

Tokio Millennium Re Ltd.

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Tokio Millennium Re Ltd.

Major Rating Factors

Strengths:

- Very strong parental support through an existing guarantee on reinsurance policies.
- Very strong capital base.
- Strong liquidity and conservative investment portfolio.
- Focus on underwriting and risk management.

Weaknesses:

- Limited in scale but good competitive position.
- Lack of track record in new lines of business: workers' compensation catastrophe, crop/hail, and terrorism reinsurance, but expansion is controlled.
- Potentially very volatile, but good, earnings.

Operating Company Covered By This Report

Financial Strength Rating

Local Currency

AA/Stable/--

Rationale

The financial strength rating on Tokio Millennium Re Ltd. (TMR) reflects the very strong support 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 very strong capitalization, strong liquidity, a conservative investment portfolio, and the company's focus on underwriting and risk management. Offsetting these strengths are TMR's good, but limited, competitive position; lack of track record in underwriting workers' compensation catastrophe, crop/hail, and terrorism reinsurance, although the expansion is conducted with a controlled approach; and good but potentially very volatile earnings because of its mostly concentrated book of business in property catastrophe.

TMR is rated the same as its parent because of the explicit guarantee and the significant role 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 through purchasing catastrophe bonds. Also, TMR shares the same brand name as its parent and operates as a center of excellence for the parent by conducting alternative risk transfer, enterprise risk management (ERM), climate change research, and risk analysis software development. TMR diversifies its parent's risk exposure by spreading TMNF's concentration outside of Japan, and the parent demonstrates very strong support for TMR through an explicit guarantee on all of TMR's reinsurance obligations and past capital infusions, which supports the company's very strong capitalization.

TMR has a good, but limited, competitive position because of its smaller scale compared with other Bermuda peers' and a narrow focus, mostly on property catastrophe reinsurance. In 2006, the company commenced underwriting workers' compensation catastrophe, terrorism, and crop/hail and assumed more frequency risks while writing lower layer property catastrophe programs. However, TMR doesn't have as strong of a track record in these new lines, but these lines of business are growing slowly. The company expects to expand its crop quota-share business and international property terrorism business in 2009 and reduce its writing in workers' compensation catastrophe exposure as a result of unfavorable pricing trends in this segment. In addition, because of TMR's concentration on

property catastrophe reinsurance, its earnings are potentially volatile, but good, in most years. Property catastrophe reinsurance, which covers events with low frequency, contributes 63% of the company's underwriting net income.

Outlook

The outlook on TMR reflects the stable outlook on the parent, TMNF (which is ultimately owned by Tokio Marine Holdings Inc.). Because of the guarantee in place, if we change the ratings or outlook on TMNF, we would take a similar rating action on TMR. TMR's main business goal is to diversify its parent's risk profile, become a center of excellence for the parent, and maintain a balanced and stable portfolio. However, from a competitive position perspective, the company hasn't significantly improved its market position in the U.S. and Bermuda, but as a result of its marketing activities, TMR has exhibited an increased signed ratio as of the January 2009 renewals, with net premiums earned increasing by 27% in the first quarter of 2009 over the same period in 2008. However, submissions declined as brokers became more familiar with TMR's risk appetite and stopped sending submissions that TMR would turn down. The company also reduced a significant amount of its workers' compensation business. In addition, TMR continues to improve its ERM by formalizing the process and investing heavily in information technology (IT) developments and climate research to enhance risk controls. Coupled with the company's good underwriting discipline and strong capital base, the improvement in ERM enabled TMR to build a better business foundation during the soft market by identifying business that meets its capital and earnings expectations, which better positioned it for a potential hardening market. However, the company is growing slowly by taking a conservative business approach, and Standard & Poor's Ratings Services does not expect TMR to change its underlying business portfolio dramatically in the next two years. The company's quantitative approach to measuring catastrophe risks and its modeling focus are strengths to the rating.

