprise risk management (ERM), which is aligned with the parent's focus.

Weaknesses:

- A business concentration in the property catastrophe market, although the company is expanding into the traditional noncatastrophe reinsurance business.
- Volatile, but good, earnings performance.
- Limited competitive position on a stand-alone basis.

Rationale

The financial strength rating on Bermuda-based Tokio Millennium Re Ltd. (TMR) reflects the very strong support the company receives from its parent, Tokio Marine & Nichido Fire Insurance Co. Ltd. (TMNF), through an explicit guarantee on reinsurance policies (TMR doesn't write any insurance policies.) Other rating strengths include TMR's very strong capitalization, strong liquidity, and conservative investment portfolio, as well as its focus on underwriting and enterprise risk management (ERM), which is aligned with the parent. These strengths are partially offset by an underwriting book concentrated in property catastrophe, volatile earnings, and a limited competitive position on a stand-alone basis because of its smaller scale relative to its Bermudan peers.

TMR is rated the same as its parent company because of the explicit guarantee and the significant role that it plays in diversifying TMNF's catastrophe exposure with non-Japanese exposures by providing traditional reinsurance policies (TMR doesn't write any insurance policies) and purchasing catastrophe bonds. Also, TMR shares the same brand name as its parent company and operates as TMNF's center of excellence by conducting ERM, climate change research, and risk analysis software development. TMR diversifies TMNF's risk exposure by expanding the company's business outside of Japan. The parent company demonstrates very strong support for TMR through an explicit guarantee on all of TMR's reinsurance obligations and through past capital infusions, which supports the company's very strong capitalization.

Recent operating performance was hurt by natural catastrophes in 2010 and first-quarter 2011, as was the case for many other property/casualty (re)insurers worldwide. In 2010, TMR recorded $65 million of net income (down from $201 million in 2009) with a loss ratio of 54% and a combined ratio of 94.5% as the 2010 New Zealand earthquake caused losses of approximately $102 million to TMR's operations. In the first three months of 2011, TMR reported $136 million in losses, primarily from the New Zealand (a second event) earthquake, followed by the floods in Australia. We expect these catastrophe losses to lead to a decline in earnings for 2011, but the company likely will remain profitable.

The company's business is concentrated in property catastrophe. The company has underwritten workers' compensation catastrophe, terrorism, and crop/hail, and assumed more frequency risks while writing lower layer property catastrophe programs. These lines of business have been growing relatively slowly, and given TMR's conservative approach in evaluating the results of new business lines, we don't expect this to change soon. Because of TMR's focus on property catastrophe reinsurance, its earnings can be volatile. Property catastrophe reinsurance, which covers low-frequency events, comprised 52% of the company's 2010 underwriting net income. Under its geographic diversification plan, TMR recently opened two branches in Switzerland and Australia.

Outlook

The outlook on TMR reflects the negative outlook on the parent company, TMNF (which is owned by Tokio Marine Holdings Inc.). If we changed the ratings or outlook on TMNF, we would take a similar rating action on TMR because of the guarantee in place. We expect TMR to continue prudently diversifying into traditional noncatastrophe reinsurance business and other geographic locations. Overall, however, we do not expect TMR's business profile will experience significant changes over the next two years. We expect earnings will remain volatile because of the catastrophe risk component but very strong. Additionally, we expect the company will maintain strong liquidity, a conservative investment portfolio, and capital adequacy at very strong levels, despite the significantly unfavorable effects of its catastrophe losses.

Competitive Position: Good And Important To The Parent Company

TMR's competitive position is good, though somewhat limited on a stand-alone basis because of the company's relatively small scale, with approximately $1.2 billion in surplus in addition to its concentration in property catastrophe risks. Although TMR has consistently increased its written premium in the last six years, its competitive position continues to rely on TMNF's brand name and market presence. In addition, its business profile is less diverse and smaller than that of most of its Bermuda-based peers.

When TMR was established in 2000, its main focus was to diversify TMNF's catastrophe risks outside of Japan. TMR has since established itself as a center of excellence for its parent company by sharing its expertise in alternative risk transfer, ERM, climate change research, and risk analysis software development with the rest of TMNF's subsidiaries. TMR's risk exposures span various geographic locations outside of Japan, through three channels: traditional reinsurance, catastrophe bonds, and transformers. As of year-end 2010, 78.5% of gross premium written came from the U.S., 8.8% from Europe, 7.5% from the worldwide transformer business, 1.3% from Australia/New Zealand, and the remaining 4.0% from other regions including Turkey, Israel, China, and Taiwan.

