

Philadelphia Indemnity Insurance Co. And Philadelphia Insurance Co.

Financial Strength Rating

Local Currency

AA-/Stable/—

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RatingsDirect

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Major Rating Factors

Strengths:

- Strategic importance of Philadelphia Indemnity Insurance Co. and Philadelphia Insurance Co. to Tokio Marine & Nichido Fire Insurance Co. Ltd.
- Strong competitive position as a specialty underwriter.
- Strong operating performance.
- Strong capitalization with no debt outstanding.

Weaknesses:

- Aggressive growth strategy with new product introductions in a difficult insurance cycle.
- Key-men risk.
- Relatively high gross catastrophe exposure.

Rationale

The counterparty credit and financial strength ratings on Philadelphia Indemnity Insurance Co. and its sister company, Philadelphia Insurance Co., are based on their strategic importance to Tokio Marine & Nichido Fire Insurance Co. Ltd. (TMNF; AA/Stable/A-1+) and therefore receive an uplift in the ratings. According to Standard & Poor's Ratings Services' criteria, these ratings are capped at one notch below the ratings assigned on core group members. These companies' stand-alone characteristics include their strong competitive position, strong operating performance, and strong capitalization. Offsetting these strengths are the companies' aggressive growth strategy (including the introduction of new products in a difficult insurance cycle), key-men risk, and relatively high gross property catastrophe exposure. The GAAP

financial data in this report include the following insurance companies: Philadelphia Indemnity Insurance Co., Philadelphia Insurance Co., Liberty American Select Insurance Co., and Liberty American Insurance Co. (collectively referred to as PHLY). On July 23, 2008, Tokio Marine Holdings Inc. (Tokio Marine; the parent company of TMNF) and Philadelphia Consolidated Holding Corp. (Philadelphia Consolidated; the parent company of PHLY) entered into an agreement under which Tokio Marine would acquire all outstanding shares of Philadelphia Consolidated for \$61.50 per share in cash, a 73% premium to Philadelphia Consolidated's closing price of \$35.50. The total transaction value was approximately \$4.73 billion and was completed on Dec. 1, 2008. The acquisition of PHLY is consistent with Tokio Marine's strategy of expanding revenues and profits from international markets in the medium and long term. With limited growth potential in the domestic Japanese nonlife insurance market, Tokio Marine has been pursuing an international expansion strategy to achieve business growth and strengthen profitability. Therefore, the PHLY acquisition plays a vital and strategic role in the group's strategy, enabling it to establish a significant presence in the U.S., the world's largest insurance market. The acquisition also will enable Tokio Marine to create a well-balanced global portfolio, including domestic, developed, and emerging markets. Therefore, we view PHLY as a strategically important subsidiary of TMNF. PHLY constitutes a significant proportion of Tokio Marine's pro forma consolidated position. At year-end 2007, PHLY's figures were about 6% of the group's pro forma net premiums written and about 5% of the group's pro forma capital position. More importantly, PHLY's net income was about 23% of the group's pro forma figure. PHLY has a strong competitive position as a specialty insurer with an underwriting focus on value-added coverage and services for select markets. The company has translated its competitive advantage into strong underwriting results as it targets niches (such as nonprofit and religious organizations) with specialized areas of expertise, enabling PHLY to compete by offering customized coverage and solutions rather than competing solely on price. The company also benefits from a diverse multichannel distribution platform with a national footprint. PHLY's operating performance has been consistently strong, with an average combined ratio of 80.6% over the past five years (2003-2007). In the first nine months of 2008, pretax operating income declined, though underwriting performance remained strong. During this period, PHLY reported pretax operating income of \$274 million and a combined ratio of 84.5%, compared with \$351 million and 73.3%, respectively, in the same period in 2007. During the first nine months of 2008, underwriting results were affected by \$22 million in net losses from Hurricane Ike (a \$120 million gross loss), \$21 million in losses from Midwestern storms in the U.S., and declining premium rates (year-to-date average rate decreases on renewed business of 4.8% for commercial and 2.3% for specialty lines), offset by \$37 million in favorable reserve development. Also hurting profitability were \$42 million in other-than-temporary impairments (OTTI) in the equity investment portfolio. The robust earnings strengthened the very strong and redundant risk-adjusted capital base, including an estimated property catastrophe charge incorporating the company's net aggregate probable maximum loss based on the 1-in-250-year return period. In the past five years, the company has been growing its top line aggressively. Gross premiums written (GPW) grew at a 17% compound annual growth rate to reach \$1.69 billion in 2007 from \$906 million in 2003. Similarly, in the first nine months of 2008, GPW grew by 11.2% to \$1.44 billion compared with the same period in the previous year. To implement its growth strategy, PHLY is relying on its experienced management team and strong relationships with its key agents to generate new business opportunities. Furthermore, over the same time frame, PHLY added a significant number of new products, which contributed \$133

