Fitch Ratings

FITCH AFFIRMS PARTNERRE'S RATINGS; OUTLOOK NEGATIVE

Fitch Ratings-New York-24 August 2010: Fitch Ratings has affirmed the ratings of PartnerRe Ltd. (PartnerRe). The Rating Outlook is Negative. A full rating list is shown below.

The affirmation follows an updated review of PartnerRe's financial performance, capital position, liquidity, and investment exposures. The rationale for the ratings includes the company's strong competitive position, solid long-term operating profitability, and high-quality balance sheet. Partially offsetting these favorable factors is PartnerRe's relatively higher exposure to low-frequency but high-severity events - an exposure highlighted by the first-half 2010 Chilean earthquake and European windstorm losses and material hurricane losses in 2008.

PartnerRe's ratings also reflect Fitch's belief that the company's risk management capabilities will enable it to maintain its strong and liquid balance sheet during periods of heightened capital market volatility, such as those experienced in 2008, when PartnerRe experienced relatively little capital deterioration despite very difficult capital market conditions and significant catastrophe-related losses.

Notably, Fitch views PartnerRe's investment portfolio as high quality and liquid. The company's investment portfolio and capitalization remain supportive of PartnerRe's current ratings under stress test scenarios where Fitch assumes credit-related losses on the company's fixed-income portfolio and asset valuation losses on the company's very modest equity portfolio.

Key rating drivers underlying the Negative Outlook are uncertainty over whether PartnerRe's returns and stability of returns, over an extended period will remain commensurate with those required at the 'AA' rating level following the company's late 2009 acquisition of Paris Re. Fitch revised PartnerRe's Outlook to Negative from Stable when that acquisition was completed and believes that it is too early to assess the transaction's ultimate impact on PartnerRe.

Additionally, the Negative Outlook reflects ongoing and expected near-term future industry-wide pressure on premium rates that Fitch believes is currently adversely impacting PartnerRe's (and other reinsurers') underwriting margins.
If PartnerRe demonstrates the ability to generate adequate returns over the next 12-18 months while retaining solid risk-adjusted capitalization levels, Fitch will likely revise PartnerRe's Outlook to Stable. Otherwise, Fitch believes that the company's ratings would likely be downgraded by one notch.

Factors that Fitch would view as supportive of PartnerRe's current ratings include the following when viewed on a run-rate or multi-year rolling average basis:

--Calendar year combined ratios in the mid 90%, which would be largely consistent with PartnerRe's average result of 91% from 2005 through 2009;
--Operating earnings-based returns on average total capital that approximate 10%, which is consistent with PartnerRe's 2005-2009 average of 10.6%;
--Profitable underwriting results evidenced by combined ratios, excluding the impact of prior-accident-year reserve development of less than 100%. Fitch views this as especially important in the current low interest rate environment;
--Operating-earnings-based interest and interest and preferred dividend coverage ratios that approximate 12 times (x) and 7x, respectively versus PartnerRe's 2005-2009 average of 16x and 9x, respectively, which was achieved when the company's financial leverage was near historical lows.

Fitch notes that PartnerRe's operating performance during the first six months of 2010 was impacted by approximately $315 million of catastrophe losses (net of retrocession and reinstatement premiums) from the Chilean earthquake and Winter Storm Xynthia, which combined to add roughly 16 combined ratio points to PartnerRe's first-half 2010 combined ratio of 103.8% that was among the highest reported by Bermuda (re)insurers during that time period.

Importantly, Fitch does not expect PartnerRe's underwriting results over this admittedly brief time period to be representative of the company's future performance. Excluding catastrophe losses and favorable prior period development, Fitch estimates that PartnerRe's 'run rate' combined ratio was roughly 99% for the first half of 2010, versus approximately 96% and 97% for full years 2009 and 2008, respectively. Fitch attributes this modest deterioration to the softening pricing environment rather than relaxed underwriting standards over the same time period.

Fitch has affirmed the following ratings with a Negative Outlook:

Partner Reinsurance Ltd.
--Insurer Financial Strength (IFS) at 'AA'.

PartnerRe Ltd.
--Issuer Default Rating (IDR) at 'AA-';
--$290 million 6.75% series C cumulative redeemable perpetual preferred securities at 'A-';
--$230 million 6.5% series D cumulative redeemable perpetual preferred securities at 'A-';
--$67 million junior subordinated notes due Dec. 1, 2066 at 'A-';
--$250 million 6.875% senior unsecured notes due June 1, 2018 at 'A+'
--$500 million 5.5% senior unsecured notes due June 1, 2020 at 'A+'.

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Additional information is available at 'www.fitchratings.com'

Related Research:
--'Insurance Rating Methodology' (Aug. 13, 2010);
--'Rating Hybrid Securities' (Dec. 29, 2009;
--'Non-Life Insurance Rating Methodology' (March 24, 2010);
--'Insurance Industry: Global Notching Methodology and Recovery Analysis' (Dec. 29, 2009).

Related Research:
Rating Hybrid Securities
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=493086
Non-Life Insurance Rating Methodology
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=506369

Insurance Industry: Global Notching Methodology and Recovery Analysis
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=493114
Insurance Rating Methodology
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=547766