FitchRatings

Insurance
Composite Insurance
Netherlands

Achmea B.V.

And Core Operating Subsidiaries

Key Rating Drivers

Very Strong Business Profile: Fitch Ratings ranks Achmea's business profile as 'Favourable' compared to other insurance companies in the Netherlands. It is the largest Dutch insurer by gross written premiums (GWP) of EUR19 billion written in the Dutch business in 2019. It is a health and non-life insurance market leader in the Netherlands with Fitch-estimated market shares of 29% and 25%, respectively. International markets generated 5% of the group's total GWP in 2019 (2018: 6%) and accounted for 4% (2018: 7%) of total operating earnings in 2019.

Robust Capitalisation: Achmea maintained a very strong capital position in 1H20 despite coronavirus-related market weakness. The group's 1H20 Solvency II (S2) ratio fell to 204% (2019: 219%). Achmea's Fitch Prism Factor Based Capital Model (Prism FBM) score remained 'Very Strong' in 2019, which we expect to be maintained in 2020. The financial leverage ratio (FLR) decreased to 21% at end-2019, mainly due to the issuance of restricted Tier 1 (RT1) notes. These perpetual RT1 securities receive 100% equity credit in our FLR calculation.

Markets, Investments Key Pandemic Risks: Achmea's financial performance is a rating weakness, with a 2019 net income return on equity (ROE) of 6%. However, this factor is of only moderate importance in our analysis, as inherently low returns in the mandatory health insurance segment distort overall profitability metrics. Achmea posted significantly lower operating earnings of EUR127 million in 1H20 (1H19:284 million) on financial markets volatility and increased medical expenses related to COVID-19 claims.

Stable Debt-Servicing Capability, Financial Flexibility: Achmea's debt-servicing capability and financial flexibility is 'Good' based on a Fitch-calculated fixed charge coverage (FCC) ratio of 4x in 2019 (unchanged from 2018). Achmea has maintained good market access during the coronavirus crisis, evidenced by successful recent debt issuance at favourable terms. The FCC ratio is likely to weaken in the short term, driven by a lower operating result.

Low Investment Risk: Fitch assesses Achmea's investment and asset risk as low and scores the credit factor as 'Very Strong'. Investments mainly consist of investment-grade debt securities and a conservative Dutch residential mortgage portfolio. Achmea is gradually optimising its investment portfolio, mainly by shifting to higher-yielding fixed-income assets. This could lead to incremental investment risk and lower average rating of the credit portfolio, but we expect the overall high quality of the investment portfolio to be maintained.

Rating Sensitivities

Weaker Financial Performance, Capital, Higher Leverage: A negative rating action/downgrade could occur if net income ROE falls below 3% on a sustained basis. The ratings could also be downgraded if the Prism FBM score falls below 'Very Strong' or if the FLR increases above 30% for a sustained period.

Improved Financial Performance: A positive rating action/upgrade could occur if net income ROE increases to above 9% on a sustained basis, while the Prism FBM score and FLR are maintained at levels consistent with a 'Very Strong' assessment. A positive rating action is prefaced by Fitch's ability to reliably forecast the impact of the coronavirus pandemic on the financial profiles of both the Dutch insurance industry and Achmea.

Pandemic Assumptions: A material adverse change in Fitch's rating assumptions with respect to the impact of the pandemic could lead to a negative rating change or downgrade. Conversely, a material positive change in Fitch's rating assumptions with respect to the impact of the pandemic could lead to a positive rating change or upgrade.

Ratings

Achmea B.V.	
Long-Term IDR	A
Achmea Pensioen –en Levensverzekeringen N.V.	
Insurer Financial Strength Rating	A+
Achmea Schadeverzekeringen N.V.	
Insurer Financial Strength Rating	A+
Achmea Zorgverzekeringen N.V.	
Insurer Financial Strength Rating	A+
Long-Term Debt Ratings	
Senior	A-
Subordinated	BBB
Junior Subordinated	BBB-

Outlooks

Stable

Consolidated Financial Data

Achmea B.V.

