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Research Update:

PartnerRe Ltd. And Related Operating Entities Outlook Revised To Negative On Plan To Acquire Switzerland-Based PARIS RE

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Overview

- PartnerRe Ltd. has announced its intention to acquire Swiss reinsurer PARIS RE.
- The acquisition is expected to be completed in the first quarter of 2010.
- We are revising our outlook on PartnerRe and its related operating entities as a result of the acquisition announcement, primarily reflecting integration risk and the potential impact on the group's earnings and capital on a prospective basis.
- We are affirming our ratings on PartnerRe and its related operating companies.

Rating Action

On July 6, 2009, Standard & Poor's Ratings Services revised its outlook on Bermuda-based reinsurance holding company PartnerRe Ltd. and related operating entities to negative from stable. At the same time, we affirmed our 'A' counterparty credit and senior debt, 'A-' subordinated debt, and 'BBB+' preferred stock ratings on PartnerRe Ltd. We also affirmed our 'AA-' counterparty credit and financial strength ratings on PartnerRe's operating subsidiaries (collectively referred to as PartnerRe).

Rationale

The outlook revision follows PartnerRe's recent announcement that it intends to acquire Swiss reinsurer PARIS RE (A-/Watch Pos/--) through a stock-for-stock transaction valued at approximately \$2 billion. The acquisition is expected to be enacted in two steps, with PartnerRe first expected to acquire the majority stake ownership of PARIS RE currently held by its private equity holders through a block purchase during fourth-quarter 2009. This is expected to be followed by a tender offer for the remaining outstanding shares of PARIS RE, with the resulting full merger of the organizations to be completed by the first quarter of 2010. The acquisition will place PartnerRe among the largest global reinsurance groups in the world, with estimated pro forma total capital of \$6.6 billion and approximately \$5 billion in net premium writings.

Although we believe the proposed acquisition will significantly enhance PartnerRe's competitive position in the global reinsurance sector and provide broader client and distribution channel diversification, the negative outlook reflects concerns about potential integration risk, particularly given the

large size of the acquisition, which we expect to increase PartnerRe's premium writings by 30% and capital base by 37%. In addition, to the degree we view PartnerRe's historical earnings track record as stronger than PARIS RE's, we believe there is some risk of earnings dilution of the combined group. The merged group will also have a relatively larger property/catastrophe component within its business mix relative to that of peers, which could expose PartnerRe to more volatile earnings and capital. We believe PartnerRe's ability to successfully integrate the culture and risk-management practices of both organizations, retain key talent at PARIS RE, and translate its enhanced competitive position into sustainable, strong earnings on a prospective basis will be important elements in measuring the success of this transaction.

From a capitalization perspective, we expect PartnerRe's consolidated capital adequacy to improve slightly following the transaction, reflective of PARIS RE's extremely strong capital adequacy on a stand-alone basis. PartnerRe's stand-alone capital adequacy declined moderately over the past 12 months, primarily because of realized and unrealized investment losses stemming from volatile capital market conditions, but remains supportive of the ratings in the strong range. In the longer term, we believe the combined group's capital adequacy might decline because of PartnerRe's historical strategy to hold relatively less capital than that of its peers (as measured by Standard & Poor's capital adequacy model) and the relatively higher proportion of property/catastrophe writings as part of the combined group, which typically carries a higher risk charge.

Given the fact that PARIS RE currently has no financial leverage, we expect the combined entities' pro forma financial leverage to decline relative to PartnerRe's current financial leverage. As of March 31, 2009, PartnerRe's total debt plus hybrids to total capital was a moderate 22%.

Outlook

Assuming a normal level of catastrophe losses, Standard & Poor's expects that PartnerRe will report strong underwriting results in 2009 (on a stand-alone basis), with a non-life combined ratio of about 90% and a return on revenue (ROR) of more than 15%. Given continued volatility in the capital markets, we believe investment losses could still affect PartnerRe's net earnings through the remainder of 2009, but we expect its premerger capital adequacy to remain supportive of the ratings in the strong range. We also expect that PartnerRe's liquidity will remain very strong.

Following the acquisition, we expect the pro forma consolidated group's year-end 2009 capital adequacy to be supportive of the ratings in the strong to very strong range and financial leverage to be moderate at 15%-18%. We also expect the merged group's prospective consolidated earnings to remain strong and supportive of the ratings, with combined ratios of 90%-95% and an ROR upwards of 12% over the next two to three years.

The negative outlook reflects our concerns with regard to integration risk related to PartnerRe's acquisition of PARIS RE and the potential impact on the group's earnings and capital on a prospective basis. The outlook indicates that Standard & Poor's could affirm or lower the ratings on PartnerRe ratings over the next 12-24 months. A negative rating action could

occur if PartnerRe's operating performance were to fall below our expectations outlined above, if capital adequacy were to erode significantly as a result of catastrophes or other unforeseen losses, if its risk-management practices were not successfully transferred into the larger merged organization, or if other unforeseen challenges emerged as part of the acquisition of PARIS RE. Conversely, we likely would revise the outlook to stable if PartnerRe demonstrates the ability to maintain its historical track record of strong earnings, capital adequacy supportive of the rating level, and risk-management practices in line with our expectation for the risk profile of the merged organization.

Related Research

"Table Of Contents: Standard & Poor's Insurance Ratings Criteria," published July 1, 2009, on RatingsDirect

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
PartnerRe Ltd. Counterparty Credit Rating	A/Negative/--	A/Stable/--
Partner Re Ireland Insurance Ltd. Partner Reinsurance Europe Ltd. Partner Reinsurance Co. of U.S. Partner Reinsurance Co. Ltd. Financial Strength Rating	AA-/Negative/--	AA-/Stable/--
Partner Reinsurance Co. Ltd. Partner Reinsurance Europe Ltd. Partner Reinsurance Co. of U.S. Counterparty Credit Rating	AA-/Negative/--	AA-/Stable/--

Ratings Affirmed

PartnerRe Ltd. Preferred Stock	BBB+
PartnerRe Finance A LLC* Senior Unsecured	A
PartnerRe Finance II Inc. Preferred Stock	BBB+

*Obligor is PartnerRe Ltd. N.B.--This does not include all ratings affected.

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