

# FITCH AFFIRMS PARTNERRE'S RATINGS; OUTLOOK STABLE

Fitch Ratings-Chicago-13 December 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. A full list of rating actions follows at the end of this release.

## KEY RATING DRIVERS

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

Fitch considers PRE to have a strong reinsurance business profile, with net premiums written (NPW) of \$5.1 billion in 2017 and total shareholders' equity of \$6.6 billion as of Sept. 30, 2018. While PRE is 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 diverse reinsurance product lines as one of its key credit strengths, writing a diverse mix of property, casualty, specialty and life and health reinsurance products that reduce its exposure to any single market segment.

PRE historically produces above-average underwriting results for its peer group, with overall average volatility. PRE posted a nine-month 2018 GAAP combined ratio of 99.4%, which included 3.8 points of catastrophe losses from Typhoons Jebi and Trami and Hurricane Florence. This compares with 99.3% for full-year 2017, which included 15.4 points of natural catastrophe losses from Hurricanes Harvey, Irma and Maria, and wildfires in California. This compared favorably with most peer companies that posted reinsurance segment underwriting losses in 2017.

Through the first nine months of 2018, the company posted a net loss of \$101 million, as operating profitability was more than offset by net unrealized investment losses on fixed income securities of \$358 million from an increase in interest rates and credit spreads. This compares to \$218 million of net income in 2017, as \$1 million of after-tax operating losses driven by \$569 million of pre-tax net catastrophe losses was offset by pre-tax net realized and unrealized investment gains of \$232 million.

Fitch views PRE's capitalization as very strong with and an 'Extremely Strong' score on Fitch's Prism factor-based capital model. PRE's financial leverage ratio (FLR) is moderate at 20.8% as of Sept. 30, 2018, down slightly from 20.9% at year-end 2017. Total shareholders' equity declined 3% during the first nine months of 2018 driven by unrealized investment losses on fixed maturities from an increase in interest rates.

PRE's loss reserves have exhibited consist favorable development, significantly contributing to PRE's earnings. Prior year reserve releases totaled \$102 million through nine-months 2018, or 3.2% of net premiums earned, 1.1% of beginning of year (BOY) reserves and 1.5% of shareholders' equity. This level is reduced from the recent five-year period (2013-2017) when the company produced prior-year reserve releases totaling \$3.5 billion, or 16.5% of net premiums earned, averaging 6.9% and 9.7% of BOY reserves and shareholders' equity, respectively. Fitch expects PRE's reserve adequacy to be strong, with continued favorable development, although at levels reduced from those historically.

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 FLR 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 FLR above 25%; or deterioration in EXOR's credit profile.

#### 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+'.

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### Applicable Criteria

Exposure Draft: Insurance Rating Criteria (pub. 04 Oct 2018)

<https://www.fitchratings.com/site/re/10044902>

Insurance Rating Criteria (pub. 30 Nov 2017)

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

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