(EURm)	2018	2019
Total assets	81,816	89,488
Net income	314	480
Net income ROE (%)	4	6
Solvency II ratio (%)	198	219
Financial leverage (%)	24	21

Note: Reported on an IFRS basis.
Source: Fitch Ratings, Achmea

Applicable Criteria

Insurance Rating Criteria (August 2020)

Related Research

Achmea Bank N.V. (June 2020)

Netherlands (May 2020)

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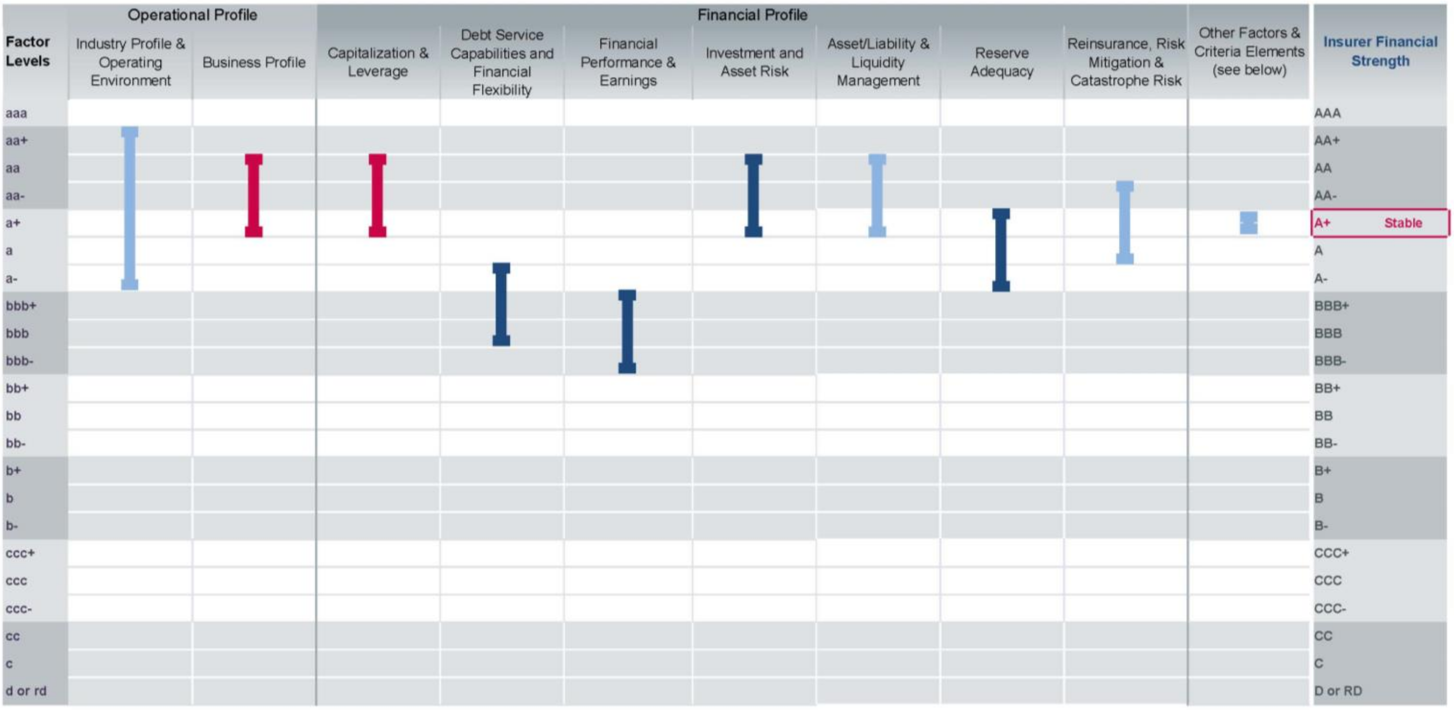
Key Credit Factors – Scoring Summary



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

- Achmea's pro forma return on equity (ROE) would decrease to below 2% in 2020 under our stress assumptions, mainly a result of adverse claims development in the health and non-life businesses. However, we expect earnings to return to a normalised run-rate in 2021 as the pandemic-related adverse business and capital market conditions ease.

