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September 2, 2011

PartnerRe Ltd. And Operating Subsidiaries

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PartnerRe Ltd. And Operating Subsidiaries

Major Rating Factors

Strengths:

- Very strong competitive position, with significant line of business and geographic diversification, and growing life reinsurance platform.
- Very strong capital adequacy and strong quality of capital.
- Conservative investment portfolio and very strong liquidity.
- Strong historical operating performance.

Weaknesses:

- Moderate earnings and balance sheet volatility on a year-over-year basis because of significant property/catastrophe and other severity-driven writings and low retrocessional use.
- Near-term execution risks related to recent changes at senior management level, though mitigated by the long-tenure of these executives within the organization.

Holding Company: PartnerRe Ltd.

Counterparty Credit Rating

Local Currency

A/Negative/--

Operating Companies Covered By This Report

Financial Strength Rating

Local Currency

AA-/Negative/--

Rationale

The insurer financial strength ratings on the members of PartnerRe Group (PartnerRe) and the counterparty credit rating on the holding company, PartnerRe Ltd., are based on their very strong competitive position, with the group ranking among the largest global reinsurers with gross premium writings of $4.9 billion as of year-end 2010. In addition, Standard & Poor's Ratings Services' ratings take into account the group's very strong capital adequacy and quality of capital, its conservative investment portfolio, very strong liquidity, and strong historical operating performance. Offsetting these positive factors are the group's exposure to moderate earnings and balance sheet volatility on a year-over-year basis, given its significant writings in property/catastrophe and other severity-driven lines, as well as its low retrocessional use. In addition, recent changes at the senior management level could result in some near-term execution risk, although we believe this is significantly mitigated by the senior managers' long tenure at PartnerRe.

PartnerRe's competitive position is very strong. The company significantly expanded its platform over the past decade, moving from its original position as a monoline catastrophe writer in the mid-1990s to offer a wide array of property, casualty, and life reinsurance products worldwide. The October 2009 acquisition of Switzerland-based PARIS Re has served to further enhance the group's competitive position by providing broader client and distribution channel diversification. The transaction has also solidified PartnerRe's position among the largest global reinsurance groups based on gross premium writings of $4.9 billion at year-end 2010. We believe the group has addressed most integration risks related to this acquisition. However, our rating outlook on PartnerRe remains negative based on the potential for future volatility in operating results, particularly as a result of its larger share of property and property/catastrophe risks as a proportion of its business mix following the acquisition.

PartnerRe's historical operating performance has been strong, with the group reporting a five-year (2006-2010) non-life combined ratio of 87%, non-life return on revenue (ROR) of 19%, and Standard & Poor's calculated

consolidated average return on equity (ROE) of 16%. In addition, we believe PartnerRe's operating results during this period are even stronger when accounting for the group's historically conservative loss reserving practices, with loss reserve releases representing approximately 13 percentage points in the non-life combined ratio in each of the past five years.

Catastrophe losses have significantly affected the group's operating results over the past 18 months. For the first six months of 2011, PartnerRe reported a year-to-date non-life combined ratio of 147%, which included 68 points (or $1.2 billion) of catastrophe losses incurred during the period. This led the group to report a net loss of negative $683 million during the six-month period. However, we believe these losses were within PartnerRe's pre-established risk limits and reasonable vis-à-vis the group's significant participation in property/catastrophe and other severity driven lines of business. Additionally, the group's capital adequacy remains in the very strong range as of June 30, 2011.

PartnerRe's portfolio is conservatively invested, with about 92% of the invested asset mix consisting of bonds, short-term investments, and cash as of June 30, 2011. Liquidity remains very strong, with the group reporting net operating cash flows of $742 million for the first six months of 2011. Operating cash flows for full-years 2010 and 2009 were $1.2 billion and $1.1 billion, respectively.

Over the past six months PartnerRe experienced a number of changes in its executive management team, following the retirement of its previous CEO and the departure of its CFO. However, most of the members of the new executive management team have been with PartnerRe for many years, and we believe this continuity significantly mitigates the potential for near-term execution risk related to a change in management. In addition, we don't expect the group's long-term strategy to change significantly as a result of the recent management changes.