million (about 9% of 2007 GPW). The company does extensive research prior to introducing a new product and focuses on slippage in the Insurance Services Office policy form. However, the company has a short track record in some of these new businesses, and its ability to execute an overall profitable growth strategy—especially in a challenging environment—remains somewhat unproven and risky. The company has a strong and experienced management team consisting of financially motivated owners/managers. The top three executive positions (chairman, CEO, and chief operating officer) within PHLY are held by the Maguire family, which constitutes a key-men risk. Collectively, these three executives owned about 20% of Philadelphia Consolidated's common shares prior to the acquisition by Tokio Marine. Given their financial payout, there are concerns about their long-term plans with the company. However, as a mitigating factor, TMNF has retained PHLY's executive management team through three-year employment contracts and retention bonuses vested over time. In addition, PHLY's top five executives have invested about \$108 million in Tokio Marine's common stock. PHLY's gross property catastrophe exposure is high compared with its capital base. As a mitigating factor, the company has a good reinsurance program in place that significantly reduces its net exposure. To minimize the counterparty credit risk, PHLY's reinsurance structure is well diversified among highly rated carriers. Moreover, following the acquisition, PHLY is expected to use Tokio Marine's financial strength by ceding some of its business within the group rather than to third parties.

Outlook

Standard & Poor's expects that PHLY's GPW will grow by about 10% in 2008. This growth strategy in a weak pricing environment is concerning and could affect operating results. We expect the company's competitive position to remain strong following the acquisition. Despite soft pricing and catastrophe losses, operating performance likely will remain strong in 2008, with a combined ratio of 86%-88%. We expect PHLY to continue to emphasize underwriting discipline and generate strong underwriting results in 2009 in line with historical results. Furthermore, capitalization likely will remain strong, redundant, and supportive of the ratings in 2009. We expect TMNF to support PHLY's capitalization and financial flexibility if needed, and we expect PHLY to maintain its strategically important status within TMNF. As a result, the ratings and outlook on PHLY should move in tandem with those on TMNF. If PHLY is successfully integrated, establishes itself as a cornerstone within the group, and materially contributes to the group's turnover and earnings over the next two to three years, we might decide to view PHLY as core to TMNF. If that were to happen, we would then align the ratings on PHLY with those on the other core group members. Alternatively, we could revise the outlook to negative or lower the ratings on PHLY if its operating performance were to deteriorate significantly and affect its financial profile.

Competitive Position: Focused On Value-Added Coverage In Niche Markets

PHLY has a strong competitive position as a specialty underwriter with a focus on value-added coverage and services for select markets. The company has successfully translated its competitive advantage into strong underwriting results as it targets niches with specialized areas of expertise, enabling PHLY to compete by offering customized coverage and solutions rather than competing solely on price.

Table 1

Philadelphia Consolidated Holding Corp./Business Statistics					
	—Nine months ended Sept. 30—		—Year ended Dec. 31—		
(Mil. \$)	2008	2007	2007	2006	2005
Gross premiums written	1,442.2	1,297.3	1,692.2	1,493.2	1,264.9
% growth	11.2	N.A.	13.3	18.0	8.0
Net premiums written	1,301.0	1,119.1	1,459.6	1,282.9	1,110.8
% growth	16.2	N.A.	13.8	15.5	21.5
Reinsurance utilization (%)	9.8	13.7	13.7	14.1	12.2
Gross premiums by line of business:					
Commercial lines (%)	82.6	81.6	82.0	78.3	75.9
Specialty lines (%)	14.5	14.6	14.5	15.2	16.2
Personal lines (%)	2.9	3.8	3.5	6.4	7.8

N.A.—Not available.

PHLY underwrites mostly commercial lines (82% of 2007 GPW), with the remainder of its premium profile consisting of specialty lines (15%) and personal lines (3%). Through its commercial multiperil package policies, the company targets various niche markets, primarily nonprofit and religious organizations (e.g., Habitat for Humanity, YMCA, and churches). These package policies provide a combination of liability, property, and automobile coverage with limits up to \$1 million for casualty, \$125 million for property, and umbrella limits on an optional basis up to \$15 million. Its ability to provide professional/management liability and general liability coverage in one policy is advantageous and convenient to its producers and policyholders.

