FitchRatings

AG Insurance NV

Key Rating Drivers

Core to Ageas: Fitch Ratings regards AG Insurance NV as the main insurance operating entity of the Ageas group and as 'Core' to the group. Its ratings are therefore derived from a combined assessment of the consolidated Ageas group.

Very Strong Position in Belgium: AG Insurance is the largest insurer in Belgium. Access to extensive and diversified distribution channels, including the banking network of BNP Paribas Fortis (Long-Term Issuer Default Rating (IDR): A+/Negative), benefits AG Insurance's rating. This agreement has no explicit end date, but carries a three-year termination notice period. Should notice be given, Fitch expects Ageas's franchise to remain strong in Belgium, as the group would leverage off its existing customers and use other distribution channels, such as brokers.

Very Strong Capital, Low Leverage: AG Insurance's very strong solvency benefits its ratings. Its Solvency II (S2) ratio, calculated according to its Pillar 2 partial internal model on non-life underwriting risk, was 221% at end-2019. In 1H20, the S2 margin declined to 199% – mainly driven by capital market volatility and a reduction in bond yields. AG Insurance's financial leverage ratio was 24% at end-2019 and we expect it to remain stable in the medium term.

Strong Profitability: Profitability in 2019 and 1H20 continued to be strong and resilient to the low-yield environment. Underwriting conditions in Belgium remain challenging, however, and investment income is under pressure because of low interest rates. Fitch believes AG Insurance's very strong market position helps the company to maintain its strong profitability despite these challenging conditions.

Mitigated Interest-Rate Risk: AG Insurance's life technical liabilities are subject to minimum guaranteed returns. However, AG Insurance maintains a policy where the duration gap should not exceed one year. Individual investment products have a market-value adjustment clause if redeemed before eight years, meaning the surrender value would be equal to the value of the assets at the time of redemption. This protects the insurer against lapses due to unfavourable market movements.

Very Strong Risky-Assets Ratio: AG Insurance's Fitch-calculated risky assets/capital ratio was stable at 70% at end-2019 (end-2018: 72%). AG Insurance follows a prudent investment strategy focusing on fixed-income securities (79% of total non-linked investments at end-1H20) and loans and mortgages (8%), but shows some concentration towards Belgian assets.

Very Strong Financial Flexibility: AG Insurance's fixed-charge coverage (FCC) ratio, including realised and unrealised gains and losses, was very strong at 15x in 2019 (2018: 11x). AG Insurance accessed debt capital markets through subordinated bond issues in 2015 and 2013. It was not involved in litigation risk affecting its ultimate parent ageas SA/NV (Insurer Financial Strength (IFS): A+/Stable), which is positive for AG Insurance's financial flexibility.

Rating Sensitivities

Coronavirus Impact: The ratings remain sensitive to a material adverse change in Fitch's rating assumptions with respect to the impact of the pandemic. A positive rating action is prefaced by Fitch's ability to reliably forecast the impact of the pandemic on Ageas's financial profile.

Maintained Profitability: Ageas's ratings could be upgraded if the group maintains ROE in excess of 8% and pre-tax return on assets (ROA) above 1.0% (2019: 1.5%).

Weaker Profitability: The ratings could be downgraded if Ageas's profitability weakens significantly on a sustained basis, with return on equity (ROE) below 5% or ROA below 0.4%.

Ratings

AG Insurance NV	
Insurer Financial Strength	A+
Issuer Default Rating	A
Subordinated notes	BBB+

Outlooks

Insurer Financial Strength Rating	Stable
Issuer Default Rating	Stable

Financial Data

AG Insurance (consolidated)

(EURm)	2019	2018
Total assets[a]	79,281	74,310
Total equity	7,185	6,773
Net premiums written	5,304	5,282
Net income	569	554
Combined ratio (%)	92.1	93.4
Solvency II ratio (%)	221	235

[a] Excluding reinsurance assets
Source: Fitch Ratings; AG Insurance

Applicable Criteria

Insurance Rating Criteria (August 2020)

Related Research

COVID-19 Mortality Assumptions – Fitch Updated Stress Values for Life Insurers/Reinsurers (October 2020)

Belgium (October 2020)

Fitch Ratings Defines Assumptions for Coronavirus Reviews of Insurance Companies (April 2020)