We also expect that TMR will deliver good earnings (assuming a normal catastrophe year) with a combined ratio of less than 80% and a return on revenue (ROR) of at least 25%. We expect its earnings to remain volatile because of the catastrophe risk component, although the company has diversified into new lines of business, which mitigates some of the concentration risk in property exposures. Also, we expect TMR to maintain very strong capitalization, strong liquidity, and a conservative investment portfolio.

Competitive Position: Good And Important To The Parent Company

TMR's competitive position is good but somewhat limited because of its relatively small scale, with \$1 billion in surplus and a concentration in mostly property catastrophe risks. The company significantly improved its business signing ratio to 80% in 2009, compared with 69% in 2008. However, TMR's competitive position continues to depend on the brand name and market presence of its parent, TMNF. Its business profile is less diversified and smaller in scale than that of most Bermuda-based peers.

When TMR was established in 2000, its main focus was diversifying TMNF's catastrophe risks outside of Japan. TMR has established itself as the center of excellence for the parent by sharing its expertise in alternative risk transfer, ERM, climate change research, and risk analysis software development with the rest of the parent's subsidiaries. TMR's risk exposures are diversified across various geographic locations outside of Japan. As of March 31, 2009, 55% of total exposures came from the U.S., 20% from the U.K./Europe, 15% from Australia/New Zealand, 8% from Canada, and the remaining 2% from other regions including Turkey, Israel, and Taiwan.

Table 1

Tokio Millennium Re Ltd./Business Statistics					
—Year ended Dec. 31—					
(Mil. \$)	2008	2007	2006	2005	2004
Gross written premiums	369.8	297.0	275.6	129.8	102.4
Change in gross written premiums (%)	24.5	7.8	112.3	26.8	(1.3)
Net written premiums	318.3	246.0	250.2	115.4	102.3
Change in net written premiums (%)	29.4	(1.7)	116.9	12.8	2.2
Other revenue/total revenue (%)	0.0	0.0	0.6	1.9	6.4
Other income/EBITDA (%)	0.0	0.1	1.6	(5.6)	33.6

TMR experienced 98.6% growth in its specialty premiums in January 2009 renewals, compared with January 2008, except workers' compensation, which had a 50% decline. The company also experienced a 22% increase in property catastrophe premiums. Unlike some of its peers, TMR's ability to maintain stable earnings in 2008 better positioned it for the January 2009 renewal season and enabled it to increase capacity offerings. However, the company has a concentrated distribution channel, with the top four brokers contributing a significant amount of total written premiums.

The rating on TMR allows the company to participate in private layers that are not traded on the open market. However, the company doesn't have access to some U.S. property catastrophe programs because of its limited scale and distribution capabilities. TMR is investing in various catastrophe bonds, which is another way for TMR to access businesses and clients and increase its exposure diversification. The company is not aggressively expanding its market position because its main objective is diversifying TMNF's exposure. In 2009, TMR's overall business submissions declined by about 11% as brokers became more familiar with TMR's risk appetite and stopped sending submissions that TMR would turn down, but signing ratios improved across all lines, with signed premiums increasing by 25% compared with 2008. TMR has a scoring system, which allows it to differentiate the quality of each account and tailor prices incorporating those scores for its current accounts. Good underwriting performance in 2008 somewhat reflects TMR's selectivity and underwriting discipline in the soft market. In 2009, the company is decreasing its workers' compensation because of unfavorable pricing trends, and it is maintaining healthy growth in property catastrophe, crop reinsurance, and terrorism lines. Standard & Poor's believes that TMR's relatively conservative business approach and good underwriting results in 2008 have enabled it to maintain its offering capacity and have positioned the company well for the improving pricing conditions for property catastrophe reinsurance.