TMR invests in various catastrophe bonds, another way it accesses businesses and clients for further diversification. The company does not need to aggressively expand its own market position because it has the support of TMNF whose expectations are for long-term growth and expansion through TMR. As of year-end 2010, TMR's major lines of business included traditional reinsurance in property catastrophe and other specialty lines, including workers' compensation catastrophe, crop/hail, casualty working layer business, terrorism and other treaty reinsurance, including nonstandard auto and Florida homeowners. The company also offers noncatastrophe reinsurance standard programs, such as property per risk and quota share and casualty excess-of-loss policies.

Market conditions remained soft for the general insurance industry in 2010. (A soft market is a sustained, competitive period of price cutting that reduces profits.) Rates continued to decline (as in 2009) in most of TMR's business lines. Despite this, and considering that the soft market led to primary insurers retaining more risks on their balance sheets, TMR's renewal rates on Jan. 1, 2011, were satisfactory. Total premium written was $120 million, down 6.5% from 2009. For the company's existing catastrophe business, written premium increased by 5% to $94 million. On the other hand, TMR reported a decrease of 32% in the renewal of its new lines of business. This decrease resulted primarily from an 82% drop in crop quota share premiums, partially offset by a material increase in the standard lines. Still, TMR was able to underwrite about $27 million for the new business lines.

TMR's management aims to provide diversification to TMNF by investing in a portfolio of catastrophe bonds--the majority of which covers U.S. hurricanes, North American earthquakes, and European windstorms. In addition, the company receives fee income from its transformers business, which has contributed an increasing amount of income to the company over the past five years. Through its complementary business, TMR is effectively providing the reinsurance paper for noninsurance companies, such as hedge funds, and nonrated segregated cell reinsurance companies to access the catastrophe reinsurance market. By providing a wider array of layer coverage and ceding the lower layers of coverage to these noninsurance companies, TMR is able to attract more traditional reinsurance business because it has given cedents more coverage options. The fee income related to this business increased to $5.9 million in 2010 from $3.2 million in 2006, while the number of trades increased to 247 from 64. The volume of this business is correlated with the industry loss warranties (ILW) market. Increasing demand for ILW programs could boost TMR's trade volume.

Table 1

Tokio Millennium Re Ltd./Business Statistics

	--Year ended Dec. 31--				
(Mil. $)	**2010**	**2009**	**2008**	**2007**	**2006**
Gross written premiums	509.2	417.6	369.8	297.0	275.6
Change in gross written premiums (%)	21.9	12.9	24.5	7.8	112.3
Net written premiums	418.3	360.6	318.3	246.0	250.2
Change in net written premiums (%)	16.0	13.3	29.4	(1.7)	116.9
Other revenue/total revenue (%)	0.0	0.0	0.0	0.0	0.6
Other income/EBITDA (%)	0.0	0.0	0.0	0.1	1.6

Prospective

Standard & Poor's expects TMR to maintain its good competitive position and gradually expand into new lines of business and other geographic locations with a controlled approach. TMNF's initiatives on rebranding and consolidating its global reinsurance business under TMR's brand should streamline TMR's diversification effort and enhance brand awareness. We believe the commencement of new business and expansion in Australia and Switzerland could have a positive effect on premiums.

The overall portfolio will likely remain focused on property catastrophe, while the new business and the existing specialty business will remain peripheral. Also, TMR should continue to generate diverse income from its transformer business. We expect that declining to flat pricing could continue to strain written premium from the catastrophe business.

Management And Corporate Strategy: Experienced Management Team Focused On Diversifying Exposure Of Parent Company

TMR's management and corporate strategy are marginally positive and strengths to the rating. The senior management team is experienced with a combined average industry experience of more than 15 years and long tenure at the company. The board consists of three members from the parent company, and two members from TMR to ensure the implementation of the diversification strategy for the parent by acquiring non-Japanese business. TMR's management has clear objectives and has implemented this strategy well.

