FitchRatings

Insurance
Composite Insurers
Belgium

Ethias SA

Ratings

Insurer Financial Strength	A-
Long-Term IDR	BBB+
Subordinated Debt	BBB-

Note: See additional ratings on page 8.

Outlooks

Insurer Financial Strength	Stable
Long-Term IDR	Stable

Financial Data

Ethias SA

(EURm)	2018	2019
Total equity[a]	2,342	2,753
Total assets	18,262	19,506
Net income[a]	193	226
Gross written premiums	2,684	2,662
S2 ratio (%)	181	191

[a] Before deduction of minority interests
Source: Fitch Ratings; Ethias

Key Rating Drivers

Strengthened, Resilient Credit Profile: Ethias SA completed a multi-year action plan in 2018 that has strengthened its capitalisation, financial flexibility and asset- and liability-risk management. Fitch Ratings believes Ethias' credit profile is resilient to coronavirus pandemic-induced pressures, due to its limited exposure to the most affected business lines and its low investment risk profile. We expect the company to maintain its very strong capitalisation for the rating level and continue to operate in a stable and profitable manner, despite the pandemic.

Strong Capitalisation and Leverage: Ethias's Prism Factor-Based Capital Model (FBM) score was 'Extremely Strong' (excluding dividends) at end-2019, well in excess of the 'A' benchmark. Ethias reported a very strong Solvency II (S2) capital ratio of 177% at end-June 2020 (2019: 191%). The ratio remains sensitive to Belgian sovereign bond spread risk. The financial leverage ratio (FLR) was stable at 19% at end-2019, which is better than Fitch's criteria guideline range for the 'A' rating category.

Strong 1H20 Results: Ethias reported a higher operating income of EUR135 million (from EUR100 million in 1H19) and an improved net combined ratio of 93.3 % (June 2019: 96%, end-2019: 97.6%). Operating earnings, which are driven by non-life business, improved in 1H20, due to lower claims frequency in motor and workers' compensation and the positive results of portfolio pruning.

Steady Profitability Expected: We expect profitability metrics to be consistent with 2019 levels of 8.5% net income return on equity (ROE) at end-2020 and beyond, assuming market and business conditions recover over the next 12–24 months, and a combined ratio at or below the 95% target.

Strong Business Profile: Ethias's strong business profile is underpinned by the company's solid position on the Belgian insurance market, where it is the fourth-largest insurer. Ethias is a direct insurer and the leading insurer in the public sector. It is almost exclusively active in Belgium. The 2019–2023 strategic plan aims to strengthen Ethias's leading position in direct, digital and public authority insurance, which are the three key competitive advantages of the company.

Interest Rate Risk Reduced: Ethias has significantly reduced its exposure to interest-rate risk resulting from historically high minimum guaranteed returns on retail life technical liabilities. The duration gap is now managed to remain below one year.

Strong Reserve Adequacy: Reserve releases have been positive over the five-year period to end-2019 and we expect Ethias's non-life reserves to continue to develop in a manner favourable for the credit profile.

Rating Sensitivities

Coronavirus Impact: A material adverse change in Fitch's rating assumptions with respect to the impact of the pandemic could lead to a downgrade. A positive rating action is prefaced by Fitch's ability to reliably forecast the impact of the pandemic on Ethias's financial profile.

Sustained Capitalisation, Profitability: Factors that could, individually or collectively, lead to a positive rating action are a sustained 'Very Strong' Prism FBM score, an FLR remaining at or below 20% and a ROE above 8% for a sustained period.

Weaker Balance Sheet: Factors that could, individually or collectively, lead to a negative rating action include a Prism FBM score falling to 'Adequate' and the FLR rising to over 35%.

Applicable Criteria

Insurance Rating Criteria (August 2020)

Related Research

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

Fitch Affirms Ethias at IFS 'A-', Outlook Stable (May 2020)