Factors Specific To Holding Company

We apply standard notching for Bermuda-based companies (two notches) between the ratings on PartnerRe's operating insurance subsidiaries and the ultimate holding company, PartnerRe Ltd. The two-notch difference reflects the holding company's dependence on dividends from its operating subsidiaries. PartnerRe Ltd.'s primary source of funds is through dividends paid by its operating reinsurance subsidiaries. Although these subsidiaries have regulatory restrictions on dividends they can pay to the holding company, these operating companies are located in different countries/jurisdictions, which decreases the holding company's exposure to regulatory dividend restrictions in any one particular jurisdiction.

The group also has access to additional liquidity through credit facilities. On July 16, 2010, PartnerRe terminated its existing $660 million syndicated unsecured credit facility, which had a maturity date of Sept. 30, 2010, and entered into a new $750 million three-year syndicated unsecured credit facility. As part of this facility, the company has access to a revolving line of credit up to $375 million. Currently, the company has no borrowings under this line of credit. PartnerRe also was compliant with all covenant requirements under the facility.

Outlook

The outlook is negative. Assuming a catastrophe load of about 12-15 points in the loss ratio for the second half of 2011, we expect the group's non-life combined ratio to be around 110% for full-year 2011, with about break-even operating results. However, operating results could be weaker than our expectations if very significant catastrophe

activity occurs in the second half of the year. Although PartnerRe's operating results will likely continue to fluctuate on a year-to-year basis depending on catastrophe activity, we expect the group to continue to post strong long-term operating performance, with non-life combined ratios in the 88%-94% range and ROR upward of 13%.

We expect capital adequacy to remain in the very strong range over the next two years, and adjusted financial leverage as measured by total debt plus preferreds to total capital to stay moderate at less than 25%.

Factors that could have a negative impact on PartnerRe's ratings include significantly lower-than-expected operating performance, a large erosion in capital adequacy as a result of catastrophes or other unforeseen losses, future catastrophe or other losses that fall outside of management's risk tolerances and expectations, or unexpected challenges that emerge as part of the senior management transition. On the other hand, factors that could have a favorable impact on the ratings over the next 6 to 18 months include the group's meeting our expectations as stated above and its demonstrated ability to successfully manage prospective earnings volatility while still meeting its long-term operating performance goals.

Competitive Position Is Very Strong Based On A Broad Platform Of Products

PartnerRe's competitive position is very strong. The company significantly expanded its platform over the past decade, moving from its original position as a monoline catastrophe writer in the mid-1990s to offer a wide array of property, casualty, and life reinsurance products worldwide.

In October 2009, PartnerRe acquired 100% ownership of the common shares on Swiss reinsurer PARIS Re. This large acquisition has provided the group with broader client and distribution channel diversification. The transaction has also solidified PRE's position among the largest global reinsurance groups based on gross premium writings of $4.9 billion as of Dec. 31, 2010.

Table 1

PartnerRe Ltd./Competitive Position

	--Year ended Dec. 31--			
(Mil. $)	2010	2009	2008	2007
Gross premiums written	4,885	4,001	4,028	3,810
Change in gross premiums written (%)	22.1	(0.7)	5.7	2.0
Net premiums written	4,705	3,949	3,989	3,757
Change in net premiums written (%)	19.2	(1.0)	6.2	1.8
Net premiums earned	4,776	4,120	3,928	3,777
Change in net premiums earned (%)	15.9	4.9	4.0	3.0
Total assets under management	18,181	18,165	11,725	11,572
Growth in assets under management (%)	0.1	54.9	1.3	8.4
Reinsurance utilization (%)	3.7	1.3	1.0	1.4

Unlike many of its global reinsurance peers that have chosen to expand their operations to encompass primary insurance writings, PartnerRe remains a pure reinsurance writer. The group is very well diversified geographically and by line of business, offering nearly every class of reinsurance to a broad array of clients in approximately 150 countries around the world. Its many lines of business include property/catastrophe, property per risk, casualty, motor, specialty casualty, specialty property, energy, marine, engineering, credit/surety, aviation/space, agriculture,

and other multiline reinsurance covers.

PartnerRe has 17 offices around the world, including locations such as Bermuda; Greenwich, Conn.; Dublin; Paris; Zurich; and in many other cities including several in Latin America and in the Asia/Pacific region. As of June 30, 2011, Europe was PartnerRe's largest geographic region, accounting for 42% of gross writings of $2.6 billion for the six-month period, followed by North America (36% of gross writings), Asia, Australia, and New Zealand (12%), and Latin America, Caribbean, and Africa (10%).