One of TMR's objectives is to enhance its parent's capital efficiency by diversifying TMNF's exposure concentration outside of Japan, particularly in the U.S., through traditional reinsurance and catastrophe bonds. TMR previously managed swap transactions as part of the diversification strategy for its parent company through Tokio Millennium Agency Ltd. before the management process was transferred to TMNF. In addition, TMR has gradually strengthened its expertise in structuring and expanding its market solutions products which has become an important source of income. It contributed $5.9 million in fee income in 2010 and $5.6 million in the first half of 2011. TMR focuses on balancing and maintaining its portfolio through client retention, with an emphasis on strict underwriting and quantitative pricing analysis. The company also invests heavily in climate research and software development, through Tokio Marine Technologies, to enhance its ERM, becoming a center of excellence for the Tokio Marine Group. TMR shares all research and development products with the parent and its subsidiaries.

Because TMR has a key objective to diversify TMNF's overall business exposure, it has expanded cautiously both geographically and into new product lines. In 2009, TMR slowly started underwriting traditional noncatastrophe in the U.S., including reinsurance policies, such as Florida homeowners' and nonstandard auto. This expansion is controlled and most of the new policies are underwritten with existing clients. Still, 79% of TMR's gross written premium remains in North America and the company aims to expand its international operations. For that purpose, TMR opened branches in Zurich and Australia.

Operational management

TMR continues to receive technical support from Tokio Marine Technologies, which is responsible for the company's research on emerging issues, such as global warming and the development of its internal technology platform. The CEO of TMR is the chairman of Tokio Marine Technologies. Tokio Marine Technologies' research and development provides TMR with strong data analysis capacities, including data quality analysis, model data conversion, and cedent exposure impact analysis.

For TMR's transformer business, the company uses segregated accounts companies (SAC), a reinsurer for TMR, to facilitate some of the transactions with hedge funds. TMR has no ownership interest in the SAC. TMR writes reinsurance policies on behalf of the hedge fund, while the hedge fund contributes assets to the individual cells within the SAC. The SAC then provides collateral to TMR and transfers risks to the hedge fund through an indemnification agreement. This business complements TMR's traditional reinsurance business. Most of the business written is in the lower layers. TMR takes higher layers and cedes the bottom layers to hedge funds.

Financial management

TMR operates out of Bermuda; Sydney, Australia; and Zurich, Switzerland. TMR enjoys substantial tax benefits because most of its writings are in Bermuda where the company is exempt from taxation until 2016. However, the company has a persistently higher expense ratio because of ceding commissions and profit commissions on its proportional business, derivative swap expenses on its transformer business, and investment in IT development and climate research. TMR pays a very high ceding commission expense for its proportional business to cover reinsurance costs. TMR's core business line, individual commission expense ratios for property catastrophe, and the three specialty lines are comparable with those of its peers.

Because TMNF is focused on long-term growth of TMR, the company does not have to meet a strict return metric as long as the company generates a return above its cost of capital and focuses on its role of diversifying TMNF's catastrophe exposures. However, TMR also focuses on not having losses that exceed its tolerance.

TMR implemented a new dividend policy in 2010, which incorporated the factor of cost of capital, adjusted for the interest rate differential between the U.S. dollar and Japanese yen. As a result, TMR paid a dividend of $124.6 million in June 2010. This is calculated based on 30% of the 2008 net profit plus approximately 7.2% of the 2009 year-end shareholders' equity. However, TMR is paying a higher dividend under the new policy, and we expect TMR to maintain very strong capitalization.

Enterprise Risk Management: Strong

As a strategically important company to TMNF, all of TMR's ERM functions are reviewed and aligned with the parent. We view TMNF's ERM as strong, and we believe TMR's stand-alone ERM is also strong. TMR is a major asset to its parent company in climate research and catastrophe risk, so it has established ERM on a stand-alone basis and is working closely with TMNF to develop standards for other overseas subsidiaries. We view TMR's risk-management culture as strong. It has strong underwriting, and the company formalized its ERM process by establishing a risk-management committee and an ERM unit in 2007. The ERM unit is composed of three people, two assistant vice presidents and one senior analyst. The company is in the process of hiring a new head for the group.

The ultimate parent, Tokio Marine Holdings Inc., has established risk-management guidelines, and it is responsible for risk aggregation and capital management for each subsidiary. TMR is required to complete a self-assessment of risk and submit it to Tokio Marine Holdings Inc. annually. TMR's chief risk officer (CRO) meets with the parent's risk management representative and the CROs of other affiliated companies on a quarterly basis. The parent company also reviews the ERM quarterly report and monthly operational report that TMR generates. TMR submits its asset portfolio details and natural catastrophe risk details to the parent twice a year.