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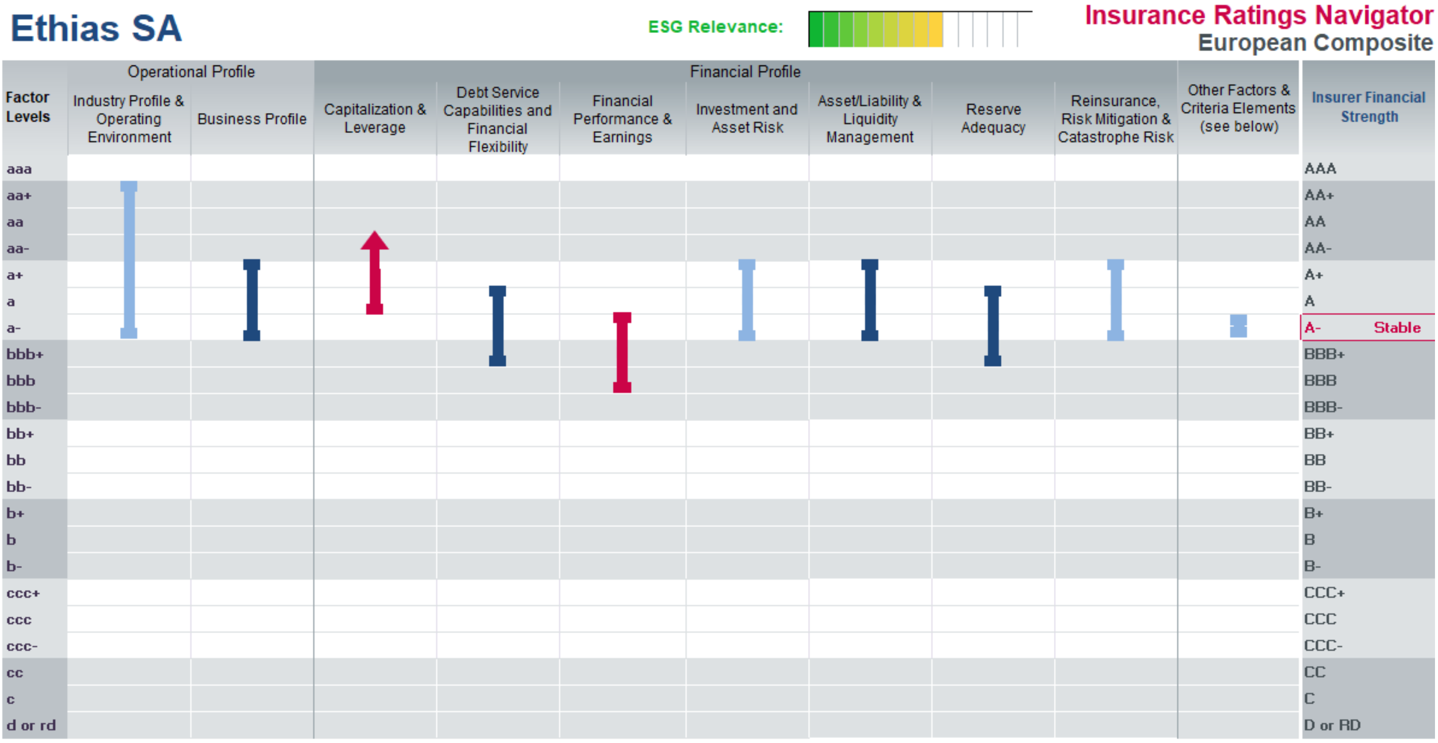
Key Credit Factors – Scoring Summary



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:	**BBB+**

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

- Ethias performed in line with Fitch's expectations in 2019 and 1H20 and did not breach any of the pre-established downgrade rating sensitivities.
- Reported 1H20 operating income rose to EUR135 million from EUR100 million in 1H19, driven by an improved net combined ratio of 93.3 % (June 2019: 96%; end-2019: 97.6%).
- Net income decreased to EUR88 million (1H19: EUR133 million), due to lower financial non-recurring revenues.
- The reported S2 capital ratio at end-June 2020 was 177% (2019: 191%).

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 Ethias's business profile as 'moderate' (as defined within Fitch's criteria and discussed in Appendix A of this report), compared to that of other Belgian insurers, due to Ethias's strong position in the Belgian public sector. Fitch scores Ethias's business profile at 'a' under its credit factor scoring guidelines.

We rank Ethias's competitive positioning as 'favourable' against that of other Belgian insurers. Ethias was the fourth-largest insurer in Belgium by gross written premiums at end-2019, with an estimated 8.8% market share for all activities combined and 7.7% in life and 10.3% in non-life[1]. The company has a broad product offering. As a direct insurer, Ethias accounts for 45% of the direct non-life market. Ethias is also the leader in the public sector, reaching around 49% of the customers in that segment.