Peer Comparison

Click here for a report that shows a comparative peer analysis of key credit factor scoring.

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

'Very Strong' Business Profile

Fitch ranks Achmea's business profile as 'favourable' compared to other Dutch insurance companies driven by its favourable competitive positioning, moderate business risk profile and favourable diversification. Given this ranking, Fitch scores Achmea's business profile at 'aa-' under its credit factor scoring guidelines.

Achmea is a leading Dutch insurance and financial services group with activities in health, non-life, and life insurance, as well as banking and asset management. Its 'favourable' competitive positioning score reflects its market-leading positions in its key Dutch insurance market segments.

Achmea is the largest Dutch insurer by GWP, which in the Dutch business were EUR19 billion in 2019 (2019 total GWP: EUR20 billion; 2018: unchanged). It is a health and non-life insurance market leader in the Netherlands with Fitch-estimated market shares of 29% and 25%, respectively. It is the market leader in property and casualty and a top-three insurer in income protection and individual life insurance. Achmea Investment Management is a top-200 global asset manager, and the fifth-largest in the Netherlands, with EUR186 billion in managed assets (2019: EUR146 billion) at 1H20.

Achmea's business risk profile score of 'moderate' mainly reflects its average risk appetite relative to its Dutch peers. Achmea is exposed to medical expense risk in its health insurance business and to catastrophic events such as wind and hailstorms in the non-life segment. In life and pensions insurance, along with the broader trend in the Dutch insurance market, Achmea is focusing on establishing a fee-based franchise. The development of the general pension fund (Centraal Beheer APF) is at the centre of the group's growth strategy, while the non-APF group pension business is in run-off.

Achmea's 'favourable' diversification score reflects both its composite business profile and its geographic focus. Achmea's international activities are limited relative to more diverse Dutch competitors and mainly focus on non-life insurance through local brands in Turkey, Slovakia, Greece, Canada and a partnership with Rabobank in Australia. International markets generated 5% of the group's total GWP in 2019 (2018: 6%) and accounted for 4% (2018: 7%) of total operating earnings in 2019. Achmea may continue to explore new opportunities in foreign markets but Fitch does not expect this to affect its business profile score.

Ownership

Achmea's ownership background its neutral to its rating. Its largest shareholders are Achmea Association (Vereniging Achmea) and Rabobank, which both have cooperative backgrounds, with the former representing all of Achmea's customers. Mutual ownership tends to offer fewer conflicts of owner and creditor interest but typically has lower financial flexibility than a publicly owned organisation.

Capitalisation and Leverage

Robust Capitalisation

Achmea maintained a strong capital position in 1H20 despite coronavirus-related market weakness. The group's 1H20 S2 ratio fell to 204% (2019: 219%). Achmea's Fitch Prism FBM score remained 'Very Strong' in 2019, and we expect the group to maintain this Prism score in 2020.

We expect Achmea's S2 ratio to be less volatile than peers' due to its more limited sensitivity to financial market fluctuations such as credit spreads and interest rates. However, Achmea's capital generation is likely remain below Dutch peers' due to its weaker financial performance caused by exposure to the low-margin Dutch mandatory health insurance segment.

Achmea has postponed dividend payments in 1H20 in line with the request of the Dutch National Bank (DNB). Fitch estimates this had a 5pp benefit on the reported end-2019 and 1H20 S2 ratios. Achmea could resume dividend payments depending on market conditions. The DNB also required insurers to incorporate non-insurance entities in their S2 calculation from end-2020. Achmea estimated a 7pp negative impact on its S2 ratio as a result of the inclusion.