As of year-end 2008, TMR's major lines of business were traditional reinsurance in property catastrophe and three specialty lines: workers' compensation catastrophe, crop/hail, and terrorism. TMR's management tries to provide diversification to TMNF through traditional reinsurance and investing in a portfolio of 12 catastrophe bonds, in which four were recently added. The company also received fee incomes from its transformers business, which has contributed an increasing amount of income to the company for the past five years. Through its transformer business, TMR is effectively providing the reinsurance paper for noninsurance companies, such as hedge funds, and a nonrated segregated cell reinsurance company 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 as it has given cedents more coverage options. Its transformer business complements TMR's core business. Fee income in the first quarter of 2009 remained stable despite the capital

market turmoil of 2008.

During the January 2009 renewals, though TMR's property catastrophe premiums written increased by 22% compared with January 2008 renewals, partly because of rate increases, the company significantly increased premiums written for the specialty lines by 98.6%, despite a 50% reduction in the workers' compensation line. Some property catastrophe programs covering the coastal regions experienced up to 30% rate increases, while non-U.S. regions had rates that were flat to down 5%. Workers' compensation catastrophe, terrorism, and crop/hail each contributed 16%, 13.2%, and 71%, respectively, of in-force specialty premiums. This distribution changed significantly compared with the January 2008 renewal. TMR doesn't have a track record in these specialty lines, but this is not an overwhelming negative factor, mostly because of the small volume and TMR's overall risk-management approach.

Prospective

Standard & Poor's expects TMR to maintain its good competitive position and to continue to receive very strong parental support in 2009. As reinsurance rates continue to improve moderately in 2009, we believe TMR has positioned itself well for the upward trend supported by its good earnings and very strong capital base. However, we expect its gross premiums written to increase 0%-5% by year-end 2009. TMR will continue to generate diversified income from its transformer business and all layers of catastrophe risks, terrorism, and crop/hail reinsurance as the company further expands its specialty book. We expect the income from workers' compensation catastrophe to decline because of the continued downward pricing trend. At the same time, the company's visibility will be enhanced as it expands its client base through new product lines and by approaching regional clients, though at a gradual pace.

Management And Corporate Strategy: Experienced Management Team Focuses On Diversifying Its Parent's Exposure

TMR's management and corporate strategy are marginally positive and a strength to the rating.

TMR's senior management team is made up of eight people, and many of them have a long tenure at TMNF. The average experience of the management team members is more than 15 years. The composition of the current board of directors is stable, and the board consists of three members from the parent and three 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.

TMR's main mission is to enhance its parent's capital efficiency by diversifying TMNF's 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 through Tokio Millennium Agency Ltd. before the management process was transferred to the parent. In addition, TMR has gradually built expertise in structuring and expanding its alternative risk transfer products, and that has become an important source of income (the company contributed 6% of TMR's net income in 2008). TMR focuses on balancing and maintaining its portfolio through client retention, with emphasis on strict underwriting and quantitative pricing analysis. The company also invests heavily in climate research and software development to enhance its ERM, and it becomes the center of excellence for the Tokio Marine Group. All research and development products are shared with the parent and its subsidiaries.

Operational management

In 2003, TMR established a subsidiary, Tokio Millennium Agency Ltd., to manage all swap transactions between TMNF and other counterparties. This segment was managed by the TMR team before TMNF management took over in 2008. TMR continues to receive 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. The CEO of TMR is the chairman of Tokio Marine Technologies. 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. TMR also rolled out a client/account scoring system, which scores each account based on various factors, such as quality of management and underwriting. The output of the scoring system is incorporated into TMR's pricing review.

For TMR's transformer business, the company uses a segregated accounts company (SAC), a reinsurer to 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.

TMR enjoys tax benefits because it only operates in Bermuda and 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. In 2008, without the net derivative expense, TMR's commission expense ratio was 26%, which is consistent with its peers'. TMR pays a very high ceding commission expense for its proportional business in order to cover reinsurance costs that inure to the programs. TMR's core business line and individual commission expense ratios for property catastrophe and the three specialty lines are comparable with its peers'.

Financial management

TMR doesn't have to meet a strict return metric as long as the company is generating an 11% return on equity (ROE) over a three-year period and is focusing on its role of diversifying TMNF's catastrophe exposures. However, TMR is also very focused on not having losses above its tolerance.