PartnerRe reported $2.5 billion in net reinsurance writings for the first six months of 2011, a 13% decrease over the same period in 2010. The decline was mostly attributable to continued soft market conditions in a number of the group's lines of business that prompted management to cut back writings in areas where it did not see appropriate technical profits. In addition, it reflected the "resizing" of the group's risk exposures and adjustments to the book of business following the PARIS Re acquisition. Management believes that it has now fully completed this process.

Non-life business represented 84% of net premium writings year-to-date as of June 30, 2011, with the remaining 16% consisting of life reinsurance. Within its non-life operations, the global (non-U.S.) specialty segment was the largest, representing $648 million (or 31%) of total non-life net premiums written of $2.1 billion. This was followed by the North America segment (27%), global (non-U.S.) property and casualty (21%) and catastrophe segment (21%) The life operations largely consisted of mortality and longevity products offered in G7 countries, excluding the U.S. PRE generally focuses on lower-risk life covers, which exclude investment risk.

PartnerRe and PARIS Re entered 2010 as separate underwriting platforms, given the timing of the full acquisition in December 2009. Starting July 1, 2010, nearly all of the group's combined writings began being underwritten directly by PartnerRe legal entities. This reflected management's desire to emphasize a single brand name and balance sheet.

Because PARIS Re had a relatively larger proportion of property/catastrophe and other short-tail lines of business (i.e., those with a shorter time span between contract signing and claim filing) in its business mix compared with PartnerRe's lines of business, the group's combined writings have a modestly higher proportion of short-tail business (particularly property/catastrophe) than PartnerRe's previous stand-alone profile. In our view, this could make PartnerRe's future operating results more volatile depending on the occurrence of natural catastrophe events in coming years. On the other hand, the significant diversification of the total book of business should help offset potential property/catastrophe-related losses. In addition, the group remains strongly committed to cycle management as seen in its continued reduction in premium writings over the past year, given significant competitive conditions in a number of the group's lines of business.

Approximately 55% of PartnerRe's non-life book of business was written on a proportional basis as of June 30, 2011, with the remainder of the book consisting of nonproportional contracts. The group enjoyed good diversification by distribution channel, with broker-derived business constituting approximately 73% of gross writings as of June 30, 2011, with the remaining 27% consisting of directly placed business.

Historical

PartnerRe broadened its platform considerably with the July 1997 acquisition of France-based SAFR (which later became PartnerRe S.A.), enhanced with the addition of Winterthur's reinsurance operations in 1998. The recent acquisition of PARIS Re has served to further expand the platform. The group has evolved significantly from its origins as a catastrophe writer, although the catastrophe line of business still represents a significant 18% of the book of business (as of June 30, 2011) and remains a core competency for the group.

In line with legislative changes in Europe and the European Union Reinsurance Directive, during 2007, PartnerRe decided to create a single platform for its reinsurance business in Europe. To achieve this objective, on Jan. 1, 2008, PartnerRe S.A. ceased to underwrite business and ceded all of its business assets and liabilities to Ireland-based PartnerRe Europe. Following this reorganization, PartnerRe Europe became the main subsidiary carrying PartnerRe's business in Europe through offices in Ireland, as well as branches in France and Switzerland.

Following the addition of several legal entities of PARIS Re in the fourth quarter of 2009, the group began the process of reorganizing its legal entity structure in order to achieve a more efficient organizational structure. We expect this process to continue over the coming year. At this stage, we expect most changes to involve the PARIS Re legal entities, most of which we believe will ultimately be either merged or have their assets and liabilities transferred to one of PartnerRe's legal entities.

Prospective

We expect net premium writings for full-year 2011 to be down for the year, reflecting management's continued reductions in writings due to competitive conditions in many of its lines of business and some resizing of its portfolio during the first half of 2011.

Management And Corporate Strategy Are Strong But Some Near-Term Execution Risks Remain

PartnerRe has followed a successful strategy based on diversification, underwriting conservatism, and a target ROE of 13% over the underwriting cycle. Overall, the group has been successful in achieving strong returns in line with its objectives over the past five years, with a strong average combined ratio (2006-2010) of 87%, an average return on revenue (ROR) of 19%, and return on equity (ROE) of 15%. In addition, we believe the group's loss reserves for longer-tail business are modestly redundant, reflecting its historically conservative reserving practices. Adjusting for these reserve redundancies, we believe PartnerRe's operating performance is even stronger than these ratios indicate.