In its specialty lines, PHLY provides professional and excess liability (errors and omissions) coverage mainly to accountants, marketing consultants, and claims adjusters. Specialty lines also include directors' and officers' liability coverage for nonprofit and private companies written on a claims-made basis with \$1 million in limits.

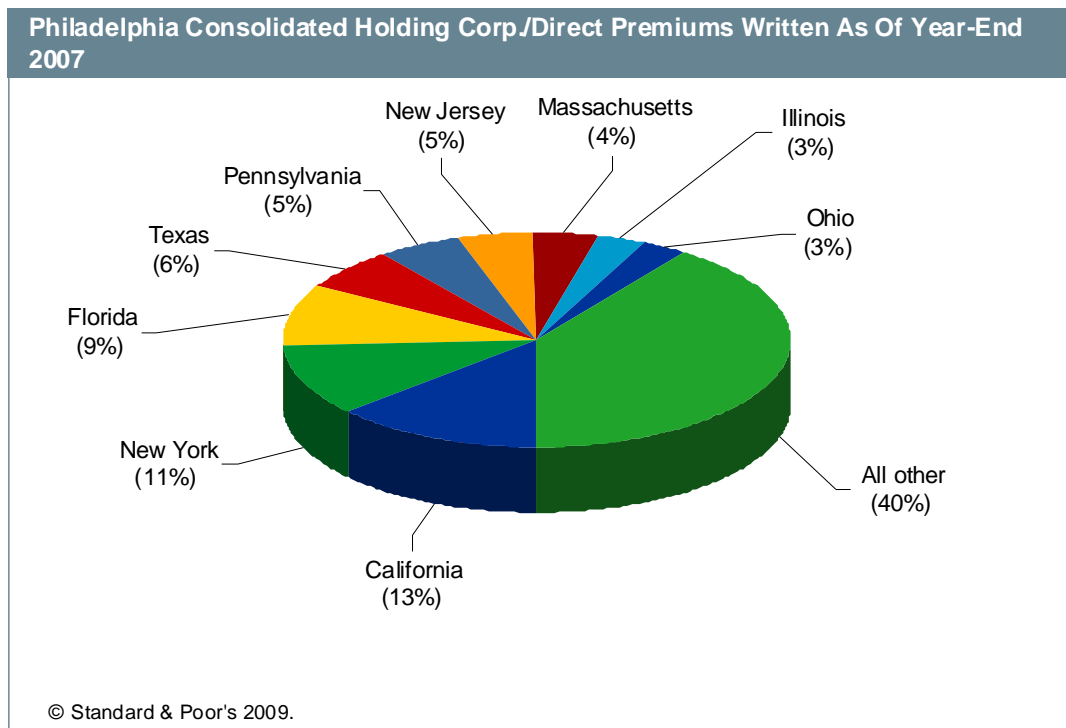
PHLY's competitive position benefits from a diverse multichannel distribution system, which includes a select group of 210 preferred agents, a broader group of 500 Firemark producers, and a network of more than 11,000 independent producers. These producers complement PHLY's existing 47 regional and field offices across the U.S. The 210 preferred agents are eligible to receive profit sharing based on the achievement of minimum premium production thresholds and profitability results. The amount of profit sharing may not be known until the final contractual loss evaluation, which may be 6.5 years after the contract-year business was written. The company has an exclusive relationship with its preferred agents and benefits from the "right of first refusal." In addition, the company has designated 500 Firemark producers who have the potential to become preferred agents. Besides independent producers, the company sources its business through wholesalers and the Internet.

PHLY has a geographically diversified book of business, with the top five states constituting 45% of 2007 direct premiums written (California, 13%; New York, 11%; Florida, 9%; Texas, 6%; and Pennsylvania, 5%). The company has been reducing its Florida writings to lessen its exposure to catastrophe wind losses. As part of its catastrophe risk management, PHLY is reducing its wind exposure by nonrenewing all of its Florida's personal line policies (e.g., homeowners and rental homes).

The exit strategy is expected to be completed by July 2009. As of year-end 2007, the company had 4,100 policies in force, with \$3.2 million in premiums.