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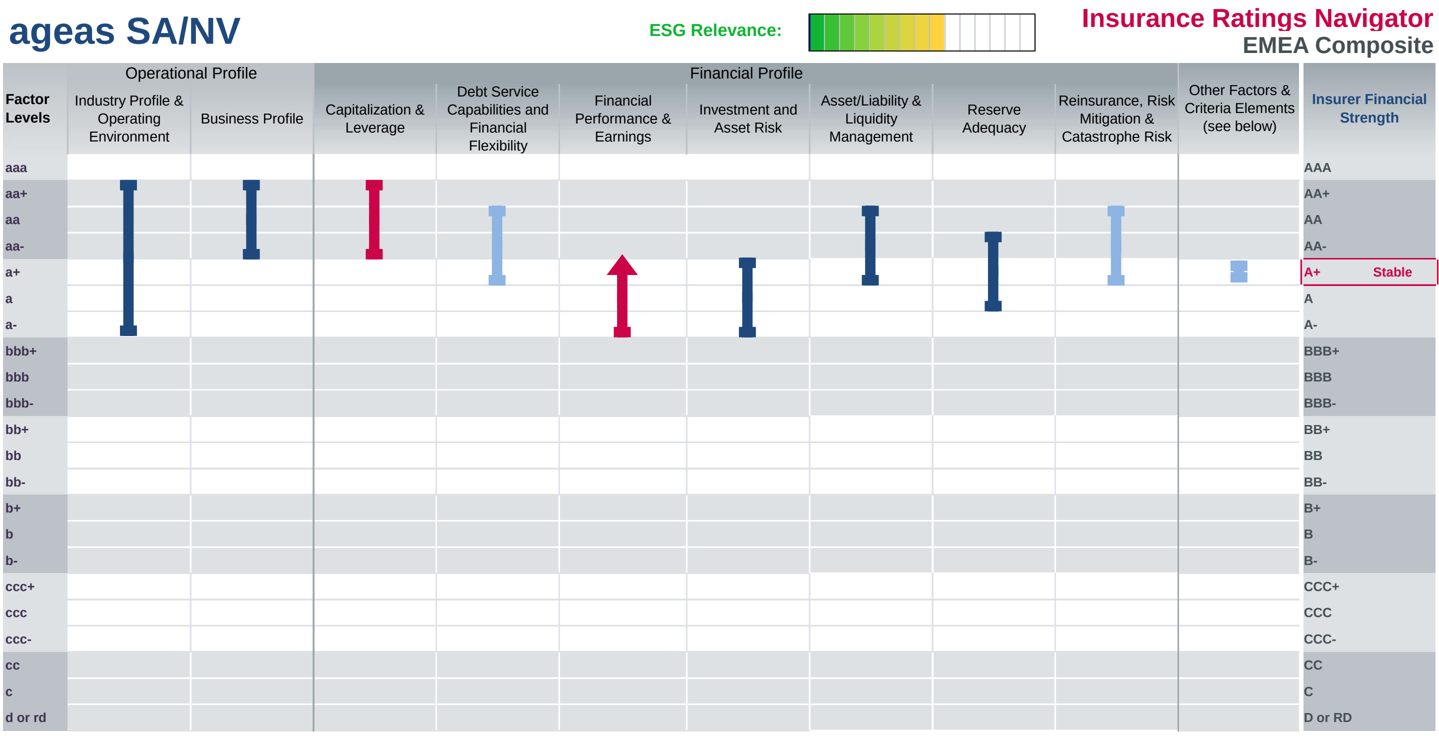
Key Credit Factors – Scoring Summary



Other Factors & Criteria Elements				
Provisional Insurer Financial Strength				**A+**
Non-Insurance Attributes	Positive	**Neutral**	Negative	+0
Corporate Governance & Management	**Effective**	Some Weakness	Ineffective	+0
Ownership / Group Support	Positive	**Neutral**	Negative	+0
Transfer & Convertibility / Country Ceiling	Yes	**No**	AAA	+0
Insurer Financial Strength (IFS)			Final:	**A+**
IFS Recovery Assumption	**Good**			-1
Issuer Default Rating (IDR)			Final:	**A**

Bar Chart Legend

Vertical Bars = Range of Rating Factor

Bar Colors = Relative Importance

- Higher Influence
- Moderate Influence
- Lower Influence

Bar Arrows = Rating Factor Outlook

- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ▫ Stable

Latest Developments

- AG Insurance used the call option on its USD550 million subordinated bond in April 2019.
- In June 2019, Ageas (75%) and BNP Paribas Cardif (25%) granted an EUR 300 million subordinated loan to AG Insurance. The loan qualifies as Tier 2 under S2 and matures in 2049 and has a first call date in 2029.

