MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms QBE's ratings; outlook changed to stable

11 April 2019

Sydney, April 11, 2019

Moody's Investors Service ("Moody's") has affirmed the A3 issuer rating of QBE Insurance Group Limited ("QBE") and has changed the outlook to stable from negative. At the same time, Moody's has affirmed the A1 insurance financial strength ratings of QBE's main operating subsidiaries and has changed the outlooks to stable from negative.

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A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

The change in outlook to stable from negative is underpinned by QBE's stronger operating performance, which we believe will be sustainable on a long-term basis. This is reflected in the group's much lower level of attritional claims ratios, which has driven an improvement in the group's combined operating ratio, excluding the impact of natural catastrophe losses. The group has also achieved substantial premium rate increases, whilst maintaining high levels of customer retention, providing strong support to the improved earnings profile. We believe these improvements are likely to be sustained given the operational improvements achieved through the group's cell review process and Brilliant Basics program started in 2017.

Furthermore, the group has substantially exited non-core and/or weaker performing lines of business, including geographies which are prone to higher natural catastrophe losses. This, combined with greater reinsurance protection should reduce earnings volatility in the future. The improved earnings profile of the group should also lead to stronger organic capital generation and higher levels of interest coverage.

The rating affirmations reflect the group's broad product diversification, strong capitalization, and the strong profitability of its International and its Australia Pacific operations. These positive considerations are tempered by the group's significant aggregate worldwide catastrophe underwriting exposures, moderate levels of financial leverage and albeit improving, still lower weaker profitability of the group's North American operations.

The group benefits from strong levels of capital, as reflected in its consolidated regulatory capital ratio of 1.78x as at 31 December 2018 as set by the Australian Prudential Regulation Authority. QBE's financial leverage is moderate and the group operates to a debt-to-equity benchmark of between 25% and 35%. At 31 December 2018, the group reported a debt-to-equity ratio of 38%. On a Moody's financial leverage measure, the group had a debt-to-capital ratio of circa 32% as at 31 December 2018. However, since this balance sheet date the group has engaged in a USD 195 million senior debt buyback, which should improve financial leverage measures over time.