In the past five years (2003-2007), the company has been growing its top line aggressively. GPW grew at a 17% compound annual growth rate to \$1.69 billion in 2007 from \$906 million in 2003. Similarly, net premiums written (NPW) increased 25% to \$1.46 billion from \$602 million. In the same time frame, PHLY added a significant number of new products, which contributed \$133 million, or about 9% of the 2007 GPW. Strong premium growth occurred despite softening rates across all business lines (2007 average rate decreases on renewed business of 3.6% for commercial and 1.8% for specialty lines). This strategy has produced strong earnings thus far, but the company has a short track record in some of these new businesses, and its ability to execute an overall profitable growth strategy, especially in a difficult insurance cycle, remains somewhat untested.

Chart 1



Prospective

We expect GPW to increase by about 10% in 2008, with business renewal retentions of approximately 85%. The organic growth strategy amid soft prices is questionable and could affect operating results. We expect the company's competitive position to remain strong following the acquisition by TMNF.

Management And Corporate Strategy: Likely To Remain Relatively Unchanged Following The Acquisition

The company has a strong and experienced management team consisting of financially motivated owners/managers. The top three executive positions (chairman, CEO, and chief operating officer) within PHLY are held by the Maguire family. Collectively, these three executives owned approximately 20% of Philadelphia Consolidated's common shares prior to the acquisition by Tokio Marine. Given

their financial payout, there are concerns about their long-term plans with the company. However, in the short term, the executive management team will continue to manage PHLY after signing three-year employment contracts, receiving retention bonuses and investing \$108 million in Tokio Marine common stock.

PHLY's strategy is to generate underwriting profits through sound risk selections and pricing discipline. The company differentiates itself by seeking to create value-added coverage and service features not found in typical property and casualty policies. It focuses on coverage enhancements where premium may be small, but with a minimal amount of exposure. Furthermore, the company continues to focus on product development, with the introduction of about three new products per year. PHLY has a committee focused on researching new products and current market conditions, with the company testing products on a limited basis before rolling them out nationwide. We expect the company's short-term strategy to remain relatively unchanged following the acquisition.

Operational management

PHLY maintains a local presence to more effectively serve its producers and to be closer to its customer base. The company operates through 13 regional offices and 34 field offices throughout the country, enabling PHLY to adapt its marketing and underwriting strategies to local conditions and build value-added relationships with its customers and producers.

The company's operations are focused on underwriting profitability. The claims management team investigates reported claims at an early stage, services insureds, and reduces fraud. PHLY offers a quick turnaround for policy issuance and a timely claims response. The company also closely monitors its systems, records, and databases to swiftly react to positive or negative developments. Detailed profitability reports are produced monthly as part of the company's policy in reviewing and analyzing its book of business. PHLY continues to invest in its technology platform with the goal of being a Web-based company with lower expenses and to improve its processes and customer service. The integration risk is mitigated given that PHLY will continue to operate as a stand-alone entity with minimal overlap with TMNF. TMNF will oversee its new subsidiary companies through board oversight, regular meetings, and conference calls in addition to embedding three TMNF executives in PHLY's management team that act as liaisons with the parent company in Japan.

Financial management

PHLY focuses on maximizing its long-term aftertax total return, with an objective of earning a 15% return on equity over the insurance cycle. To support its growth strategy prior to the acquisition, PHLY retained most of its earnings with minimal stock repurchasing and no dividend payments in the past four years. The company repurchased \$0.3 million of its common stock in 2003 and about \$43 million in the first nine months of 2008.

Enterprise Risk Management: Adequate, With Appropriate Controls To Manage Its Risks

We view PHLY's enterprise risk management (ERM) as adequate. We believe that the company has appropriate controls to manage, monitor, and assess its risks. In 2007, PHLY hired a full-time director of risk management and further formalized its ERM framework. It has created its risk register, with

input from its ERM subcommittees (operational risk and financial risk), and has populated and ranked its various risks.

We view PHLY's ERM culture as adequate. The company has an ERM committee that consists of the CEO, chief financial officer, chief operating officer, chief information officer, chief actuarial officer, director of risk management, and director of internal audit. The ERM committee recommends strategies, communicates internal guidelines, supervises risk analyses, and reports to the audit committee. However, the business units remain the risk owners. In addition to the ERM committee, there are executive and management meetings that occur weekly and monthly, in which the members discuss, among other things, the current market environment, underwriting, and reinsurance.