PartnerRe has traditionally focused on maintaining a well-diversified book of business, reflecting management's belief that product-line, client, and geographic diversification directly reduce expected losses and volatility over the long term. The group generally emphasizes high-severity lines over high-frequency loss lines because it believes higher profit margins are available in these lines.

PartnerRe had benefited from a strong and stable management team for several years, which we had historically seen as positive to the organization. More recently, the group has experienced changes in senior leadership. In the first quarter of 2011, Costas Miranthis was appointed as the group's president and CEO, replacing Patrick Thiele, who retired. Mr. Miranthis had been appointed PRE's chief operating officer in May 2010 and was previously the CEO of PartnerRe Global.

PartnerRe's long-standing chief financial officer (CFO), Albert Benchimol, left the firm at year-end 2010. In October 2010, Bill Babcock, previously PartnerRe's group finance director, took over as CFO. At the same time, Marvin Pestcoe became the CEO of PartnerRe Capital Markets, taking over for Mr. Benchimol, who had direct responsibility for this area in addition to his position as the group's CFO. Dean Graham was appointed head of Life Operations in September 2010, succeeding Franck Pinette, who decided to leave the organization.

Other senior managers have also been appointed as part of these changes: Emmanuel Clarke became CEO of

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PartnerRe Global effective September 2010 (taking over for Mr. Miranthis), and Charles Goldie assumed Mr. Clarke's responsibilities as head of Specialty Lines for PartnerRe Global. PartnerRe's chairman of the board of directors also changed, with long-standing director Jean-Paul Montupet taking over this position in May 2010.

Although most of these management changes have taken place as part of the group's succession planning, and newly appointed executives have been with the organization for many years, we believe the extent of the change in senior leadership could increase execution risk at the organization over the near term. The timing of the management changes is also an issue because they closely followed one of PartnerRe's most significant acquisitions (PARIS Re). We believe it will be a few years until the success of this acquisition and that of PartnerRe's new executive committee can be fully judged.

Operational management

PartnerRe remains committed to its internal structures and to maintaining capital that would cover well beyond a 1-in-1,000-year risk of ruin. In addition, management has consistently managed its risk aggregates by capping zonal catastrophe exposures for all lines of business.

PartnerRe maintains a conservative underwriting and reserving posture, as well as prudent cycle-management philosophy. These are key features to its continued success, and we believe management will continue to maintain these as key philosophical pillars.

Financial management

Financial management is conservative. PartnerRe has maintained a clean balance sheet, with low levels of speculative-grade investments and few higher-risk investments. Its quality of capital is relatively strong because of modest pure debt leverage and conservative reserving practices for long-tail lines of business.

The investment portfolio is conservatively invested, with about 92% of the invested asset mix consisting of bonds, short-term investments, and cash as of June 30, 2011.

Enterprise Risk Management Is Strong

In our view, PartnerRe's enterprise risk management (ERM) is strong. This assessment is supported by strong scores for risk culture, risk controls, risk models, and strategic risk management. PartnerRe has established a process to identify and evaluate risk/reward tradeoffs and uses it to consistently improve risk-adjusted returns. It has adopted several favorable practices to ensure that assumed risks stay within the risk-tolerance range throughout the firm. The departure from our previous assessment of excellent ERM is primarily a result of revised scores (to strong from excellent) for PartnerRe's strategic risk management and catastrophe risk controls. Nevertheless, most of the firm's ERM practices are well seasoned and tested under varied market conditions, and, most likely, have retained their effectiveness despite the recent senior-management changes and the integration challenges of the PARIS Re acquisition. Therefore, in our view, it is unlikely that the reinsurer will experience losses outside its tolerances.

The group's risk management culture is strong. Prior to the PARIS Re acquisition, PartnerRe did not have a formal chief risk officer (CRO) or a dedicated risk management department, and there was little separation between the executive and risk-management functions. We view favorably the recent creation of a group risk management (GRM) function and the appointment of a GRM director. The GRM director reports to the CEO, and is an integral part of the risk committees. However, the newly formed GRM function is still developing, and it remains to be seen how influential it will be within the organization. At this point, the Enterprise Risk Committee (ERC) continues to

be the main risk management body, while day-to-day risk management responsibilities reside within the business units and functions. Risk reporting to ERC and the board is frequent and granular. Risk policies are either centralized or centrally coordinated, and the controls that the ERC prescribes are regularly monitored and audited. In our opinion, the management has a clear appreciation of the firm's risk profile (existing and targeted), and how it translates to their area of responsibility. Incentives are based on longer-term economic value creation, and there is strong advocacy for ERM at all levels of management, and at the board level. We also view favorably PartnerRe's public disclosures on risk management, risk appetite, and risk profile.