The company's main clients are individuals and Belgian public authorities, such as regions, communities, provinces, the federal state of Belgium, cities and municipalities, schools, hospitals, and private companies.

We believe Ethias's business risk profile is 'moderate' compared with Belgian peers, and we do not expect pandemic-related pressures to impair the business risk profile. Non-life insurance services such as motor, household, workers' compensation and health insurance are offered to all client types. Life products comprise pension insurance and group insurance. Ethias is particularly active in the management of the first and second pillar pension schemes in the public sector.

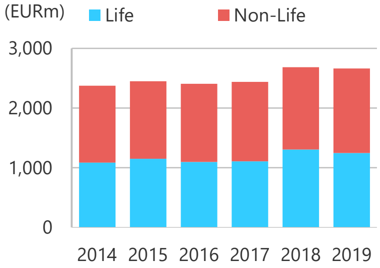
Ethias's diversification is 'moderate' compared with Belgian peers. Ethias is active almost exclusively in the Belgian insurance market, with a client focus on retail and public bodies. However, it has a well-balanced business mix (see the charts *2019 Non-Life Premium Mix* and *2019 Life Premium Mix* on the right). As such, Ethias's business is more sensitive to the domestic operating environment than other, more diversified, competitors.

Ownership

Since the liquidation of holding company Vitrufin in 2019, Ethias is directly owned by Belgium (AA-/Negative), Flemish Region (AA-/Negative), and the Walloon Region (not rated; 31.66% each), and by EthiasCo (historical shareholder).

The rating is based on the company's standalone profile and does not factor in any potential state support. However, Fitch believes that the Belgian authorities would provide additional support to the group should the need arise.

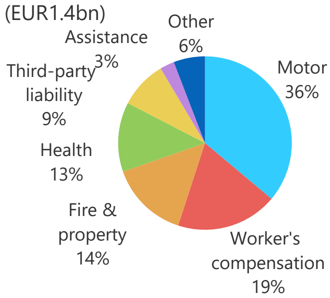
Ethias Gross Written Premiums



Source: Fitch Ratings, Ethias

2019 Non-Life Premium Mix

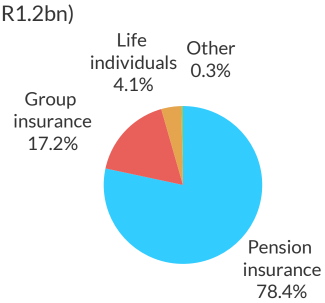
(EUR1.4bn)



Source: Fitch Ratings, Ethias

2019 Life Premium Mix

(EUR1.2bn)



Source: Fitch Ratings, Ethias

[1] Source: Assuralia, *Chiffres clés et principaux résultats de l'assurance belge en 2019*, October 2020.

Capitalisation and Leverage

Strong Capitalisation and Leverage

We view Ethias as strongly capitalised for its rating, with an 'Extremely Strong' Prism FBM score based on end-2019 data (2018: 'Very Strong'), well in excess of the 'a' rating category. Available capital benefits from increased retained earnings and unrealised gains as well as the absence of dividends paid for FY19.

Ethias's coverage of the solvency capital requirement (SCR) under S2 remained very strong at the end of 2Q20 at 177% (2019: 191%), above the 160% risk tolerance limit. Ethias's S2 ratio is in line with Belgian peers but remains sensitive to Belgian sovereign bond spread risk (a 0.50% spread widening would result in a S2 ratio decreasing by 27 percentage points).

FLR was broadly stable at 19% at end-2019 (end-2018: 20%). Fitch's criteria guidelines are 24%–31% for the 'a' rating category.

Fitch Expectations

- Fitch expects Ethias's Prism FBM score to remain at least 'Very Strong' at end-2020.
- Fitch expects the FLR to remain broadly unchanged over the next 12–24 months, in the absence of new issuance.
- Our Positive Outlook on this credit factor reflects our expectation that Ethias's metrics for capitalisation and leverage will continue to compare favourably with Fitch's criteria guidelines the 'A' rating category.

Financial Highlights

	2018	2019
Net written premiums to capital (x)	0.6	0.5
S2 ratio[a] (%)	181	191
Financial leverage ratio (%)	20	20
Total financing and commitments (x)	0.6	0.3

[a] Excluding transitional measures
Source: Fitch Ratings; Ethias

Debt Service Capabilities and Financial Flexibility

Good Coverage and Proven Financial Flexibility

Fitch considers Ethias's financial flexibility and debt service to be strong and consistent with the rating level.