TMR declared a \$50.3 million dividend in 2007, which was about 30% of its net income in 2007. TMR does not have a restriction on dividend payments. The company declared \$4 million, \$16 million, and \$8 million in dividends in 2002, 2003, and 2004, respectively. No dividend was declared in 2005 because of hurricane losses, and a dividend of \$37 million was declared in 2006. The company didn't declare any dividend in 2008. We expect the company to maintain a 30% dividend payout ratio when market conditions are stable.

Enterprise Risk Management: Adequate With Strong Risk Controls

As a strategically important company to TMNF, all of TMR's ERM functions are reviewed and aligned with the parent. Furthermore, we view TMNF's ERM as adequate, but we view TMR's ERM as adequate with some strong risk-management capabilities as it focuses on underwriting and modeling. However, as TMR becomes the center of excellence for its parent in climate research and catastrophe risk, it is building ERM on a stand-alone basis and working closely with the parent 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 comprises five people, three of whom are actuaries. In 2008 and 2009, the company made further progress in incorporating capital allocation methodology for pricing and establishing procedures for prerenewal review on optimal underwriting portfolio composition. The ultimate parent, Tokio Marine Holdings Inc., has established risk-management guidelines and aggregates the risk capital and allocates capital to each subsidiary. TMR is required to complete a self-assessment of risk and submit it to Tokio Marine Holdings Inc. annually.

TMR has implemented risk expectations for underwriting and other business functions and emphasizes a quantitative risk-management approach. TMR uses its internal and third-party risk models for midterm planning, decision making and evaluating business opportunities, and 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 in regards 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. TMR also uses various internal and third-party models to quantify enterprise risk factors, including credit risk, operational risks, 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.

TMR's stand-alone ERM framework is a strength to the rating. Although TMR uses various models to quantify risks, the company doesn't rely fully on its model analyses. TMR analyzes how the models work and rebuilds the models. The chief underwriting officer (CUO) reviews and authorizes all contracts, and the CEO has to sign off on certain contracts if they are above certain thresholds. Target underwriting returns are adjusted based on market conditions, cedents scoring, region, and peril. TMR also rolled out a client/account scoring system, which scores each account based on various factors, such as quality of management and underwriting. The output of the scoring system is incorporated into TMR's pricing review.

Because TMR has significant property catastrophe risk exposure, 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 a segregated cell company, to which TMR cedes the transformer business. The cell company will then retrocede 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 the SAC.

Standard & Poor's capital model included a one-in-250-year aggregate probably maximum loss (PML) catastrophe charge and a terrorism charge without premium adjustment. Further adjustments included the \$37 million catastrophe swap expense in the expense ratio as part of the analysis.

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. The company's combined ratios (including the catastrophe swap expense) ranged from 49% to 173% from 2001 to 2008.

Table 2

Tokio Millennium Re Ltd./Operating Performance					
(Mil. \$)	—Year ended Dec. 31—				
	2008	2007	2006	2005	2004
Total revenue	342.3	271.6	307.2	130.5	155.9
EBITDA	144.6	163.8	121.9	(42.6)	29.9
EBITDA including realized gains	130.6	169.9	126.5	(46.0)	31.2
Net income	126.6	167.7	123.9	(50.0)	26.2
Return on average adjusted equity (%)	12.9	20.0	17.0	(7.8)	4.4
Return on average equity (%) minus (numerator provided)	12.9	20.0	17.0	(7.8)	4.4
Return on average adjusted assets (%) minus (numerator provided)	9.5	13.7	11.4	(5.5)	3.2
Return on revenue (%)	42.2	60.3	39.7	(32.6)	19.2
Return on revenue including realized gains (%)	38.1	62.5	41.2	(35.3)	20.0
Realized gains/EBITDA (%) including realized gains	(10.7)	3.5	3.6	7.5	4.0
Administrative expense ratio (%)	9.0	9.3	5.7	9.4	7.2
Commissions expense ratio (%) (include net derivative expense)	38.3	38.8	43.3	18.7	28.8
Non-life loss ratio (%)	19.7	1.2	22.1	144.6	70.1
Non-life combined ratio (%) (include net derivative expense)	67.0	49.3	71.0	172.7	106.1

