

# NN Group N.V.

## Key Rating Drivers

**Resilient Technical Performance:** NN Group N.V.'s 'Strong' profitability is based on resilient reported group operating earnings. However, the reported operating result dropped to EUR1.7 billion in 2022 from EUR2 billion in 2021 on a weaker combined ratio in Dutch non-life activity, the sale of NN Investment Partners (NNIP) and lower revenue in its Japanese life operations. In 1H23, the operating result rose to EUR1.4 billion. Fitch expects the group to generate better operating earnings in 2023 on improvements in Dutch non-life and banking business.

The Fitch-calculated pre-tax operating return on assets (ROA) declined to 0.1% in 2022 from 1.3% in 2021, due to equity investment losses and negative revaluations on real estate and derivatives. We expect the ROA to improve to above 1% in the medium term on smaller revaluation losses. While further negative revaluations on real estate are likely, the revaluation loss on derivatives used for hedging should reduce in-line with the lower incremental increase in interest rates in 2023.

**Very Strong Capital:** NN has maintained 'Very Strong' capitalisation. The group scored 'Very Strong' on Fitch's Prism Factor-Based Model (FBM) based on end-2022 results (end-2021: 'Extremely Strong') due to mark-to-market losses on investments. It reported a very strong Solvency II (S2) ratio of 201% at end-1H23 (end-2022: 197%). Operating capital generation exceeded capital repatriation in the form of its regular EUR250 million share buyback programme and a EUR309 million interim dividend for 2023.

Fitch believes NN's capitalisation has sufficient headroom in the 'AA' category to withstand adverse developments of the unit-linked Dutch court ruling and expects capitalisation to remain very strong in 2023 and 2024.

**Low Leverage:** The group's Fitch-calculated financial leverage ratio (FLR) remained unchanged at 23% as of end-2022. A fall in adjusted IFRS equity on the back of a net loss in 2H22 was offset by lower financial debt as EUR600 million of senior debt was repaid when it matured in March 2022. Fitch expects the FLR to decline in 2023 after its EUR500 million senior unsecured notes matured in January 2023 and were not replaced.

**Very Strong Financial Flexibility:** NN's debt-servicing capability and financial flexibility is 'Very Strong' based on a three-year average fixed-charge coverage (FCC) of 9x, stable market access, and financial flexibility underpinned by adequate cash reserves and contingent funding. We expect FCC to remain very strong in 2023 on lower financial debt and strong group operating earnings.

**Very Strong Company Profile:** Fitch ranks NN's company profile as 'Favourable' compared with other Dutch insurers'. In the Netherlands, NN is the largest insurer in life and pensions, and the second largest in property and casualty (P&C), and disability and accident (D&A). International operations, such as those in central Europe and Japan, accounted for about 30% of NN's operating result in 2022. Gross premium income declined by 5% to EUR13.6 billion.

**Low Investment Risk:** We assess NN's investment and asset risk as low and scores the credit factor as 'Very Strong'. The group's asset allocation remained broadly unchanged in 2022. Investments mainly comprised debt securities (53% of insurance investments at end-2022, mostly investment-grade) and high-quality Dutch residential mortgages (28%). Real estate investments had a 9% share, while equity investments accounted for 2%. We expect exposure to higher-risk assets to remain commensurate with the ratings.

## Ratings

<b>NN Group N.V.</b>	
Long-Term IDR	A+
<b>Nationale Nederlanden Levensverzekering Maatschappij N.V.</b>	
Insurer Financial Strength	AA-

## Outlook

Long-Term IDR	Stable
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## Debt Ratings

Senior Unsecured Long-Term Rating	A
Subordinated Long-Term Rating	BBB+

## Financial Data

<b>NN Group N.V.</b>		
<b>(EURm)</b>	<b>End-2022</b>	<b>End-2021</b>
Total assets	217,110	251,585
Total equity and reserves	16,068	33,154
Total gross written premiums	13,641	14,312
Net income	1,562	3,278
Solvency II (%)	197	213

Note: Reported under IFRS.  
Source: Fitch Ratings, NN Group N.V.

## Applicable Criteria

[Insurance Rating Criteria \(July 2023\)](#)

## Related Research

[Dutch Pension Reform a Growth Opportunity for Life Insurers \(June 2023\)](#)

[Dutch Insurance Dashboard: 1H23 Interim Results \(October 2023\)](#)

[NN's Ratings Unaffected by Unit-Linked Dutch Court Ruling \(October 2023\)](#)

## Analysts

Robert Mazzuoli  
+49 69 768076 167  
[robert.mazzuoli@fitchratings.com](mailto:robert.mazzuoli@fitchratings.com)

Alberto Messina  
+49 69 768076 234  
[alberto.messina@fitchratings.com](mailto:alberto.messina@fitchratings.com)

## Rating Sensitivities

### Factors that Could Collectively or Individually Lead to Positive Rating Action/Upgrade

- Improvement in NN's financial leverage, while the group achieves strong operating earnings and a S2 ratio above 200%.