TMR has implemented risk expectations for underwriting and other business functions and emphasizes a quantitative risk-management approach. The company uses its internal economic capital model and third-party risk models for midterm planning, decision making, and evaluating business opportunities, as well as for monitoring operating results against quarterly projections. This allows the company to generate reports on underlying economic and financial conditions on a quarterly basis and operating results on a monthly basis.

TMR measures its internal risk capital as a percentage of the annual comprehensive income and with regard to shareholders' equity. Underwriting and operational risks are also limited relative to shareholders' equity. All transactions are modeled with the distribution of possible outcomes quantified and priced on a stand-alone and portfolio basis with the consideration of correlation and aggregation factors. Underwriting decisions are made based on return-on-risk-adjusted capital. TMR also uses various internal and third-party models to quantify enterprise risk factors, including credit risk, operational risk, and market risk, and it aggregates all risks into one consolidated multiuser platform to provide a holistic view of TMR's enterprise risk. Because TMR uses models frequently, it is exposed to modeling risks. To mitigate modeling risk, the company uses conservative input assumptions and makes regular adjustments to the models. The company formalized its risk appetite and risk limit policy in June 2010. It set risk tolerance and limits on capital adequacy, profitability, strategic risk, reserve risk, premium risk, investment risk, and credit risk, based on discussion with senior management and the board.

TMR's stand-alone ERM framework is a strength to the rating. Although TMR uses various models to quantify risks, the company does not rely fully on its model analyses. TMR analyzes how the models work and rebuilds them. The chief underwriting officer (CUO) reviews and authorizes all contracts, and the CEO has to sign off on contracts if they are above certain thresholds. The company adjusts target underwriting returns based on market conditions, cedents scoring, region, and peril.

Because TMR has significant exposure to property catastrophe risk, it is very proactive in climate change research. TMR receives technical support from Tokio Marine Technologies, which is responsible for the company's research on global warming and the development of its internal technology platform. Tokio Marine Technologies' research and development provides TMR with strong data analysis capacity, including data quality analysis, model data conversion, and cedent exposure impact analysis. These are strengths of TMR's ERM.

Accounting

TMR reports its financials based on U.S. generally accepted accounting principles (GAAP). KPMG has been the company's external auditor since its inception. Standard & Poor's views TMR's accounting as neutral to the rating. The company currently uses segregated cell companies, to which TMR cedes the transformer business. The cell company then retrocedes the business to hedge funds with full collateralization on the risks that are assumed from TMR. As a consequence, the ceded premium that was previously recognized as a derivative expense for this line of business is now recognized as an actual ceded premium. TMR has no ownership interest in these segregated account companies.

Standard & Poor's capital model included a one-in-250-year aggregate probable maximum loss (PML) catastrophe charge and a terrorism charge. Further adjustments we made included the $47.8 million net derivative expense (catastrophe swap expense in 2010) in the expense ratio.

Operating Performance: Potentially Volatile Based On Underlying Book Of Business And Catastrophe Exposure

TMR's operating performance is good, but volatile, because of its concentrated underlying book of business and catastrophe exposure. Because the company is more exposed to low-frequency, high-severity events its combined ratio could vary from below 50% to above 150%.

Current performance

During 2010, TMR incurred large net losses of $186.8 million from the New Zealand earthquake, compared with $20.8 million in 2009 from the windstorm Klaus and European hail. Net income decreased by 68% in 2010 versus 2009. The significant decline in operating performance was largely the result of a 2% decrease in net premium earned and a 798% increase in net losses and loss expenses incurred. Partially offsetting the losses, net investment income increased 32%, mainly because of higher yield on investment holdings, such as lower rated corporate bonds.

Still, the combined ratio was good at 94.5%.

The company has maintained good underwriting performance, with a five-year (2006-2010) average combined ratio of 67%. The five-year average administrative expense ratio was 9.2%, and the commission expense ratio was 37.7%, which includes net derivative expenses related to catastrophe swap derivatives. TMR owns a subsidiary that facilitates risk swap agreements between the parent and other insurance companies for which agency fees are made. However, TMR doesn't retain underwriting risks. Since 2006, the company has been generating a return on revenue of more than 30%.

In the first three months of 2011, TMR posted a net loss of $136 million, which reflects the $199 million in losses the company incurred, primarily as a result of the 2011 New Zealand earthquake and Australian flood.