Industry Profile and Operating Environment (IPOE)

Click here for a link to a report that summarises the main factors driving the above IPOE score.

Business Profile

As AG Insurance is 'core' to Ageas this section provides our assessment of Ageas' business profile.

Very Strong Business Profile

Fitch ranks Ageas's business profile as 'favourable' compared to other European insurance groups due to its favourable competitive position, diversification and business risk profile. Given this ranking, Fitch scores Ageas's business profile at 'aa' under its credit factor scoring guidelines.

Fitch regards Ageas as having a favourable competitive position compared to Belgian peers, reflecting a most favourable general competitive position and favourable operating scale.

AG Insurance is the leading insurer in Belgium and can exploit its pricing power. It is Belgium's largest life insurer, with a market share of around 30% gross written premiums in 2019, around three times as much as second-placed KBC Insurance NV. AG Insurance is also the second-largest non-life insurer in Belgium, with 16% of the market. AXA Belgium SA (IFS: AA-/Stable) is the market leader with 18%, while Ethias SA (IFS: BBB+/Stable) has 11% and KBC has 9%.

AG Insurance has an exclusive distribution agreement in Belgium with BNP Paribas Fortis. This agreement has no explicit end date but carries a three-year termination notice period.

Ageas reported total gross written premiums of EUR9.4 billion in 2019 and had total assets (excluding reinsurance assets) of EUR109.0 billion and total equity of EUR13.5 billion at end-2019. These metrics fall in the upper half of Fitch's sector factor scoring ranges for a favourable operating scale.

Ageas is well diversified by product offerings and geographical footprint. Fitch considers the group's geographical and product mix to support its results and be positive for the ratings.

Ageas also operates in the UK (where it acquired Groupama's UK business in 2012), in continental Europe (particularly Portugal, where it is the largest life and third largest non-life insurer by premiums in 2018) and Asia. Ageas aims to expand its footprint into emerging economies through the acquisition of minority interests in joint ventures with local partners. Ageas therefore has footprints in Turkey, Malaysia, Thailand, Vietnam, India, the Philippines and China, where it owns 25% of Taiping Life Insurance Company Limited (IFS: A+/Stable) and 25% of Taiping Reinsurance Company Limited (IFS: A/Stable).

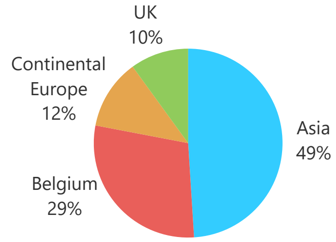
Fitch regards Ageas as having a favourable risk profile compared with European peers. Ageas has a fairly high share of guaranteed life products, but this is offset by the group's low duration gap, a strong non-life business and stronger international diversification than most peers.

Ownership

ageas SA/NV is quoted on the Brussels Stock Exchange. ageas SA/NV is the ultimate holding company of the Ageas group, while Ageas Insurance International N.V. is the group intermediate holding company, through which the insurance operations are owned. Ageas is active only in insurance and holds a 75% stake in AG Insurance (the remaining 25% have been owned by BNP Paribas Fortis since May 2009) and has interests in insurance companies in the UK, continental Europe and Asia.

1H20 Gross Inflows

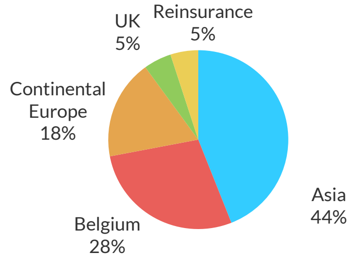
(EUR7.8bn)



Note: Calculated on the basis of Ageas's pro rate ownership in its operating companies
Source: Fitch Ratings, Ageas

1H20 Insurance Net Result

(EUR491m)



Source: Fitch Ratings, Ageas

Capitalisation and Leverage

Very Strong Capitalisation and Leverage

Fitch considers AG Insurance's capital adequacy to be very strong, based on the solvency ratio. At end-2019, its S2 ratio, calculated according to its Pillar 2 partial internal model on non-life underwriting risk, was 221%, up from 235% at end-2018. AG Insurance does not make use of transitional measures to calculate its solvency position. In 1H20, AG Insurance's S2 margin declined to 199%, mainly driven by a reduction in bond yields and capital market volatility.