PHLY has adequate controls to manage its underwriting risks. Senior management has defined underwriting and catastrophe risk appetite and has conveyed this across the enterprise. The company has established a segregation of duties between those responsible for making risk decisions and those responsible for measuring risk. The company actively reviews its agents through its real-time information system, with compensation of its agents and executive management tied to underwriting performance. Furthermore, PHLY regularly reviews market conditions by analyzing pricing and loss trends.

We expect the company to further enhance its ERM framework with a focus on its dynamic financial analysis providing guidance for capital and asset allocation and evaluating growth and underwriting strategies.

Accounting

PHLY reviews its fixed-maturity and equity securities portfolio to evaluate the necessity of recording OTTI. The company considers its intent and ability to hold a security until the value recovers as part of its evaluation process. It has adequate liquidity to support its ability to hold onto depressed value securities, as demonstrated by its strong operating cash flows. However, PHLY writes down any investment that has a fair value that has declined more than its thresholds, in accordance with its established policies. It recorded OTTI losses of \$42 million through the first nine months of 2008 and \$8 million in full-year 2007.

Operating Performance: Strong Results Despite Declining Premium Rates

PHLY generated strong operating performance in 2007 and the first nine months of 2008, despite declining premium rates. The company benefited from strong underwriting, favorable reserve development, and an increase in net investment income.

Table 2

<i>Philadelphia Consolidated Holding Corp./Operating Statistics</i>					
	<i>—Nine months ended Sept. 30—</i>		<i>—Year ended Dec. 31—</i>		
<i>(Mil. \$)</i>	<i>2008</i>	<i>2007</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>
Total revenue	1,284.4	1,103.5	1,500.0	1,263.6	1,041.8
Underwriting gain or (loss)	170.9	262.3	334.9	350.2	191.7
EBITDA	291.7	363.0	466.8	452.5	236.0
Pretax operating income (excluding realized capital gain or loss)	274.3	350.6	455.7	444.5	231.2
Net income	165.6	256.6	326.8	288.8	156.7
Return on revenue (%)	21.4	31.8	30.4	35.2	22.2

Table 2

Philadelphia Consolidated Holding Corp./Operating Statistics (cont. 'd)					
	—Nine months ended Sept. 30—		—Year ended Dec. 31—		
(Mil. \$)	2008	2007	2007	2006	2005
Return on equity (%)	10.8	N.A.	24.1	29.1	21.5
Return on assets (%)	3.8	N.A.	8.7	9.1	5.8
Loss ratio (%)	55.1	43.7	44.9	40.0	51.6
Expense ratio (%)	29.4	29.5	30.0	28.9	27.0
Combined ratio (%)	84.5	73.3	74.8	69.0	78.6
Operating ratio (%)	23.8	35.2	33.7	38.9	27.9
Net investment income to net premiums earned (%)	8.3	8.4	8.5	7.8	6.5
Cash flows					
Net cash flow from operating activities	422.7	403.3	534.1	506.8	430.7
Net cash flow from investing activities	(480.8)	(402.3)	(562.9)	(492.9)	(549.1)
Net cash flow from financing activities	103.8	12.8	26.5	20.3	(2.8)