The fixed-charge coverage (FCC) ratio on an operating earnings basis (including unrealised gains and losses) was 10.5x in 2019 (2018: 5.6x). FCC has fluctuated over the past five years, with operating earnings while debt interest expenses remained stable. The ratio has averaged 5.5x and 8.4 over the past three years, excluding and including unrealised gains and losses, respectively, which is consistent with the guidelines for the 'A' category.

Fitch considers that Ethias's financial flexibility has improved due to the repayment of Vitrufin's EUR278 million senior loan in January 2019 alleviating pressure on Ethias to pay dividends to its parent company. In 2012, Vitrufin issued debt to buy Dexia Credit Local S.A. shares from Ethias and relied on Ethias for dividends to pay the interest and principal on the debt that matured in January 2019.

Ethias benefits from demonstrated access to debt markets. It has no immediate need for additional financing or refinancing given its strong solvency position.

Fitch Expectations

- Fitch expects Ethias to have FCC ratio remaining consistent with the 'A' guidelines in 2020 due to resilient operating earnings – despite the pandemic – and stable financial charges.

Financial Highlights

(x)	2018	2019
Fixed-charge coverage ratio (including realised and unrealised gains)	5.6	10.5

Source: Fitch Ratings; Ethias

Debt Maturities

(As of September 2020)	(EURm)
Perpetual (call Dec 2020)	14
2023	75
2026	402.7
Total	**491.7**

Source: Fitch Ratings; Ethias

Financial Performance and Earnings

Steady Financial Performance

Fitch assesses Ethias's overall financial performance as good. At end-June 2020, the pandemic had an overall neutral to slightly positive effect on Ethias, due to the company's limited exposure to the most affected business lines.

Ethias's 1H20 results were strong, with an operating income of EUR135 million (1H19: EUR100 million) and a net combined ratio of 93.3 % (June 2019: 96%, end-2019: 97.6%). Operating earnings, which are structural and driven by non-life, improved in 1H20, due to lower claims frequency in motor and accident-related workers' compensation during the coronavirus pandemic. Net income, however, decreased to EUR88 million (1H19: EUR133 million), due to lower financial non-recurring revenues.

The Fitch-calculated end-2019 net income ROE improved to 8.5% (2018: 7.7%), primarily driven by substantial non-recurring capital gains in the life segment. Profitability has become more reflective of technical results in 2019, after having been affected by non-recurring items related to the company's portfolio restructuring that was completed in 2018.

The reported end-2019 net IFRS combined ratio deteriorated to 97.6% (2018: 94.6%), due to deteriorating claims frequency in the group segment – specifically international business put into run-off. Ethias made tangible progress in improving non-life profitability, with a combined ratio target of below 95%.

The life operational result has been low since 2013. Ethias' life profitability continues to be under pressure due to the prolonged period of low interest rates. The shift in business mix from the guaranteed rate "branche 21" life products to the less capital-intensive, but lower-margin, unit-linked "branche 23" products has contributed to reduced profit margins on life products.

Fitch Expectations

- We expect Ethias's profitability metrics to be consistent or exceed the 2019 levels, assuming a recovery of market and business conditions over the next 12–24 months and a combined ratio at or below the 95% target.

Financial Highlights

(EURm)	2018	2019
Net income	183	212
Technical Result	146	269
Net income ROE (%)	7.7	8.5
Reported non-life combined ratio (%)	94.6	97.6

Source: Fitch Ratings; Ethias

Investment and Asset Risk

Low Investment Risk

Fitch views Ethias's investment policy as prudent, as reflected in a risky assets-to-equity ratio of 82% at end-2019 (2018: 90%). The company has made sustained reductions in risky assets over time and has been implementing derivatives strategies to manage spread, interest rate and equity risk exposure. Ethias benefited from the defensive nature and high quality of its investment portfolio when the pandemic started.

Fitch regards the credit quality of the life and non-life bond portfolios as stable, with an average rating of 'A-'. Sovereign and supranational bonds represent 67% of the total bond portfolio at end-2019 (2018: 63%), of which 43% were Belgian government bonds. Ethias has been reducing exposure to Belgian and French sovereign bond spread risk through sales, derivatives and redemptions since 2017. The proportion of equity investments at end-2019 remained stable, just below 5% of the total investment portfolio.