The firm has implemented and executes several favorable practices to control and manage investment risk. It views investments as a vehicle to offset the existing liabilities, as well as a strategic outlet to support overall returns and performance. The asset allocation process takes into account asset-liability management (ALM) considerations, economic outlook, and business projections. The majority of PartnerRe's assets are managed internally. Overall, we view the group's investment risk management as strong.

In our assessment, the firm's approach to non-life underwriting, pricing, cycle management, and reserving risk controls is excellent. Conservative reserving practices are followed, especially for longer-tailed lines and for more recent underwriting years. The underwriting and pricing controls are among the most favorable in the industry. Risk-taking is constrained by a comprehensive system of risk tolerances and limits, and several checks are in place to monitor adherence to the policies, guidelines, authorities, and limits. Pricing is influenced by a discounted cash flow (DCF) ROE model that calculates technical prices using the target return on the allocated (risk-based) capital. Pricing for catastrophe risks is backed by proprietary and third-party vendor models, reflects a granular view of geography and perils, and is back-tested for risk-adjusted-return adequacy. Underwriting decisions are monitored and verified via peer reviews.

PartnerRe has taken an active stance to grow its Life business (non-U.S. only). Motivations include portfolio diversification and efficient capital allocation. This is an evolving and expanding business for the firm. Offerings are focused largely on G7 countries (excluding the U.S.), which tends to be a more favorable market than the U.S. In our opinion, the controls the company employs to address this exposure are adequate and appropriate relative to the risks assumed.

For the given risk profile, operational risk controls are supported by a strong internal-audit function. The firm follows a formalized operational risk manager (ORM) process, and the controls have been in place for several years.

The firm addresses emerging risks in multiple ways to help capture and respond to changing markets and an evolving landscape. Such findings contribute to corporate decision-making. Regular interactions between Group Risk Management, actuarial teams, business units, the board, and regulators help tackle emerging risks at the enterprise level. We view PartnerRe's emerging-risk controls as strong.

PartnerRe's strong risk modeling supports the firm's strategic risk management, which we also consider strong. The capital-modeling platform helps form an aggregated view of risk, supports capital-adequacy analyses, as well as risk-versus-reward decisions. The firm's approach to decision-making is to seek a balance of quantitative analysis with experience-guided judgment. Most of the risk modeling practices were implemented several years ago, and embedded into the decision-making process. At the same time, the company understands limitations, and continues to implement modifications and enhancements. To ensure sustainability of its ROE target, PartnerRe dynamically reallocates capital to what it considers to be the most promising/profitable opportunities, while carefully avoiding

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risk concentrations and monitoring risk aggregations to keep them within the firm's risk tolerance.

Standard & Poor's recognizes PartnerRe's commitment to ERM and the continual improvement of risk management practices. In our view, further development of risk-versus-capital decision-making, as well as enhancement of risk controls in its life business should bode well for PartnerRe's ERM framework. While we continue to follow the evolution of the risk management organization, we maintain a stable outlook for PartnerRe's ERM process.

Accounting

We view PartnerRe's accounting practices as a neutral rating factor. PartnerRe files its statements with the SEC in a timely manner. The holding company received an unqualified opinion from its auditor, Deloitte & Touche, in 2010.

Reserves generally have been held conservatively at PartnerRe. The group has relatively modest exposure to U.S. casualty liabilities for 2001 and prior years, which has insulated it from substantial reserve strengthening incurred by many global reinsurers with more U.S. exposure for the older years.

Historical Operating Performance Is Strong, But Volatility Could Increase In Future Years

PartnerRe's historical operating performance is among the top tier of its peer group of long-standing reinsurers in the past five years, with a strong five-year combined ratio (2006-2010) of 87%, ROR of 19%, and ROE of 15%. In addition, we believe the group's loss reserves (especially for longer-tail lines) are modestly redundant, reflecting its historically conservative reserving practices. The group has for many years now used a consistent reserving strategy above its point estimates. The group's loss reserve release patterns have been fairly constant, with loss reserve releases representing approximately 13 percentage points in the non-life combined ratio in each of the past five years.