Historical

TMR has produced a good net profit in five of the past six years, excluding 2005, with a net loss of \$50 million and a combined ratio (including the catastrophe swap expense) of 173%. However, these results were slightly less than 10% of the previous year's \$595 million in equity in 2004—and were comparatively less volatile than some peers'. This highlights TMR's risk-management strengths. From 2002-2006, the company had average annual net income of \$33.6 million. In 2007, TMR significantly improved its operating performance, with a 49.3% combined ratio (including the catastrophe swap expense) and a 60% ROR because of a significant decline in net loss and loss expenses incurred. TMR did not have any net losses from Windstorm Kyrill because the company only retained high layers on programs.

Current performance

During 2008, TMR incurred net losses and loss expenses of \$59.3 million, compared with \$2.6 million in 2007 because of Hurricane Ike, which resulted in about a \$42.8 million loss before reinstatement premium. Net income declined by 25% in 2008 to \$127 million from \$167.7 million in 2007 because of both increased losses and

increased acquisition and administration expenses. Investment income declined by 16%, reflecting the decline in global interest rates.

In the first quarter of 2009, TMR increased its net premiums earned by 27% and total income by 18%. Net income was \$38.4 million, down 14% compared with the same period in 2008, mainly because of reduced investment income as a result of lower interest rates and adverse foreign exchange movements.

Prospective

Standard & Poor's expects TMR to deliver good operating results during a normal catastrophe year, with a combined ratio of less than 80%, a loss ratio of about 35%, and an ROE of about 13%. The property catastrophe business will remain the key premium and earnings contributor, but earnings remain potentially volatile because of TMR's focus on catastrophic risks. We expect TMR's operating performance to remain good in 2009, supported by the potentially improving pricing trend. Some coverage in the U.S. coastal area had experienced a 30% rate increase in 2009.

Investments And Liquidity: Strong Liquidity Supported By Conservative Investment Portfolio

TMR's investments and liquidity are strong, supported by the company's long-term conservative buy-and-hold investment strategy.

The \$1.1 billion in invested assets consisted of 36% cash and cash equivalents, 57% fixed-income securities, and 7% catastrophe bonds as of March 31, 2009. The fixed-income securities had an average duration of 2.43 years as of March 31, 2009, and 98% of the portfolio was rated 'AAA', with a minimum rating of 'AA'. About 82% of the fixed-maturity securities are U.S. government and government agency securities. TMR doesn't have any direct exposure to subprime mortgages. In 2008, the company's investment in catastrophe bonds mainly covered U.S. and European wind and earthquake risks, with a total of \$63.2 million in bonds rated 'BB+' to 'BBB' and maturities from 2009-2011. Losses in these investments only occur when covered catastrophes occur. The company is receiving income based on LIBOR plus a fixed rate of interest on these catastrophe bonds. TMR and Standard & Poor's have included the catastrophe bond exposure in the capitalization analysis and capital model.

Although the conservative investment portfolio provides an extra cushion to TMR's liquidity, the company's operating cash flows (\$150 million in 2008) also allow TMR to meet cash requirements in the near term. TMNF also can provide cash if there's a large loss.