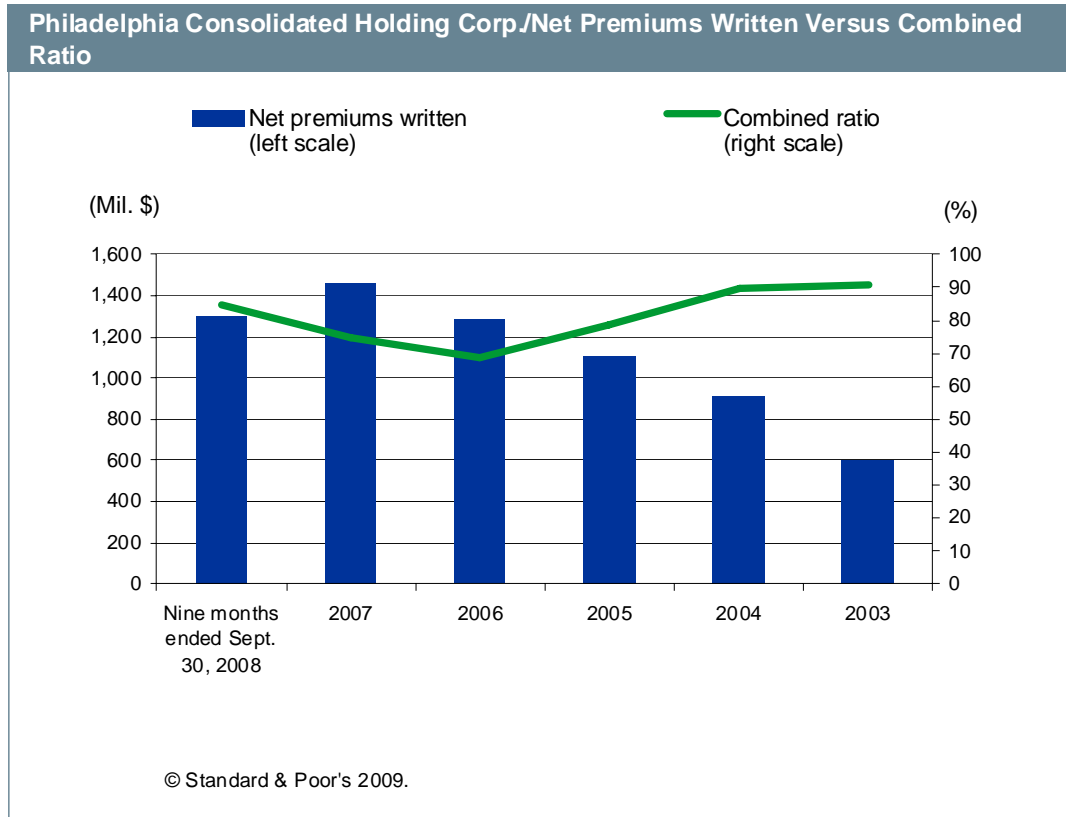
N.A.—Not available.

Historical

PHLY's operating performance improved in 2006, with strong underwriting and favorable reserve development contributing to its strong combined ratio of 69.0% and a return on revenue (ROR) of 35.2%. This compares favorably with a combined ratio of 78.6% and an ROR of 22.2% in 2005, as the company's results were hurt by \$25 million in hurricane catastrophe losses, \$4 million of reinstatement reinsurance premiums, and a \$6 million charge related to assessments from Citizen Property Insurance Corp. Net income was also negatively affected by a \$26 million impairment charge for the write-down of goodwill from the acquisition of the company's personal lines segment in 1999.

In 2004 and 2003, PHLY produced combined ratios of 89.6% and 90.9%, respectively, as the company booked adverse reserve development. The 2004 underwriting results also were hurt by \$47 million of hurricane catastrophe losses and \$26 million of reinstatement premium expenses, which collectively increased the combined ratio by 9.4 percentage points and led to an underwriting loss in the personal lines segment. In 2003, the adverse reserve development included a \$39 million charge for its discontinued automobile leasing residual value product.

Chart 2



Current performance

PHLY's operating performance remained strong in 2007, with a combined ratio of 74.8% and an ROR of 30.4%. Pretax operating income increased to \$456 million in 2007, compared with \$445 million in 2006 and \$231 million in 2005. Earnings benefited from an increase in net investment income because of an increase in invested assets and \$86 million in favorable reserve development, which improved the combined ratio by 6.2 percentage points. This was offset partially by \$7.5 million in losses from the California wildfires and \$7.9 million in OTTI.

In the first nine months of 2008, pretax operating income declined, although underwriting performance remained strong as PHLY reported pretax operating income of \$274 million and a combined ratio of 84.5%, compared with \$351 million and 73.3%, respectively, during the same period in the previous year. Underwriting results in the first nine months of 2008 were affected by \$22 million in net losses from Hurricane Ike (\$120 million gross loss), \$21 million in losses from Midwestern storms in the U.S., and declining premium rates (year-to-date average rate decreases on renewed business of negative 4.8% for commercial and negative 2.3% for specialty lines), offset by \$37 million in favorable reserve development. Profitability also was hurt by \$42 million of OTTI losses.

Prospective

Despite soft pricing and catastrophe losses, we expect operating performance to remain strong in 2008, with a combined ratio of 86%-88%. We expect PHLY to continue to emphasize underwriting discipline and generate strong underwriting results in 2009, in line with historical results.

Investments And Liquidity: Growth In Invested Assets Despite Recent Market Disruption

PHLY's investment strategy is to realize relatively high levels of investment income while generating a competitive aftertax yield within duration and credit quality targets. The company uses external independent professional investment managers for both its fixed-income and equity investments. The investment managers are bound by specific investment guidelines so the company can maintain an appropriate level of liquidity to satisfy cash requirements of current operating and longer-term obligations, to adjust investment risk to offset or complement insurance risk based on total risk tolerance, and to meet insurance regulatory requirements.