Table 2

PartnerRe Ltd./Operating Statistics

	--Year ended Dec. 31--			
(Mil. $)	**2010**	**2009**	**2008**	**2007**
Total revenue	5,449	4,716	4,501	4,301
EBIT	1,013	1,812	113	937
EBIT adjusted	612	1,132	644	1,009
EBITDA	1,045	1,806	113	937
EBITDA adjusted	643	1,125	644	1,009
EBIT adjusted to total equity adjusted (%)	7.6	17.1	12.8	20.9
EBITDA adjusted to capital (%)	6.7	14.0	9.9	15.5
Net income	853	1,537	47	718
Return on revenue (%)	11.2	24.0	14.3	23.5
Return on revenue (incl. realized capital gains/losses) (%)	17.3	33.6	2.8	22.1
Return on equity (%)	11.5	25.9	1.1	17.7
Return on assets (%)	4.8	8.6	0.8	6.4
Realized gains/EBITDA (%)	38.4	37.7	(469.9)	(7.7)
Administrative expense ratio (%)	7.9	7.2	6.9	6.7

Table 2

PartnerRe Ltd./Operating Statistics (cont.)				
Commissions expense ratio (%)	21.2	21.9	23.3	22.9
Expense ratio (%)	29.1	29.1	30.2	29.6
Non-life loss ratio (%)	65.9	52.7	63.9	50.8
Non-life combined ratio (%)	95.1	81.8	94.2	80.4
Non-life prior year loss ratio (%)	11.9	13.8	12.5	12.9
Non-life accident year loss ratio (%)	77.8	66.5	76.5	63.7
Non-life accident year combined ratio (%)	106.9	95.6	106.7	93.3
Cash flows				
Net cash flow from operating activities	1,227	1,099	1,159	1,227
Net cash flow from investing activities	1,103	(447)	(944)	(1,193)
Net cash flow from financing activities	(922)	(765)	(2)	(378)

On a prospective basis, we believe the PARIS Re acquisition could challenge PartnerRe to sustain its strong operating performance history under the umbrella of a much larger organization. We had historically viewed PARIS Re's operating results as weaker than those of PartnerRe. The combined book of business also has a modestly larger proportion of property/catastrophe and other short-tail risks than PartnerRe's previous stand-alone profile, which could expose the group to more significant volatility in future earnings than previously experienced.

Historical

PartnerRe's operating results deteriorated during 2010 compared with 2009, as a result of higher catastrophe losses related to the Chile earthquake, New Zealand earthquake, Deepwater Horizon accident, and Australia floods, contributing to a lower non-life combined ratio of 95% and ROR of 11%. In comparison, it posted a very strong combined ratio of 82% and ROR of 24% in 2009 due to a benign catastrophe year.

Current performance

For the first six months of 2011, PRE reported a year-to-date non-life combined ratio of 147%, which included 68 points (or $1.2 billion) of catastrophe losses incurred during the period. The unfavorable result reflected significant catastrophe losses incurred by the group during the first half of 2011, including losses related to the Japan earthquake and tsunami, two New Zealand earthquakes, Australian floods, U.S. tornadoes, and other large losses. As a result, PRE reported a net loss of negative $682 million for the first six months of 2011.

PRE's life segment, which accounted for $402 million in net premium writings through the first six months of 2011, reported a modest GAAP allocated underwriting result of $24 million (which includes allocated investment income) during the period, compared with nil result in the same period of 2010.

Prospective

Assuming a catastrophe load of about 12-15 points in the loss ratio for the second half of 2011, we expect the group's non-life combined ratio to be around 110% for full-year 2011, with about break-even results. However, operating results could be weaker than our expectations if the second half of 2011 experiences very significant catastrophe activity. Although PartnerRe's operating results will likely fluctuate on a year-to-year basis depending on catastrophe activity, we expect the group to continue to post strong long-term operating performance, with non-life combined ratios in the 88%-94% range and ROR upward of 13%.

Investments And Liquidity: Conservative Portfolio And Very Strong Liquidity

As of June 30, 2011, PartnerRe's $17.6 billion investment portfolio was conservatively invested, with $1.6 billion (or 9%) consisting of cash and cash equivalents and another $14.6 billion (or 83%) consisting of bonds and short-term investments. Equity holdings represented a modest 6% of the investment portfolio, with 2% consisting of other invested assets.