Financial leverage decreased to 21% in 2019 due to the maturity of CHF200 million senior notes, and EUR600 million subordinated notes, and the issuance of RT1 notes during the year. RT1 notes receive 100% equity credit in Fitch's financial leverage calculation. Fitch typically excludes debt securities issued by Achmea's non-insurance operating subsidiaries from the financial leverage calculation.

Fitch Expectations

- Prism FBM score to remain 'Very Strong' over the next 12 months
- S2 ratio to remain robust
- Financial leverage to remain stable

Financial Highlights

(EURm)	2018	2019
Shareholders' equity	8,044	8,621
TFC ratio (x)	0.9	0.9
Finanical leverage (%)	24	21
Group solvency II ratio (%)	198	219

TFC: Total financing and commitments
Note: Reported on an IFRS basis.
Source: Fitch Ratings; Achmea

Debt Service Capabilities and Financial Flexibility

Stable Debt-Servicing Capability and Financial Flexibility

Achmea's debt-servicing capability and financial flexibility is 'Good' based on a Fitch-calculated FCC of 4x in 2019, and maintained market access proven by recent debt issuance at favourable terms.

The redemption of grandfathered 6% RT1 notes and the maturity of 1.5% CHF200 million senior notes in 2019 mostly offset interest expenses on new RT1 and Tier 2 bonds issued in September 2019. Coupons on all of Achmea's outstanding debt securities were fixed at end-2019. Upcoming maturities include 2.5% EUR750 million senior notes in November 2020, which Achmea successfully pre-financed in May 2020 at a favourable coupon of 1.5%. Achmea has no further refinancing needs until 2023.

Contingent funding was increased to EUR1 billion from EUR750 million as part of a capital optimisation initiative. Achmea concluded the new EUR1 billion long-term multi-currency credit facility in March 2019 with a syndicate of banks. The facility is available until 2026 and was undrawn at end-1H20.

Fitch Expectations

- Fixed-charge coverage to weaken in the short term driven by a weaker operating result
- Potential for interest expenses to decrease due to refinancing at more favourable rates
- Financial flexibility/market access to remain adequate

Financial Highlights

(EURm)	2018	2019
Cash at holding company (Achmea B.V.)	232	41
FCC ratio (x)	4	4

Note: Reported on an IFRS basis.
Source: Fitch Ratings, Achmea

Debt Maturities

(As of 31 December 2019)	(EURm)
2020	750
Total	**750**

Source: Fitch Ratings; Achmea

Financial Performance and Earnings

Markets, Investments Key Pandemic Risks

Achmea's financial performance is a rating weakness. However, we assign only moderate importance to this factor to reflect the inherently low returns in the mandatory health insurance segment, which distort overall profitability metrics.

Achmea's operating earnings have improved gradually in recent years, supported by cost savings and premium increases in non-life and health insurance. However, Achmea posted significantly lower operating earnings of EUR127 million in 1H20 (1H19: EUR284 million), mainly due to financial markets volatility and increased medical expenses related to the coronavirus pandemic.

In non-life, we broadly expect a decrease in motor claims for 2020, which is likely to more than offset increased claims in other lines such as travel and event cancellations. In mandatory health insurance, high health care costs related to the coronavirus pandemic remain a risk, although lower non-pandemic-related hospital admittances have an offsetting effect. The catastrophe clause in the Dutch health care law could further compensate insurers for pandemic-related costs if triggered.

Achmea continues to deploy excess capital to subsidise policyholder premiums in line with the general trend in the mandatory health insurance segment, although less so recently. Provisions set aside to subsidise lower premiums slightly decreased to EUR17 million in 2019 from EUR21 million in 2018. We expect these provisions to stabilise below EUR100 million a year.