AG Insurance's financial leverage ratio was fairly low at 24% at end-2019 (2018: 22%) according to Fitch's calculation. The ratio does not include leverage related to real-estate operations, which we consider as operational.

AG Insurance used the call option on its USD550 million subordinated bond in April 2019. This action was refinanced by Ageas (75%) and BNP Paribas Cardif (25%) granting an EUR 300 million subordinated loan to AG Insurance.

The total financing and commitments ratio (TFC) is designed to measure the total debt, financing, and capital markets footprint of an organisation and its overall reliance on ongoing access to funding sources. AG Insurance's TFC ratio is fairly high at 0.9x at end-2019. This reflects AG Insurance's use of repurchase agreements to hedge specific investments with resettable interest rates and for cash management, and the use of operational debt. Fitch views AG Insurance's repurchase agreements as reasonably matched from an asset and liability management perspective, as funds are invested in highly rated securities.

Fitch Expectations

- Fitch expects AG Insurance's regulatory solvency to remain strong and financial leverage to remain stable in the medium term.

Financial Highlights

(%)	2019	2018
Financial leverage	24	22
Solvency II SCR coverage	221	235
TFC ratio (x)	0.9	0.9

Source: Fitch Ratings; AG Insurance

Debt Service Capabilities and Financial Flexibility

Very Strong Debt Service Capabilities and Proven Market Access

AG Insurance's FCC ratio, including realised and unrealised gains and losses, was 15x in 2019 (2018: 11x).

AG Insurance issued subordinated debt directly and in its own right in 2013 and 2015, demonstrating that it has good access to debt capital markets. Before these issues, the debt issued by AG Insurance was fully owned by Ageas Hybrid Financing S.A., and therefore had no external outstanding debt.

AG Insurance's refinancing risk is fairly low as the call dates of the group's subordinated bonds are in 2024 and 2027 and for the loans are in 2029. Refinancing risk for short-term debt is reduced by a liquidity buffer of EUR976 million at end-2019. The company had EUR850 million of short-term debt at end-2019, of which EUR237 million is due in 2020, EUR410 million between 2020 and 2025, and EUR202 million after 2025.

Fitch Expectations

- Fitch expects the FCC ratio to remain above 7x, a level that Fitch views as strong and commensurate with the ratings.
- Fitch believes AG has adequate financial flexibility to raise capital should the need arise.

Financial Highlights

(x)	2019	2018
FCC ratio (including (un)realised gains)	15	11

Source: Fitch Ratings; AG Insurance

Debt Maturities

(As at 31 December 2019)	(EURm)
2020	**237**
2020-2025	**860**
Thereof subordinated debt in 2024	450
After 2025	**827**
Thereof subordinated debt in 2027	400
Thereof subordinated debt in 2029	300
Total	**1,924**

Source: Fitch Ratings; AG Insurance

Financial Performance and Earnings

Strong and Resilient Profitability

Profitability, measured by net income return on equity, remained strong at 9% in 2019 (2018: 8%). Nonetheless, AG Insurance's earnings are sensitive to financial-market volatility, as investment earnings come partly from realised investment gains, which may not recur. In 2019, AG Insurance reported above-market-average GWP growth for its life and non-life businesses, further strengthening its market position in Belgium.

The life operating margin on guaranteed products, measured by Fitch-calculated operating return on assets, was a strong 1.3% in 2019, supported by realised gains. AG Insurance has a loyal customer base in Belgium; its savings contracts have an average maturity of more than eight years and lapse rates are low.

AG Insurance's non-life underwriting profitability is strong, evidenced by a combined ratio of 92% in 2019 despite higher claims activity in motor and accident/health. AG Insurance is to some extend exposed to retained risk on natural catastrophes, which creates some volatility in the ratio.