As of June 30, 2011, the average credit quality of the group's investment portfolio was 'AA', with an average duration of the portfolio at 3.0 years. This compares to an estimated loss reserve duration of 3.7 years. The slight mismatch of the portfolio and shorter duration of investments reflects the group's desire to maintain a short-duration portfolio amid continued volatility in the capital markets and as a potential shield against inflationary concerns over the next two to five years.

Table 3

PartnerRe Ltd./Investment Statistics

	--Year ended Dec. 31--			
(Mil. $)	**2010**	**2009**	**2008**	**2007**
Total invested assets	18,181	18,165	11,725	11,572
Change in invested assets (%)	0.1	54.9	1.3	8.4
Total invested assets adjusted	18,181	18,165	11,725	11,572
General account invested assets	18,181	18,165	11,725	11,572
Invested assets to total assets (%)	87.0	86.0	81.4	79.6
Invested assets to loss and unearned premium reserve (%)	152.6	149.1	135.4	138.3
Net investment income	673	596	573	523
Realized capital gains/(losses)	401	680	(531)	(72)
Net investment yield (%)	3.7	4.0	4.9	4.7
Net investment yield including realized gains/(losses) (%)	5.9	8.5	0.4	4.1
Net investment yield including realized and unrealized gains/(losses) (%)	5.9	8.5	0.4	4.1
Common equity investment/capital (%)	39.2	37.0	11.4	26.5
Portfolio composition (% of invested assets)				
Bonds (%)	70.5	77.9	86.8	82.1
Equity investments (%)	5.9	4.4	4.4	11.0
Cash and short-term investments (%)	11.9	4.8	8.1	6.5
Investment funds(%)	9.7	11.7	0.0	0.0
Other investments (%)	1.9	1.2	0.6	0.4

Corporate holdings accounted for the largest portion (40%) of PRE's $14.4 billion fixed maturities portfolio as of June 30, 2011, followed by foreign (non-U.S.) governments (23%), mortgage/asset-backed securities (26%), and U.S. government and agencies (11%). Within the foreign government category, 87% was rated 'AAA' as of June 30, 2011, and the largest three foreign government issuers were France, Germany, and Canada. In January 2010, PRE sold substantially all of its holdings in foreign government obligations related to Italy, Spain, Greece, Portugal, and Ireland.

Within the mortgage/asset-backed securities category ($3.7 billion in holdings), 71% were backed by agencies of the

U.S. government. In addition, collateralized mortgage obligations and commercial mortgage-backed securities represented only a relatively small proportion of the investments, at $449 million and $90 million, respectively.

Liquidity remains very strong, with the group reporting net operating cash flows of $742 million for the first six months of 2011. Operating cash flows for full-year 2010 and 2009 were $1.2 billion and $1.1 billion, respectively. The group also has access to additional liquidity through credit facilities.

Prospective

Standard & Poor's does not expect any major changes in the group's investment strategy over the medium term. We also expect that PartnerRe's liquidity will remain very strong.

Capitalization: Very Strong Capital Adequacy

We view PartnerRe's capital adequacy as very strong. On a purely quantitative basis, PartnerRe remains well capitalized in the 'AAA' range as of June 30, 2011, according to our capital adequacy model. In our view, quality of capital is enhanced by the group's historically conservative reserving practices for long-tail lines, its strong ERM practices, and low pure debt leverage.

On an absolute basis, the group's GAAP shareholders' equity declined to $6.6 billion as of June 30, 2011, compared with $7.2 billion at year-end 2010, largely reflecting a net loss of $683 million and 2.8 million common shares repurchased at a cost of $227 million during the period.

Table 4

PartnerRe Ltd./Capitalization Statistics

	--Year ended Dec. 31--			
(Mil. $)	**2010**	**2009**	**2008**	**2007**
Total assets	23,364	23,733	16,279	16,149
Adjusted total assets	20,905	21,116	14,406	14,541
Common equity	6,687	7,126	3,679	3,802
Change in common equity (%)	(6.2)	93.7	(3.2)	16.4
Total adjusted capital ($m)	7,263	7,888	4,487	4,787
Change in total adjusted capital (%)	(7.9)	75.8	(6.3)	9.2
Reinsurance and reserves				
Reinsurance utilization (%)	3.7	1.3	1.0	1.4
Reinsurance recoverables to shareholders' equity (%)	34.1	34.2	44.6	37.2
Non-life loss reserves to total shareholders' equity (%)	143.2	137.0	175.9	164.3
Non-life loss reserves/net premiums written (%)	260.5	312.6	217.7	222.9
Liquid assets/loss and unearned premium reserves (%)	142.1	142.6	131.0	134.3

Prospective

Although we believe management will continue to manage capital efficiently and in accordance with its view of future business opportunities in the reinsurance markets in coming years, we expect capital adequacy as measured by Standard & Poor's capital adequacy model to remain supportive of the ratings in the very strong range.