Table 2

Tokio Millennium Re Ltd./Operating Performance

	--Year ended Dec. 31--				
(Mil. $)	**2010**	**2009**	**2008**	**2007**	**2006**
Total revenue	395.1	391.9	342.3	271.6	307.2
EBITDA	75.2	203.1	144.6	163.8	121.9
EBITDA including realized gains	73.8	207.3	130.6	169.9	126.5
Net income	65.0	200.5	126.6	167.7	123.9
Return on average adjusted equity (%)	5.4	17.5	12.9	20.0	17.0
Return on average equity (%) - (Numerator provided)	5.4	17.5	12.9	20.0	17.0
Return on average adjusted assets (%) -(Numerator provided)	4.2	14.1	9.5	13.7	11.4
Return on revenue (%)	19.0	51.8	42.2	60.3	39.7
Return on revenue including realized gains (%)	18.7	52.9	38.1	62.5	41.2
Realized gains/EBITDA (%) including realized gains	(2.0)	2.0	(10.7)	3.5	3.6
Admin. expense ratio (%) (including catastrophe swap expense)	12.4	9.4	9.0	9.3	5.7
Commissions expense ratio (%)	28.5	39.6	38.3	38.8	43.3
Nonlife loss ratio (%)	53.7	5.8	19.7	1.2	22.1
Nonlife combined ratio (%) (including catastrophe swap expense)	94.5	54.8	67.0	49.3	71.0

Prospective

Standard & Poor's expects TMR to deliver good operating results during a normal catastrophe year. However, we expect TMR's performance to remain weak in 2011 because of several large catastrophes, leading to a worsening of the operating ratios. However, we do expect that it will report a combined ratio of less than 100% and a loss ratio not exceeding 90%.

We expect the company to prudently expand its traditional reinsurance business. The underwriting results from TMR's new lines are unlikely to significantly impact the company's overall operating performance. The property catastrophe business will likely remain the key premium and earnings contributor, but earnings could remain volatile because of TMR's focus on catastrophic risks.

Investments And Liquidity: Conservative Investment Portfolio And Strong Liquidity

TMR's investments and liquidity are strong, and the company's long-term conservative investment strategy is supportive. As of March 31, 2011, the $1.4 billion in invested assets consisted of 14% cash and cash equivalents, 72% fixed-income securities, 8% short-term investments, and 6% catastrophe bonds. The fixed-income securities had an average duration of approximately two years as of Dec. 31, 2010, and 80% of the portfolio was rated 'AAA', compared with 89% the year before. U.S. Treasury and agency holdings decreased to 54% of the portfolio from 65% as a result of the increase in the corporate allocations to 21% (including 7% in 'A' rated bonds) from 14%. Despite TMR's slightly more aggressive investment policy over the past year, we still view the company's portfolio as conservative.

Table 3

Tokio Millennium Re Ltd./Investments And Liquidity

	--Year ended Dec. 31--				
(Mil. $)	**2010**	**2009**	**2008**	**2007**	**2006**
Total invested assets	1,339.1	1,255.7	1,091.9	1,000.3	913.4
Net investment income (excluding catastrophe swap income)	38.6	28.8	36.2	43.2	36.9
Realised gains/(losses)	(1.4)	4.2	(14.0)	6.0	4.5
Change in unrealised gains/(losses)	4.1	(13.0)	21.0	17.2	(0.2)
Net investment yield (%) (excluding catastrophe swap income)	3.0	2.5	3.5	4.5	4.3
Net investment yield including realised gains (%) (excluding catastrophe swap income)	2.9	2.8	2.1	5.1	4.8
Net investment yield including realised and unrealised gains (%) - (numerator provided) (excluding catastrophe swap income)	3.2	1.7	4.1	6.9	4.8
Portfolio composition					
Real estate (%)	0.0	0.0	0.0	0.0	0.0
Shares and variable yield securities (%)	0.0	0.0	0.0	0.0	0.0
Bonds (%)	76.3	79.0	58.4	62.5	65.8
Cash & bank deposits (%)	14.7	14.5	35.9	30.8	27.8
Other invested assets, incl. hedge funds (%)	9.0	6.5	5.7	6.7	6.4
Cash flows					
Net cash flow from operating activities	206.8	177.4	150.3	102.2	121.1
Net cash flow from investing activities	(27.4)	(423.8)	(86.4)	(10.7)	(250.8)
Net cash flow from financing activities	(124.6)	0.0	(50.3)	(37.2)	0.0

TMR also invests in catastrophe bonds to diversify its portfolio. At year-end 2010, the company had a total of $121 million in catastrophe bonds rated 'B' to 'BB+,' with maturities from 2011 to 2014. TMR could suffer significant losses in these investments when covered catastrophes occur. The company is receiving income based on LIBOR/Money Market Fund plus a fixed interest rate on these catastrophe bonds. TMR and Standard & Poor's have included the catastrophe bond exposure in the capitalization analysis and capital model.