Fitch Expectations

- Fitch expects AG Insurance's financial performance to remain slightly vulnerable due to the coronavirus crisis, in particular to the risk of a rise in credit spreads and rating migration on the investment portfolio over the near term.
- Fitch expects AG Insurance's combined ratio to improve in 2020, as lower claims activity because of the coronavirus pandemic should more than offset costs from weather events in 1Q20.

Financial Highlights

(%)	2019	2018
Net income (EURm)	569	554
Combined ratio – reported	92	93
Net income return on equity	9	8
Pre-tax operating return on assets (including (un)realised gains)	1.3	1.3

Source: Fitch Ratings; AG Insurance

Investment and Asset Risk

Highly Liquid Investment Portfolio

AG Insurance's risky assets/capital ratio of 70% at end-2019, as calculated by Fitch, is very strong. This reflects the company's investment focus on Belgian government and corporate debt.

The credit quality of the bond portfolio is good, with 81% rated 'A' or higher at end-2019 and 2% sub-investment grade or unrated. However, AG Insurance's government bond portfolio is highly concentrated, with 58% in Belgium and 16% in France at end-2019.

Loans are predominantly to government and official institutions of high credit quality. Loans to banks and commercial loans, of which 36% are below investment grade or unrated, represent 38% of the loan portfolio. Overall, only 19% of the loan portfolio are below investment grade or unrated. Mortgage loans, which totalled EUR1.2 billion at end-2019, are mainly retail position in Belgium. They represent 17% of shareholders' funds, but they are protected by EUR1 billion of overcollateralisation.

AG Insurance has significant exposure to real estate, in the form of investment properties and mortgage loans – both residential and commercial. The market value of AG Insurance's real-estate investment portfolio was EUR3.6 billion at end-2019, which was about 6% of total invested assets, but about 53% of shareholders' funds. Property investment comprises warehouses, office buildings, shopping centres, care homes and car parks. Offices are mainly located in the Brussels area, which is stable in value due to the presence of the EU administration. AG Insurance has diversified its real-estate portfolio with investments in France, Spain and Germany. The real-estate investment portfolio carried gross unrealised capital gains of EUR0.9 billion at end-2019. Fitch regards AG Insurance's real-estate portfolio as being of good quality and neutral for the ratings.

Fitch Expectations

- Fitch expects the risky assets-to-equity ratio to remain fairly stable in the medium term.

Financial Highlights

(%)	2019	2018
Equities to capital	52	52
Investments in affiliates to capital	7	8
Non-investment-grade bonds to capital	11	11
Risky assets[a] to capital	70	72

[a] Risky assets are the sum of non-investment-grade bonds (including unrated commercial loans), equities, and investment in affiliates
Source: Fitch Ratings; AG Insurance

Asset Liability and Liquidity Management

Very Strong Asset/Liability and Liquidity Management

Fitch considers AG Insurance's balance sheet as liquid and able to support its policyholder liabilities. Fitch also considers the investment portfolio as liquid and supportive of the rating, with the majority of the fixed-income and cash portfolio allocated to investment-grade, fixed-income instruments. Fitch believes these are likely to be readily tradable.

Life technical liabilities are subject to minimum guaranteed returns. Most of the business exposed to interest-rate risk is in Belgium with AG Insurance. Technical provisions relating to policies carrying guaranteed interest rates are declining in the existing portfolio. Additionally, AG Insurance reduced the interest guarantee offered on new individual retail products written, along with the decrease of the Belgium Obligations Linéaires Ordinaires since January 2012, due to the intense competition.

In April 2020 the company lowered minimum guaranteed returns on new retail life investment products (mainly single premium) to 0.25% from 0.5%. In group life contracts, minimum guaranteed returns were lowered to 0.5% in April 2020 from 0.75% on products with an interest guarantee on reserves, and to 0.1% from 0.25% on products with an interest guarantee on reserves and future premiums. There is also no longevity risk in AG Insurance's books as customers receive a lump sum at retirement age that is not annuitised.

Ageas gradually adjusts its asset allocation policy to ensure a close match between the duration of assets and that of liabilities. AG Insurance maintains a policy where the duration gap should not exceed one year. This enables the company to achieve a better and more stable solvency ratio, at the expense of potential profits (or losses) from taking a position on interest-rate movements. An additional mitigating factor is that individual policies have a market value adjustment clause if redeemed before eight years, meaning the surrender value would be equal to the value of the assets at the time of redemption. This feature protects the insurer against lapses if there are unfavourable investment market movements.