Reserves

PartnerRe has historically held reserves conservatively, with the group's booked reserves generally approaching its high-range estimates. PartnerRe posted favorable loss reserve development in its non-life segment of $478 million at year-end 2010, $486 million at year-end 2009, $418 million at year-end 2008, $414 million at year-end 2007, $252 million at year-end 2006, $231 million at year-end 2005, and $139 million at year-end 2004, compared with adverse reserve development of $55 million in 2003 and $56 million in 2002. The favorable trend in non-life reserves continued through the first six months of 2011, with the group reporting $303 million in loss reserve releases during the period.

Asbestos and environmental reserves of $214 million at year-end 2010 represented a small proportion (or 2%) of net loss reserves.

Reinsurance

Reinsurance utilization measured by premium ceded remains low because PartnerRe writes its business on a gross basis, with only limited purchases of retrocession cover designed to mitigate very high severity losses. The reinsurance utilization ratio remained very low at 4.2% for the first six months of 2011, although up from 3.7% at year-end 2010. Reinsurance quality is high, with the vast majority of ceded premium placed with retrocessionaires rated 'A' or higher.

Table 5

PartnerRe Ltd./Financial Statistics				
	--Year ended Dec. 31--			
	2010	2009	2008	2007
EBITDA interest coverage (x)	12.8	35.7	14.3	21.5
EBITDA fixed-charge coverage (x)	6.0	12.1	5.6	8.6
Debt leverage including pension deficit as debt (%)	9.1	5.9	13.5	11.6
Financial leverage including pension deficit as debt (%)	15.5	12.0	24.3	22.5

Financial Flexibility Is Very Strong, With Financial Leverage And Fixed-Charge Coverage Supporting The Holding Company Ratings

With modest pure debt leverage, strong profitability, and low reinsurance utilization, financial flexibility at PartnerRe remains very strong. PartnerRe has maintained a clean balance sheet, with low levels of speculative-grade investments and few higher-risk investments. Its quality of capital is relatively strong because of modest pure debt leverage, with debt leverage at 9% as of Dec. 31, 2010. Financial leverage was also a moderate 15% at year-end 2010. These are generally lower levels of debt than PartnerRe has historically carried.

While we believe PartnerRe could further increase its financial leverage over the next one to three years, we expect the group in general to maintain lower leverage ratios relative to historical levels, given management's view that the current capital market environment demands greater financial leverage caution.

Reflective of lower operating earnings in 2010 relative to 2009, EBITDA fixed-charge coverage was 6x, compared with a stronger 12x during 2009. Fixed-charge coverage was poor during the first six months of 2011, reflecting high catastrophe losses incurred by the group during the period.

Ratings Detail (As Of September 2, 2011)*	
Holding Company: PartnerRe Ltd.	
Issuer Credit Rating	
Local Currency	A/Negative/--
Preferred Stock (5 Issues)	BBB+
Senior Unsecured (2 Issues)	A
Operating Companies Covered By This Report	
Partner Reinsurance Co. Ltd.	
Financial Strength Rating	
Local Currency	AA-/Negative/--
Counterparty Credit Rating	
Local Currency	AA-/Negative/--
PARIS RE America Insurance Co.	
Financial Strength Rating	
Local Currency	AA-/Negative/--
PARIS RE Asia-Pacific Pte. Ltd.	
Financial Strength Rating	
Local Currency	AA-/Negative/--
PARIS RE RISC Ltd.	
Financial Strength Rating	
Local Currency	AA-/Negative/--
PARIS RE Switzerland Ltd.	
Financial Strength Rating	
Local Currency	AA-/Negative/--
Issuer Credit Rating	
Local Currency	AA-/Negative/--
Partner Reinsurance Co. of U.S.	
Financial Strength Rating	
Local Currency	AA-/Negative/--
Issuer Credit Rating	
Local Currency	AA-/Negative/--
Partner Reinsurance Europe Ltd.	
Financial Strength Rating	
Local Currency	AA-/Negative/--
Issuer Credit Rating	
Local Currency	AA-/Negative/--
Partner Re Ireland Insurance 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.

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