Fitch Expectations

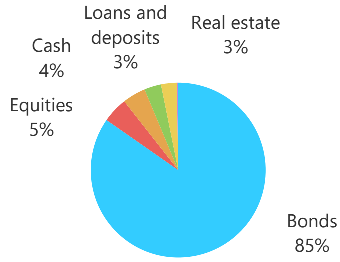
- Fitch expects Ethias to maintain a prudent investment allocation and a low exposure to risky assets, while continuing to diversify to less liquid, alternative assets as part of longer-term changes to strategic asset allocation.

Financial Highlights

(%)	2018	2019
Risky assets ratio (%)	90	82
Non-investment-grade bonds or capital	58	49
Unaffiliated shares to capital	27	28

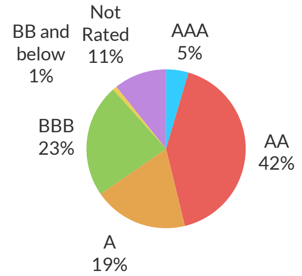
Source: Fitch Ratings; Ethias

Investments (Ex-Unit Linked)



Source: Fitch Ratings, Ethias

Fixed-Income Portfolio
At-end 2019



Source: Fitch Ratings, Ethias

Asset Liability and Liquidity Management

Strong ALM and Liquidity Risk Profile

Ethias's historically high exposure to interest-rate risk due to life technical liabilities subject to fairly high minimum guaranteed returns has fallen significantly over the past five years.

Ethias has executed several redemption "Switch" offers between 2013 and 2018, whereby First A policyholders were given a financial incentive to redeem their contracts. First A are intensive retail life insurance contracts, under which high guarantees are paid until the policyholder reaches the age of 99. Ethias's duration gap has been managed within the -1/+1 target range since 2018, after a gradual reduction from 8.7 years in 2014 following the buy-back switch offers, reinvestments in long-dated bonds and the derivatives overlay programmes. Life asset duration and liability duration were eight and ten years, respectively, at end-2019.

The guarantee profile for the life insurance book has improved in recent years, as Ethias reduced its exposure to higher-rate guarantees and these guarantees are carried by a smaller amount of life reserves. The disposals came at a cost, but have significantly reduced Ethias' exposure to interest-rate risk. As at end-2019, the average guaranteed rate was 1.76% on life contracts (2018: 1.92%). Fitch considers Ethias's capacity to cover minimum guaranteed returns as satisfactory.

Ethias actively manages its interest rate risk exposure with a maximum S2 ratio sensitivity of -25% to a 1% decrease in interest rate. Ethias makes active use of forward interest rate swaps, which replaced swaptions in 2017 to reduce its duration gap and hedge interest rate risk (particularly related to Belgian sovereign bonds).

Ethias's liquidity profile is strong, with the ratio of liquid assets to net technical reserves at 107% at end-2019. Fitch considers that the group's liquidity management is cautious and, if needed, there is significant potential for raising liquidity from the group's high-quality fixed-income securities.

Financial Highlights

(%)	2018	2019
Liquid assets/net technical reserves, excluding unit-linked	101	107

Source: Fitch Ratings; Ethias

Fitch Expectations

- Fitch expects the asset liability management policy to remain disciplined and for the duration gap to remain at its current level.
- We anticipate liquidity risk to remain low due to substantial liquid assets on the balance sheet.

Reserve Adequacy

Strong Reserve Adequacy

Ethias has moderate and stable reserve leverage, as indicated by a ratio of reserves to both incurred losses and capital of 2.2x and 0.9x, respectively, at end-2019.

Fitch believes Ethias's loss reserves grew at a rate commensurate with growth in underwriting exposures over the past five years. Loss reserves compared to shareholders' equity are also quite stable over time. We view the level of technical provisions as prudent in light of regulatory requirements and practices in Belgium.

Analysis of the group's claims development triangles (based on IFRS accounts) indicates favourable reserve development in recent years. Ethias strengthened reserves in 1H20, partly offsetting substantial combined ratio gains during the period.

Financial Highlights

(%)	2018	2019
Net technical reserves/net written premiums	277	275
Reserve development or prior-year capital	-10	-17
Loss reserves/equity (%)	1.0	0.9

Source: Fitch Ratings; Ethias

Fitch Expectations

- We expect Ethias's positive reserve releases to continue and reserving to remain adequate over the next 12–24 months.