Fitch Expectations

- Fitch expects AG Insurance to maintain strong asset-liability management and a high level of liquid assets.

Financial Highlights

(%)	2019	2018
Liquid assets to policyholder liabilities (total, excluding unit-linked)	93	94

Source: Fitch Ratings; AG Insurance

Reserve Adequacy

Strong Reserving Adequacy

Fitch believes AG Insurance's loss reserves have grown at a rate commensurate with growth in underwriting exposure over the past five years. Fitch's analysis of non-life reserve experience suggests that, on average, AG Insurance's reserves have developed favourably over this period.

Fitch believes the level of technical provisions is prudent, in light of regulatory requirements and practices in Belgium, and accocunts for the company's technical commitments, the return on its investment portfolios, and its expenses. The ratio of technical reserves/premiums was 233% at end-2019.

Fitch Expectations

- Fitch expects AG Insurance's reserve ratios to remain stable. Reserve growth and experience is adequate, and Fitch expects prior-year reserve releases to develop favourably on average.

Financial Highlights

(%)	2019	2018
Loss reserve/current year incurred losses (x)	3.8	3.1
Loss reserves to equity (x)	0.4	0.5
Current year paid losses to incurred losses (x)	1.2	0.9
Change in loss reserves to earned premiums ratio	20.3	-2.6
One-year reserve development to prior year loss reserves	-2.1	-1.2
One-year reserve development to prior year equity	-1.1	-0.6
Net technical reserves to neat earned premiums (non-life)	233	193

Source: Fitch Ratings; AG Insurance

Reinsurance, Risk Mitigation and Catastrophe Management

Effective Reinsurance Protection from Internal and External Programmes

AG Insurance's retention rate reduced to 73% in non-life insurance in 2019, reflecting the establishment of internal reinsurance agreements between holding company ageas SA/NV and the group's subsidiaries.

AG Insurance purchases reinsurance coverage with excess-of-loss and stop-loss programmes. The major uses of external reinsurance include the mitigation of the effect of natural disasters (such as hurricanes, earthquakes and floods), large single claims from policies with high limits, and multiple claims triggered by a single man-made event.

The external reinsurers are SCOR SE (IFS: AA−/Stable), Munich Reinsurance Company (IFS: AA/Stable) and Swiss Reinsurance Company Ltd (IFS rating: AA−/Stable).

Fitch Expectations

- We expect the retention rate to further reduce in 2020, reflecting an increase in the quota share cession ratio to ageas SA/NV and BNP Paribas Cardif in 1Q20, but remain stable thereafter.

Appendix A: Peer Analysis

Well-Positioned within Peer Group

AG Insurance's peers are the medium-to-large Benelux composite insurers. Those insurers have limited exposure to non-domestic markets.

AG Insurance is the second largest company of the peer group in terms of total assets and equity. In 2019, profitability, as measured by ROE and the combined ratio, was the strongest of the peer group, while when measured by ROA it was the weakest. AG Insurance's capitalisation, as measured by the Solvency II ratio, is the joint strongest out of peers, together with NN Group's. All companies achieved an 'Extremely Strong' Prism Factor-Based Capital Model score.

Peer Comparison

(EURbn, end-2019)	IFS Rating[a]	Total assets[b]	Total equity[c]	Return on assets[d] (%)	Return on equity[e] (%)	Combined ratio (%)	Financial leverage (%)	Solvency II ratio (%)	Prism FBM score
AG Insurance	A+	79	7	1.3	9	92	24	221	Extremely Strong[f]
Ethias SA	A-	20	3	1.6	9	98	19	191	Extremely Strong
NN Group N.V.	A+	249	31	1.4	7	95	26	224	Extremely Strong

[a] IFS Rating of main operating companies of each group
[b] Excluding reinsurance assets
[c] Includes minorities
[d] Group net income/2018-2019 average total assets
[e] Group net income/2018-2019 average shareholders' equity
[f] Based on consolidated ageas SA/NV financials
Source: Fitch Ratings, company financials

Appendix B: Other Ratings Considerations

Below is a summary of additional ratings considerations that are part of Fitch's ratings criteria.