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

Table 3

Tokio Millennium Re Ltd./Investments And Liquidity					
(Mil. \$)	—Year ended Dec. 31—				
	2008	2007	2006	2005	2004
Total invested assets	1,091.9	1,000.3	913.4	802.9	629.5
Net investment income	36.2	43.2	36.9	23.6	20.4
Realized gains/(losses)	(14.0)	6.0	4.5	(3.5)	1.2
Change in unrealized gains/(losses)	21.0	17.2	(0.2)	(10.1)	(5.8)

Table 3

Tokio Millennium Re Ltd./Investments And Liquidity (cont.)					
Net investment yield (%)	3.5	4.5	4.3	3.3	3.3
Net investment yield including realized gains (%)	2.1	5.1	4.8	2.8	3.5
Net investment yield including realized and unrealized gains (%) minus (numerator provided)	4.1	6.9	4.8	1.4	2.6
Portfolio composition					
Bonds (%)	58.4	62.5	65.8	48.8	71.0
Cash and bank deposits (%)	35.9	30.8	27.8	47.8	25.0
Other invested assets, including hedge funds (%)	5.7	6.7	6.4	3.3	4.0
Cash flows					
Net cash flow from operating activities	150.3	102.2	121.1	39.8	55.8
Net cash flow from investing activities	(86.4)	(10.7)	(250.8)	44.5	35.8
Net cash flow from financing activities	(50.3)	(37.2)	0.0	142.2	(16.1)

Capitalization: Very Strong Parental Commitment

TMR's capitalization and quality of capital are both very strong. The company's capitalization is a strength to the rating and was redundant at the rating level as of year-end 2008, according to Standard & Poor's enhanced capital model. TMR's capitalization is supported by its operating performance and a number of capital contributions from the parent. 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. The company was capitalized with \$125 million at its inception in 2000. TMNF has provided a very strong capital commitment since TMR's inception through capital contributions of \$125 million, \$250 million, and \$150 million in 2001, 2002, and 2005, respectively. Although TMR experienced a net loss of \$50 million in 2005, its shareholders' equity increased by 15% to \$685 million in 2005 because of the parent's \$150 million capital infusion. As of year-end 2008, TMR's equity was \$1.1 billion, an increase of 16% compared with 2007. The increase in shareholders' equity is primarily a result of a \$126.6 million increase in retained earnings and a \$21 million increase in net change in unrealized gains on investment.

Table 4

(Mil. \$)	—Year ended Dec. 31—				
	2008	2007	2006	2005	2004
Total assets	1,381.8	1,303.0	1,159.0	1,034.7	817.5
Adjusted total assets (total assets in annual premium equivalent)	1,361.3	1,297.3	1,155.6	1,010.4	816.7
Common equity minus (common equity less preferred stock)	1,054.0	906.4	771.7	685.1	595.3
Total adjusted equity minus (common equity plus hybrid plus minority interest)	1,054.0	906.4	771.7	685.1	595.3
Total capital	1,054.0	906.4	771.7	685.1	595.3
Change in adjusted equity (%)	16.3	17.4	12.6	15.1	2.2
Reinsurance and reserves					
Reinsurance utilization ratio (%)	13.9	17.2	9.2	11.1	0.2

Table 4

Tokio Millennium Re Ltd./Capitalization (cont.)					
Loss reserves/total adjusted equity (%)	9.9	6.9	19.8	27.5	9.5
Loss reserves/net premiums written (%)	32.7	25.6	61.0	163.2	55.2
Liquid assets/technical reserves (%)	487.8	599.1	418.9	314.3	611.6

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 grows.

Reserves

TMR doesn't use a significant amount of reinsurance. The reinsurance utilization ratio of 13.9% in 2008, primarily related to its transformer business, decreased from 17.2% in 2007. TMR only uses retrocessions from third parties primarily for transformer business and when the gross exposure exceeds the company's tolerance level. For example, in October 2006, TMR purchased an excess-of-loss retrocession cover for its workers' compensation catastrophe book as protection for the company's concentration in California.

Financial Flexibility: Linked To Parent, With No Debt Assumed

TMR's financial flexibility is very strong and linked to its parent. The guarantee covering all of TMR's reinsurance obligations from TMNF serves as support for its financial flexibility. The company doesn't have any debt to service or taxes to pay until 2016 because of its Bermuda domicile. 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.

Related Research

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Ratings Detail (As Of July 20, 2009)*	
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Tokio Millennium Re Ltd.	
Financial Strength Rating	
Local Currency	AA/Stable/--
Domicile	Bermuda

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