Despite the recent market disruption, total invested assets increased 5% to reach \$3.28 billion on Sept. 30, 2008, compared with \$3.12 billion on Dec. 31, 2007. The increase in invested assets was attributable to the strong operating cash flows that offset the \$41 million in realized capital losses and the \$143 million in pretax unrealized losses. The larger invested asset base increased investment income to \$97 million in the first nine months of 2008 (yielding a 1.8% total return, including realized capital gains), up 14% from the same period in the previous year.

PHLY's investment portfolio consisted of \$2.66 billion of fixed maturities on Dec. 31, 2007, representing 85% (85% as of Sept. 30, 2008) of the investment portfolio. The fixed-maturity portfolio, consisting primarily of municipal bonds, is highly rated, with an average credit rating of 'AA+' and an average duration of five years (5.5 years as of Sept. 30, 2008). The remaining investment portfolio is split between common stock of 12% (11% as of Sept. 30, 2008), and cash and cash equivalents of 3% (5% as of Sept. 30, 2008). The investment portfolio is well diversified as it had no fixed-income or equity investments in excess of 10% of shareholders' equity as of Dec. 31, 2007.

As of Sept. 30, 2008, PHLY owned 19 securities (totaling \$17 million) with subprime or Alternative-A (Alt-A) exposure. These securities are among the first to pay or are first cash flow tranches of their respective transactions. The subprime and Alt-A securities have an average rating of 'AAA' with a weighted average life of 1.6 years.

Table 3

<i>Philadelphia Consolidated Holding Corp./Investment Statistics</i>					
	<i>—Nine months ended Sept. 30—</i>		<i>—Year ended Dec. 31—</i>		
<i>(Mil. \$)</i>	<i>2008</i>	<i>2007</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>
Total invested assets	3,283.1	2,979.8	3,121.6	2,542.3	2,009.4
Change in total invested assets (%)	10.2	N.A.	22.8	26.5	23.8
Net investment income	97.6	85.7	117.2	91.7	63.7
Net investment income to total revenue (%)	7.6	7.8	7.8	7.3	6.1
Net investment yield (%)	3.1	N.A.	4.1	4.0	3.5
Realized capital gains or (losses)	(40.8)	32.6	29.6	(9.9)	9.6
Total investment yield (%)	1.8	N.A.	5.2	3.6	4.0
<i>Portfolio composition (% of invested assets):</i>					
Bonds (%)	84.6	83.7	85.2	83.8	87.7
Common stocks (%)	10.7	12.2	11.4	12.0	8.6
Cash and cash equivalents (%)	4.6	4.1	3.4	4.3	3.7

N.A.—Not available.

Liquidity

PHLY's liquidity is strong. The significant majority of its invested assets are readily exchangeable into cash, including \$152 million in cash and cash equivalents as of Sept. 30, 2008. It's worth noting that \$15 million of the investment portfolio is on deposit with various states and \$131 million serves as collateralization for borrowings with the Federal Home Loan Bank of Pittsburgh (AAA/Stable/A-1+). In addition to a liquid investment portfolio, the company benefits from strong operating cash flow, as it generated \$534 million in 2007 and \$423 million in the first nine months of 2008.

Besides payments for losses and loss-adjusted expenses, expected liquidity needs in 2008 include \$69 million of deferred commission liability, \$12 million of other long-term contractual commitments, \$7 million of preferred agent profit sharing, and \$6 million for operating leases. We expect PHLY to have adequate liquidity to meet these obligations based on strong operating cash flows.

Capitalization: Strong, Consisting Of Only Shareholders' Equity

PHLY's capitalization is strong, including a net aggregate exposure property catastrophe charge to incorporate the company's probably maximum loss based on the one-in-250-year return period. The capital base consists of only shareholders' equity. Despite share repurchases, shareholders' equity increased to \$1.61 billion on Sept. 30, 2008, from \$1.55 billion as of year-end 2007 because of continued strong earnings. Given the continued top-line growth in a softening insurance cycle, the uncertainty of loss-reserve estimates for PHLY's commercial lines, and the catastrophe exposure, such a high level of capital adequacy provides additional cushion to the inherent risks.