Fitch Expectations

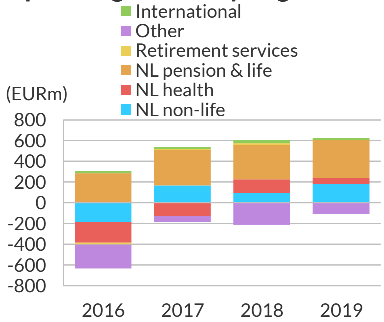
- Coronavirus pandemic impact to be negative, albeit to a moderate extent
- Dutch mandatory health under pressure from pandemic, premium subsidies
- Continued cost discipline to support financial performance

Financial Highlights

(EURm)	2018	2019
Net income attributable to shareholders	314	480
Net income ROE (%)	4	6
Pre-tax ROA (%)	0.7	0.6
Group non-life combined ratio (reported; %)	96.3	95
Group health combiend ratio (reported; %)	98.8	99.5

Note: Reported on an IFRS basis.
Source: Fitch Ratings, Achmea

Operating Result By Segment



Source: Fitch Ratings, Achmea

Investment and Asset Risk

Low Investment Risk

Fitch assesses Achmea's investment and asset risk as low and scores the credit factor as 'Very Strong'. Investments mainly consist of investment-grade debt securities and a conservative Dutch residential mortgage portfolio.

Achmea is gradually optimising its investment portfolio by shifting to higher-yielding fixed-income assets depending on market circumstances. This could lead to incremental investment risk and lower average rating of the credit portfolio, but we expect the overall high quality of the investment portfolio to be maintained and therefore this is unlikely to affect our assessment of Achmea's investment and asset risk.

Portfolio optimisation could also lead to higher investment returns and reduced S2 sensitivity to credit spread changes through better matching with the reference portfolio EIOPA (European Insurance and Occupational Pensions Authority) uses for the calculation of the S2 volatility adjuster.

Fitch assesses credit risk on Achmea's EUR21 billion (including Achmea Bank) Dutch residential mortgage portfolio as low given low delinquency rates and a conservative average loan-to-value ratio of around 70%. About 30% (EUR6 billion) of the mortgage portfolio is backed by government guarantee, provided through the Stichting Waarborgfonds Eigen Woningen (The Netherlands is rated IDR 'AAA'). Government guarantee further reduces credit risk in the portfolio.

Fitch Expectations

- Investment risk metrics to remain in line with a 'Very Strong' assessment
- Dutch residential mortgages to perform well despite the coronavirus pandemic

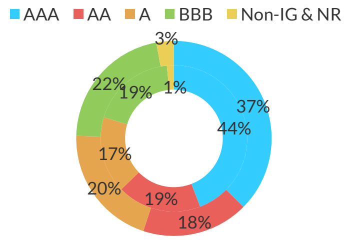
Financial Highlights

(EURm)	2018	2019
Risky assets to equity (%)	37	45
Unaffilated shares to equity (%)	30	34
Non-investment grade bonds to equity (%)	6	11
Total general account investments	55,000	58,000

Note: Reported on an IFRS basis.
Source: Fitch Ratings, Achmea

Bond Portfolio by Rating

(Outer ring: 2019;EUR29bn
Inner ring: 2018;EUR27bn)



Source: Fitch Ratings, Achmea

Asset Liability and Liquidity Management

Effective Interest Rate Hedging; Adequate Liquidity

Fitch assesses Achmea's asset/liability and liquidity management as 'Very Strong'. This is based on the insurer's sophisticated and comprehensive risk management framework and prudent investment policy. Achmea uses cash flow matching, duration matching and derivatives-based hedging to manage risks in insurance portfolios.

Interest-rate risk arising from the duration mismatch of assets and liabilities is minimised through close cash flow matching and an interest-rate hedging programme for the Dutch life and pensions businesses. The aim of the programme is to minimise S2 volatility of the Dutch business, while the interest-rate risk management of other entities is based on their respective economic positions. The interest-rate sensitivity of Achmea's regulatory solvency (to both parallel and non-parallel shocks) was negligible at end-2019.