The conservative investment portfolio provides an extra cushion for TMR's liquidity, and the company's positive operating cash flows (which improved to $207 million in 2010 from $177 million in 2009) allow TMR to meet cash requirements in the near term. TMNF can also provide cash if there is a large loss.

Standard & Poor's expects TMR to maintain strong liquidity with a conservative investment strategy and to generate strong operating cash flows, assuming no large catastrophic event occurs.

Capitalization: Very Strong, Benefiting From Strong Parental Commitment

TMR's capitalization and quality of capital are both very strong. The company's capitalization was redundant at the 'AAA' rating level as of year-end 2010, according to Standard & Poor's enhanced capital model. TMR's operating performance supports its capitalization, and the parent has demonstrated a strong commitment by contributing capital when TMR began operations. The company's capital adequacy measure includes a charge for a one-in-250-year net aggregate PML and a terrorism charge without premium offset.

TMR measures its internal risk capital as 99.93% (value at risk) of the annual comprehensive income, which must be less than 100% of shareholders' equity. Underwriting and operational risks are limited to 95% and 5% of shareholders' equity, respectively.

As of year-end 2010, TMR's equity was $1.2 billion, a decrease of 4% compared with 2009, which reflects a $125 million payment of dividends, partially offset by $65 million in net income.

Table 4

Tokio Millennium Re Ltd./Capitalization

	--Year ended Dec. 31--				
(Mil. $)	**2010**	**2009**	**2008**	**2007**	**2006**
Total assets	1,640.7	1,501.2	1,381.8	1,303.0	1,159.0
Adjusted total assets (total assets in APE)	1,621.2	1,484.1	1,361.3	1,297.3	1,155.6
Common equity - (common equity less preferred stock)	1,187.6	1,241.5	1,054.0	906.4	771.7
Total adjusted equity - (common eq. + hybrid + minority interest)	1,187.6	1,241.5	1,054.0	906.4	771.7
Total capital	1,187.6	1,241.5	1,054.0	906.4	771.7
Change in adjusted equity (%)	(4.3)	17.8	16.3	17.4	12.6
Reinsurance and reserves					
Reinsurance utilization ratio (%)	17.8	13.7	13.9	17.2	9.2
Loss reserves/total adjusted equity (%)	17.9	6.8	9.9	6.9	19.8
Loss reserves/net premiums written (%)	50.9	23.4	32.7	25.6	61.0
Liquid assets/technical reserves (%)	310.8	627.0	487.8	599.1	418.9

Prospective

Standard & Poor's expects TMR's capitalization to remain very strong. We expect TMNF to continue to provide a very strong capital commitment to TMR as its risk exposure increase. Although we expect TMR to pay a higher dividend than in the past, capital adequacy likely will remain very strong.

Reinsurance

TMR doesn't use a significant amount of reinsurance. The reinsurance utilization ratio of 17.8% in 2010, primarily related to its transformer business, was up from 13.7% in 2009. TMR only uses retrocessions from third parties (primarily for transformer business and when the gross exposure exceeds the company's tolerance level.

Financial Flexibility: Linked To The Parent Company, with No Debt Assumed

TMR's financial flexibility is very strong and supported by its parent. The guarantee covering all of TMR's reinsurance obligations from TMNF benefits its financial flexibility. The company doesn't have any debt to service and substantial tax benefits because most of its writings are in Bermuda where the company is exempt from taxation until 2016. The company received a number of capital infusions from TMNF in the past and has access to the capital market through its ultimate holding company, Tokio Marine Holdings Inc.

Ratings Detail (As Of August 5, 2011)*	
Operating Company Covered By This Report	
Tokio Millennium Re Ltd.	
Financial Strength Rating	
Local Currency	AA-/Negative/--
Domicile	Bermuda

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.