Reinsurance, Risk Mitigation and Catastrophe Management

Strong Risk Management

The group is not a major purchaser of reinsurance, as shown by the high and stable retention rates averaging 97% over the past five years. This corresponds to the group's moderate risk profile, resulting mainly from the low insurance risk related to its individual non-life and savings-type life businesses, with stability and low risks in Belgium, its main country of operations. Fitch considers the level of reinsurance protection to be appropriate in light of the low-risk characteristics of the business underwritten.

Most of the protection purchased is in the form of non-proportional treaties, supplemented by facultative covers (excess of loss per risk and per event). There has not been any other material change to the reinsurance programmes over the past three years.

The quality of Ethias's external reinsurance providers is robust (minimum 'A-' rating required). The main reinsurer is SCOR SE (Insurer Financial Strength (IFS) rating: AA-/Stable).

Fitch Expectations

- Fitch expects Ethias's reinsurance programme to remain effective over the next 12–24 months.

Financial Highlights

(%)	2018	2019
Reinsurance recoverables/capital	11	10
Net written premiums/gross written premiums	97	97

Source: Fitch Ratings; Ethias

Appendix A: Peer Analysis

Ethias's peers are the medium-to-large Benelux composite insurers (see peer table below). We also included Groupama Assurances Mutuelles, a larger composite French insurer. Those insurers have limited exposure to non-domestic markets (except Ageas Insurance Limited through AG Insurance NV).

Ethias's underlying profitability, as measured by its combined ratio, was slightly lower than peers in 2019 but compares favourably over a longer period. Its profitability, as measured by ROE, compares well with higher-rated peers. In 1H20, Belgian insurers, such as Ethias, showed resilience to the pandemic crisis.

Ethias's capitalisation has improved relative to peers over the past few years and its S2 ratio is consistent with the Belgian median. Its FLR has remained similar to those of other Benelux insurance companies.

Peer Comparison, 2019

(EURm, As of end-2019)	IFS rating[a]	Total equity	Net income	Financial leverage[b] (%)	Gross written premiums	Reported combined ratio (%)	ROE[c] (%)	S2[d](%)
Groupama	A/Stable	10,238	345	26	14,240	97	4.1	178
Ageas	A+/Stable	13,481	1,721	13	9,385	95	17	217
Achmea	A+/Stable	10,191	514	21	18,686	95	5.2	219
Ethias	A-/Stable	2,753	226	19	2,662	97	8.5	191

Note:
[a] IFS ratings of primary operating companies of each group
[b] Fitch's own calculation
[c] Group net income/average shareholders' equity
[d] Excludes transitional measures
IFS – Insurer Financial Strength
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

The rated entities are all regarded as core to the group, as they have specific business focuses and are material in size relative to the whole of the organisation.

Notching

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

Notching Summary

IFS Ratings
For Ethias SA, 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 two issues rated by Fitch (EUR402.7m dated debt and EUR250m perpetual debt), a baseline recovery assumption of "Below Average" and a non-performance risk assessment of "Moderate" were used. The ratings are two notches below the IDR, which is based on one notch for recovery and one notch for non-performance risk.

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

Short-Term Ratings

Not applicable.

Hybrid – Equity/Debt Treatment

Hybrids Treatment

Hybrid	Amount (EURm)	CAR Fitch (%)	CAR reg. override (%)	FLR debt (%)
Ethias				
Dated subordinated debt	402.7[a]	0	100	100
Perpetual subordinated debt	250[b]	0	100	100
Dated subordinated debt	75	0	100	100

CAR – Capitalisation Ratio: FLR – Financial Leverage Ratio
For CAR, % indicates portion of hybrid value included as available capital, both before (Fitch %) and after the regulatory override
For FLR, % indicates portion of hybrid value included as debt in numerator of leverage ratio
[a] Issued in two tranches, EUR231.9m in July 2015 and EUR170.8m as tap issue in November 2015
[b] Original amount. Only EUR14.3m remains outstanding following the exchange offer in July 2015
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 D: Environmental, Social and Governance Considerations

FitchRatings **Ethias SA**

Insurance Ratings Navigator
European Composite

Credit-Relevant ESG Derivation

Ethias SA has 7 ESG potential rating drivers

- Ethias SA 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.
- Ethias SA 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.
- Ethias SA 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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