Interest rate risk on an economic basis is higher due to the application of the ultimate forward rate. However the planned ultimate forward rate reduction to 3.6% by 2021 puts only moderate pressure on the S2 ratio, which is likely to be more than offset by other factors. Products with interest rate or performance guarantees are in run-off and therefore risks associated with these products will gradually decline.

Fitch Expectations

- Asset liability and liquidity management metrics to remain in line with a 'Very Strong' assessment

Financial Highlights

(%)	2018	2019
Liquid assets to net technical reserves	82	80
Liquid assets to net technical reserves (life; excluding unit linked)	74	72

Note: Reported on an IFRS basis.
Source: Fitch Ratings, Achmea

Reserve Adequacy

Favourable Reserve Development

Achmea's 'Strong' reserving score reflects overall favourable run-off experience and the absence of material past reserve shortfalls.

Achmea's non-life and health reserve growth remained below premium growth between 2016 and 2018. Fitch believes this was mainly caused by re-pricing of previously under-priced non-life and health insurance contracts and does not indicate deteriorating reserve adequacy as business volumes are stable.

Increasing frequency and severity of bodily injury claims resulted in some weakness in Achmea's non-life reserves, which was addressed in 2016 through reserve strengthening. Non-life reserve development has been favourable since then. The trend of increasing bodily injury claims is market-specific to the Netherlands and affected most insurers operating in the market. Although motor claims continue to rise, Fitch does not expect further non-life reserve strengthening needs for Achmea.

Fitch Expectations

- Reserves to remain adequate; no significant reserve strengthening expected

Financial Highlights

(%)	2018	2019
Loss reserves to equity (non-life and health)	2	2
Change in the ratio of loss reserves to earned premiums (non-life and health)	-9	0.2
One-year reserve development to prior year equity (non-life)	-6	-1
One-year reserve development to prior year loss reserves (non-life)	-8	-2

Note: Reported on an IFRS basis.
Source: Fitch Ratings, Achmea

Reinsurance, Risk Mitigation and Catastrophe Management

Adequate Reinsurance Protection Limits Catastrophe Risk

Fitch scores Achmea's reinsurance, risk management and catastrophe risk as 'Strong' based on the strong risk management framework, robust reinsurance protection and the strong credit quality of reinsurance counterparts.

Achmea's risk-management framework is adapted for S2 and its risk appetite is set to ensure sufficient group capitalisation under severe stress events. Fitch believes Achmea's risk-management framework is robust and adequate, underpinned by frequent monitoring of risk exposures and the effectiveness of risk-mitigating tools with emphasis on interest-rate risk, longevity risk and cybersecurity.

Achmea runs a sophisticated reinsurance programme mainly through its internal reinsurer, Achmea Re, to limit non-life earnings volatility. Achmea Re further cedes risks exceeding its limits to the open market. Reinsurers on the reinsurance panel are rated a minimum 'A-' for short-tail contracts, 'A' or higher for collateralised long-tail contracts, and 'A+' or higher for uncollateralised long-tail contracts.

The reinsurance programme performed well in past catastrophic events and significantly reduced Achmea's loss exposure. Programme parameters are continuously optimised; catastrophe retention for property and Achmea Re's own retention was further reduced in 2018. Achmea is exposed to catastrophe risks mainly through its property and motor hull lines. The dominant perils are wind and hail in the Netherlands and earthquakes in Greece and Turkey.

Fitch Expectations

- Achmea's reinsurance programme to remain adequate for the group's business needs

Financial Highlights

(%)	2018	2019
Net written premiums to gross written premiums	99	98
Reinsurance recoverables to capital	8	7

Note: Reported on an IFRS basis.
Source: Fitch Ratings, Achmea

Appendix A: Peer Analysis

Financial Performance a Key Weakness Relative to Peers

Achmea's S2 capitalisation is on par with most peers as it benefits from limited sensitivity to financial markets volatility; however, its S2 operating capital generation is typically weaker than peers'. This is partly explained by large health insurance operations. Achmea's business mix also results in weaker net income ROE compared to peers not involved in the Dutch health insurance segment. Dutch health insurance is a low-margin, and in recent years loss-making business due to capital distribution to customers in the form of subsidised premiums. Excluding health insurance, Achmea's profitability is better than competitors'.