Group IFS Rating Approach

Fitch considers AG Insurance as strategically key to and an integral part of Ageas' business and therefore 'Core' to the consolidated group. Fitch therefore applies a group approach – ie, applies the derived group IFS rating – to this rated entity. The ratings are based on an assessment of the consolidated Ageas group.

Notching

For notching purposes, the Belgian regulatory environment is assessed by Fitch as 'Effective', and classified as following a Group Solvency approach.

Notching Summary

IFS Ratings
For AG Insurance, a baseline recovery assumption of 'Good' applies to the IFS Rating, and standard notching was used from the IFS anchor Rating to the implied operating company IDR.
Operating company debt
Not applicable
Holding company IDR
Not applicable
Holding company debt
Not applicable
Hybrids
For the issue rated by Fitch (EUR400m dated subordinated bond issued in March 2015), a baseline recovery assumption of 'Below Average' is assumed, and the issue is deemed to have 'Moderate' risk of non-performance due to mandatory deferral triggers linked to a regulatory solvency event, meaning that the rating is two notches lower than the IDR of the insurance company.

IFS – Insurer Financial Strength. IDR – Issuer Default Rating
Source: Fitch Ratings

Short-Term Ratings

Not applicable.

Hybrid – Equity/Debt Treatment

Hybrids Treatment

Hybrid	Amount	CAR Fitch (%)	CAR reg. override (%)	FLR debt (%)
AG Insurance				
Fixed to floating dated subordinated notes	450	0	100	100
Fixed to reset dated subordinated notes	400	0	100	100
Fixed to floating dated subordinated loan	300	0	100	100

CAR – Capitalisation Ratio: FLR – Financial Leverage Ratio. N.A – Not Applicable
For CAR, % shows portion of hybrid value included as available capital, both before (Fitch %) and the regulatory override.
For FLR, % shows portion of hybrid value included as debt in numerator of leverage ratio
Source: Fitch Ratings

Corporate Governance and Management

Corporate governance and management are adequate and neutral to the rating.

Transfer and Convertibility Risk (Country Ceiling)

None.

Criteria Variations

None.

Appendix C: Environmental, Social and Governance Considerations

Credit-Relevant ESG Derivation

ageas SA/NV has 7 ESG potential rating drivers				Overall ESG Scale
ageas SA/NV has exposure to underwriting/reserving exposed to environmental and natural catastrophe risks; impact of catastrophes on own operations or asset quality; credit concentrations but this has very low impact on the rating.	key driver	0	issues	5
ageas SA/NV has exposure to compliance risk; treating customers fairly; pricing transparency; privacy/data security; legal/regulatory fines; exposure to insured and own cyber risk but this has very low impact on the rating.	driver	0	issues	4
ageas SA/NV has exposure to social responsibility and its effect on brand strength; increased vulnerability due to credit concentrations but this has very low impact on the rating.	potential driver	7	issues	3
Governance is minimally relevant to the rating and is not currently a driver.	not a rating driver	2	issues	2
		5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	2	Underwriting/reserving exposed to asbestos/hazardous materials risks	Capitalization & Leverage; Financial Performance & Earnings; Reserve Adequacy; Reinsurance, Risk Mitigation & Catastrophe Risk	2
Exposure to Environmental Impacts	3	Underwriting/reserving exposed to environmental and natural catastrophe risks; impact of catastrophes on own operations or asset quality; credit concentrations	Capitalization & Leverage; Financial Performance & Earnings; Reserve Adequacy; Reinsurance, Risk Mitigation & Catastrophe Risk; Investment & Asset Risk	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risk; treating customers fairly; pricing transparency; privacy/data security; legal/regulatory fines; exposure to insured and own cyber risk	Industry Profile & Operating Environment; Business Profile; Reserve Adequacy	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Corporate Governance & Management	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	3	Social responsibility and its effect on brand strength; increased vulnerability due to credit concentrations	Business Profile; Investment & Asset Risk; Financial Performance & Earnings; Reinsurance, Risk Mitigation & Catastrophe Risk	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Corporate Governance & Management; Business Profile	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Corporate Governance & Management	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Corporate Governance & Management; Ownership	3
Financial Transparency	3	Quality and timing of financial reporting and auditing processes	Corporate Governance & Management	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Priniciples for Responsible Investing (PRI) and the Sustainability Accounting Standards Board(SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

ESG Considerations

The highest level of ESG credit relevance, if present, is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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