Table 4

<i>Philadelphia Consolidated Holding Corp./Capital Adequacy And Flexibility Statistics</i>					
	<i>—Nine months ended Sept. 30—</i>		<i>—Year ended Dec. 31—</i>		
<i>(Mil. \$)</i>	<i>2008</i>	<i>2007</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>
Shareholders' equity	1,606.8	1,446.7	1,547.5	1,167.3	816.5
Change in shareholders' equity (%)	11.1	N.A.	32.6	43.0	26.8
Total capital	1,606.8	1,446.7	1,547.5	1,167.3	816.5
Change in total capital (%)	11.1	N.A.	32.6	43.0	26.8
Operating leverage (%)	81.0	77.4	94.3	109.9	136.0
Common stock to equity (%)	21.9	25.0	23.0	26.0	21.2
Loss reserves/shareholders' equity (%)	107.9	96.4	92.5	109.9	152.6
Loss reserves to net premiums written (%)	133.3	124.6	98.1	100.0	112.2
Total reinsurance recoverable to shareholders' equity (%)	N.A.	N.A.	11.0	16.1	37.3

N.A.—Not available.

Reserves

We view the company's reserve position as adequate. The loss reserve balance of \$1.43 billion on Dec. 31, 2007, is significant and represented 93% of shareholders' equity. Because of strong earnings, the loss reserves to shareholders' equity improved from 155% in 2004, when the company recorded \$35 million of unfavorable reserve development, principally from its professional liability, general liability, and commercial automobile coverage. In addition, PHLY recorded \$45 million of adverse development in 2003, primarily from the automobile leasing residual value product.

The company benefited from favorable reserve development in the past three years, including \$86 million in 2007 (\$47 million professional and management liability, \$31 million commercial, \$8 million rental and leasing auto coverage) and \$37 million through the first nine months of 2008. However, the incurred-but-not-reported reserves as a percentage of total reserves decreased to 54.4% in 2007, compared with 58.6% in 2006.

Table 5

Philadelphia Consolidated Holding Corp./Reserve Development And Combined Ratio					
	—Year ended Dec. 31—				
	2007	2006	2005	2004	2003
Total (favorable)/unfavorable reserve development (mil. \$)	(85.8)	(91.4)	(29.9)	35.1	44.6
Accident-year combined ratio (%)	81.1	76.8	81.7	85.1	83.1
Calendar-year combined ratio (%)	74.8	69.0	78.6	89.6	90.9

Reinsurance

As its balance sheet has strengthened, PHLY has reduced the amount of reinsurance that it has purchased, as demonstrated by the decline in its reinsurance utilization ratio to 14% in 2007 from 34% in 2003. The reinsurance recoverable balance represents a minor risk, as it constituted 11% of shareholders' equity at year-end 2007, compared with 50% at year-end 2004. To minimize its recoverability risk and to manage its credit exposure, 91% of its net reinsurance recoverable balance is from carriers rated 'A-' or higher. Following the acquisition, PHLY is expected to use Tokio Marine's financial strength by ceding some of its business within the group rather than to third parties.

Financial Flexibility: Strong And Supported By The Current Ownership

PHLY's financial flexibility is strong and will benefit under the ownership of Tokio Marine by maintaining access to the capital markets and a stronger balance sheet. On a stand-alone basis, PHLY is a member of the Federal Home Loan Bank of Pittsburgh, and as a member, it has access to credit products. PHLY had borrowing capacity of \$465 million as of Sept. 30, 2008, of which \$130 million was outstanding to fund the purchase of investment-grade-rated floating rate securities to take advantage of interest rate spreads.

Ratings Detail (As Of 24-Feb-2009)*	
Operating Companies Covered By This Report	
Philadelphia Indemnity Insurance Co.	
Financial Strength Rating	
<i>Local Currency</i>	AA-/Stable/—
Counterparty Credit Rating	
<i>Local Currency</i>	AA-/Stable/—
Philadelphia Insurance Co.	
Financial Strength Rating	
<i>Local Currency</i>	AA-/Stable/—
Issuer Credit Rating	
<i>Local Currency</i>	AA-/Stable/—

Ratings Detail (As Of 24-Feb-2009)* (cont. 'd)

Related Entities

Tokio Marine & Nichido Fire Insurance Co. Ltd.

Financial Strength Rating

Local Currency AA/Stable/—

Issuer Credit Rating

Local Currency AA/Stable/A-1+

Commercial Paper

Local Currency A-1+

Senior Unsecured (4 Issues)

AA

Domicile

Pennsylvania

*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.

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