International diversification is limited and lacks the scale of NN and Aegon, and other international competitors, but benefits from a very strong business profile in the Netherlands as a non-life and health insurance market leader. It is also well diversified into complementary business segments such as banking and asset management, similar to other large Dutch insurers. The smaller operating scale in terms of total assets relative to other insurers in the peer group is due to Achmea's more limited life and pensions operations.

Peer Comparison

(EURm, as of 31 December 2019)	IFS rating[a]	Total assets	Shareholders' equity	Gross written premiums	Net income (attributable to shareholders)	Return on equity (%)	Combined ratio (%)	Solvency II ratio (%)	Financial leverage (%)
Achmea B.V.	A+/Stable	89,488	8,622	19,949	480	6	95	219	21
Aegon N.V.	A+/Negative	441,123	22,457	18,138	1,528	7	90	201	25
Aviva plc[b]	AA-/Stable	538,752	20,738	36,588	2,984	14	97.5	206	24
NN Group N.V.	A+/Stable	248,597	30,768	14,508	1,962	7	95.4	218	26
ageas SA/NV	A+/Stable	109,449	11,221	9,384	979	9	95	217	12

[a] Ratings shown for rated core insurance operating subsidiaries
[b] GBP/EUR exchange rate: 1.17
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 views the group's Dutch life (Achmea Pensioen-en Levensverzekeringen), health (Achmea Zorgverzekeringen), and non-life (Achmea Schadeverzekeringen) insurance subsidiaries as 'Core' to the group due to their strategic importance, high degree of integration and common branding with the group. The IFS rating of Achmea's insurance operating subsidiaries are therefore based on a group rating approach.

Notching

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

Notching Summary

IFS Ratings
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.
Holding Company IDR
Standard notching was applied between the insurance operating company and holding company IDRs for a group solvency regulatory environment.
Holding Company Debt
A baseline recovery assumption of 'Below Average' was applied to Achmea B.V.'s senior debt securities. Standard notching relative to the IDR was used.
Hybrids
For Achmea B.V.'s subordinated notes a baseline recovery assumption of 'Poor' and a non-performance risk of 'Moderate' were used. Notching of minus three was applied relative to Achmea B.V.'s IDR, which was based on minus two notches for recovery and minus one notch for non-performance risk. For the subordinated Restricted Tier 1 notes issued by Achmea B.V. a baseline recovery assumption of "Poor" and a non-performance risk assessment of "Moderate" were used. Notching of four notches was applied relative to Achmea B.V.'s IDR, which was based on two notches for recovery and two notches for non-performance risk.
IFS – Insurer Financial Strength. IDR – Issuer Default Rating.

Hybrid – Equity/Debt Treatment

Hybrids Treatment

Hybrid	Grandfathering status	Amount (EURm)	CAR Fitch (%)	CAR Reg. Override (%)	FLR Debt (%)
Achmea B.V.					
5.5% preferred shares	Grandfathered for S2	311	0	100	50
4.625% restricted Tier 1	-	500	100	100	0
6% Tier 2 callable subordinated	Grandfathered for S2	500	0	100	100
4.25% Tier 2 perpetual callable subordinated	Grandfathered for S2	750	0	100	100
2.5% Tier 2 callable subordinated	-	250	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 after 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

FitchRatings Achmea B.V.

Insurance Ratings Navigator
EMEA Composite

Credit-Relevant ESG Derivation

Achmea B.V. has 7 ESG potential rating drivers

- Achmea B.V. 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.
- Achmea B.V. 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.
- Achmea B.V. 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.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	7	issues	3
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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