

## FITCH AFFIRMS PARTNERRE; OUTLOOK STABLE

Fitch Ratings-Chicago-02 January 2018: Fitch Ratings has affirmed PartnerRe Ltd.'s (PRE) ratings, including its 'A-' Issuer Default Rating (IDR) and the 'A+' (Strong) Insurer Financial Strength (IFS) rating of Partner Reinsurance Company Ltd. The Rating Outlook is Stable. See the full list of rating actions at the end of this release.

### KEY RATING DRIVERS

The affirmation reflects the company's strong reinsurance business profile, strong long-term financial performance, very strong capitalization with reasonable financial leverage and very strong reserve position. These favorable factors are partially offset by PRE's limited diversity outside of reinsurance and Fitch's negative sector outlook on global reinsurance.

Fitch considers PRE to have a strong reinsurance business profile, writing a diverse mix of reinsurance lines. While PRE is significantly larger than many of its more specialized reinsurance peers, its overall market position trails several of its larger, higher-rated, more diversified (re)insurance peers. Fitch views PRE's minimal presence in primary lines as a disadvantage relative to companies that have a more balanced platform of both reinsurance and insurance business.

PRE posted net income of \$145 million for the first nine months of 2017 (9M17), which was reduced from \$578 million in 9M16 due to \$472 million of pre-tax net catastrophe losses from several large events. The company's non-life operations produced a 9M17 GAAP combined ratio of 98.8%, which included 17.5 points of natural catastrophe losses from Hurricanes Harvey, Irma and Maria, and 14.2 points of favorable prior-year reserve development. PRE has historically produced strong profitability, although with overall higher volatility than peers. PRE's most recent five-year average (2012-2016) combined ratio and return on average common equity are 87.7% and 10.5%, respectively.

Fitch views PRE's capitalization as very strong with a conservative net premiums written (NPW) to equity ratio of 0.7x and an 'Extremely Strong' score on Fitch's Prism factor-based capital model. PRE's financial leverage ratio is moderate at 20.2% as of Sept. 30, 2017, up slightly from 19.7% at year-end 2016. Total shareholders' equity increased 2% during 9M17, despite \$437 million of after-tax net catastrophe losses in 3Q17.

PRE's loss reserves have exhibited consistently favorable development. In the most recent five-year period, from 2012 to 2016, the company produced prior-year reserve releases totaling \$3.5 billion, or 17.4% of net premiums earned, averaging 7.1% and 10.3% of beginning of year reserves and shareholders' equity, respectively. Fitch believes this trend indicates management has taken a conservative approach to setting loss reserves. As reserve releases have been a significant contributor to PRE's earnings, Fitch recognizes the company's run-rate profitability could decline if reserve redundancies diminish.

PRE's ratings also reflect Fitch's negative sector outlook for global reinsurance, which has faced declining premium prices and weakening of terms and conditions, thus limiting organic growth opportunities. Although the reinsurance market environment is expected to improve as a result of the significant 3Q17 catastrophe losses, uncertainty remains as to the extent and duration of such improvement.

Fitch does not rate PRE's parent company, EXOR N.V., but views EXOR's credit quality as neutral to PRE's ratings. Fitch expects EXOR to maintain a conservative dividend policy from PRE, preferring to accumulate capital for business opportunities. EXOR made a commitment to limit

common share dividends from PRE to 67% of quarterly net income until year-end 2020. PRE continues to manage its operations generally independent of EXOR, although EXOR is expected to offer reasonable support to PRE as needed.

#### RATING SENSITIVITIES

Key rating sensitivities that could result in an upgrade include improvement to a very strong business profile as a result of an enhanced relative competitive market position; demonstrating favorable run-rate earnings and low volatility, with a combined ratio in the low 90s; growth in risk-adjusted capital while maintaining a NPW-to-equity ratio of 0.8x or lower; a financial leverage ratio at or below 20%; and fixed-charge coverage of at least 8x.

Key rating sensitivities that could result in a downgrade include sustained reported combined ratios above 100%, operating ratios above 90% or net income return on equity below 7%; fixed-charge coverage below 6x; consistent adverse loss reserve development; a NPW-to-equity ratio increase to more than 1.0x; a PRE financial leverage ratio above 25%; or deterioration in EXOR's credit profile.

In addition, deterioration in reinsurance sector fundamentals or consolidation in the reinsurance landscape that Fitch views as weakening PRE's competitive position, business profile or overall profitability could lead to a downgrade.

#### FULL LIST OF RATING ACTIONS

Fitch has affirmed the following ratings with a Stable Outlook:

PartnerRe Ltd.

--IDR at 'A-';

--Series G and H cumulative redeemable preferred securities at 'BBB';

--Series F and I non-cumulative redeemable preferred securities at 'BBB';

--USD63 million junior subordinated notes due Dec. 1, 2066 at 'BBB';

--USD500 million 5.5% senior unsecured notes due June 1, 2020 at 'BBB+'.

PartnerRe Ireland Finance DAC

--EUR750 million 1.25% notes due Sept. 15, 2026 at 'BBB+'.

Partner Reinsurance Company Ltd.

--IFS at 'A+'.

Contact:

Primary Analyst

Brian C. Schneider, CPA, CPCU, ARe

Senior Director

+1-312-606-2321

Fitch Ratings, Inc.

70 W. Madison Street

Chicago, IL 60602

Secondary Analyst

Christopher A. Grimes, CFA

Director

+1-312-368-3263

Committee Chairperson

Douglas L. Meyer, CFA  
Managing Director  
+1-312-368-2061

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email:  
sandro.scenga@fitchratings.com.

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

## Applicable Criteria

Insurance Rating Criteria (pub. 30 Nov 2017)

<https://www.fitchratings.com/site/re/905036>

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