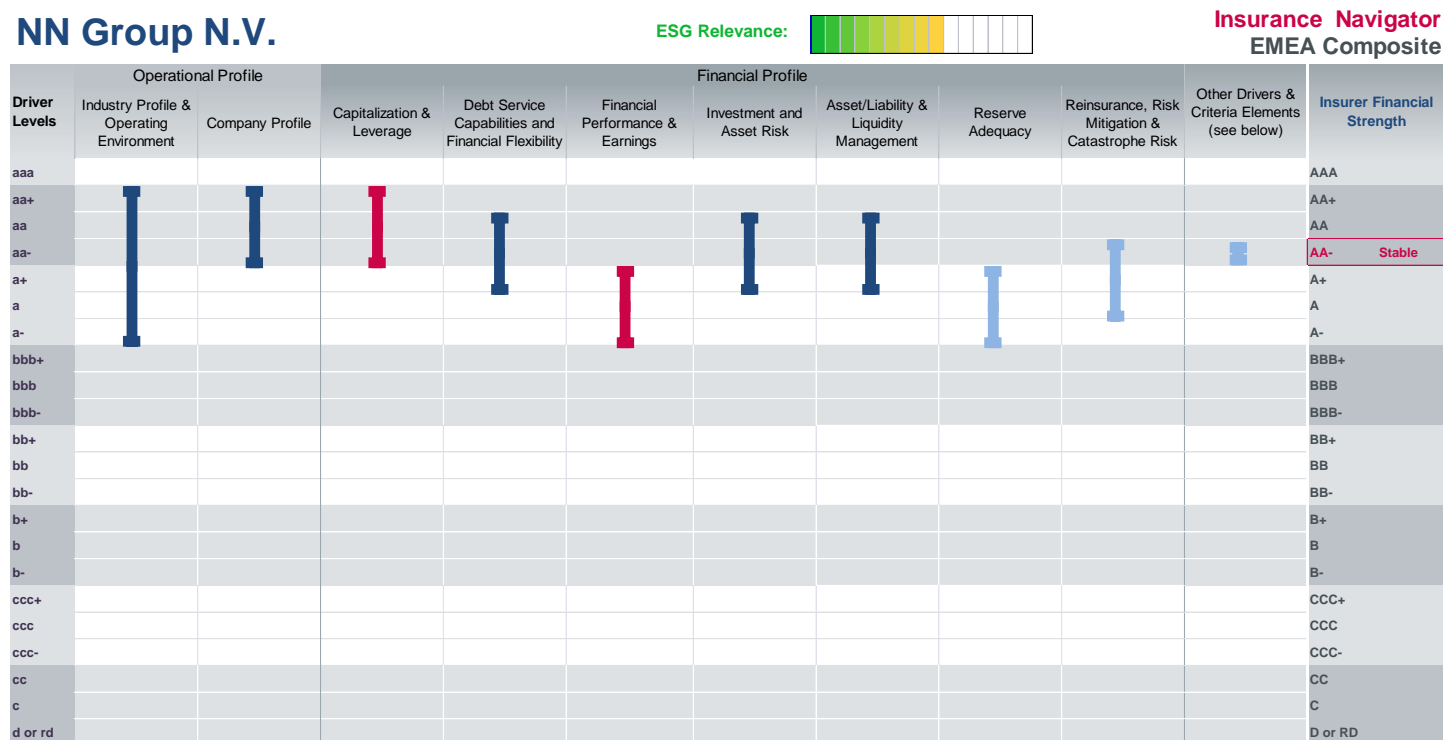
### Factors that Could Collectively or Individually Lead to Negative Rating Action/Downgrade

- Significant deterioration of NN's financial leverage on a sustained basis.
- Deterioration of NN's S2 ratio to below 170%.
- Sustained weakening of NN's operating earnings.

## Latest Developments

On 26 September 2023, the Dutch Court of Appeal delivered an interim judgment in respect of some unit-linked insurance policies sold by Nationale-Nederlanden Levensverzekering Maatschappij N.V in the 1990s and early 2000s. The court said there was no contractual basis for certain costs and cost deductions as NN should have provided more information to policyholders on this. The collective proceedings was initiated by Woekerpolis.nl (a consumers' association) and the interim judgment concern NN's Flexibel Verzekerd Beleggen (FVB) unit-linked policies on a universal life basis. NN said it would appeal. About 66,000 FVB policies were still active at end-3Q23.

## Key Rating Drivers – Scoring Summary



Other Drivers & Criteria Elements				
Provisional Insurer Financial Strength Rating				AA-
Non-Insurance Attributes	Positive	Neutral	Negative	+0
Ownership / Group Support	Positive	Neutral	Negative	+0
Transfer & Convertibility / Country Ceiling	Yes	No	AAA	+0
<b>Insurer Financial Strength Rating</b>				Final: <b>AA-</b>
IFS Recovery Assumption	Good			-1
<b>Issuer Default Rating (IDR)</b>				Final: <b>A+</b>

Bar Chart Legend:	
Vertical Bars = Range of Driver	
Bar Colors = Relative Importance	
█	Higher Influence
█	Moderate Influence
█	Lower Influence
Bar Arrows = Driver Outlook	
↑	Positive
↓	Negative
↕	Evolving
□	Stable

## Company Profile

### Very Strong Company Profile

Fitch ranks NN's company profile as 'Favourable' compared with other insurance companies in the Netherlands. This is driven by its 'Most Favourable' competitive positioning, 'Favourable' business risk profile and 'Favourable' diversification. Corporate governance and management are viewed as moderate/favourable and neutral to the rating. Given these rankings, Fitch scores NN's company profile at 'aa' under its rating driver scoring guidelines.

NN is a leading Dutch insurance and financial services group with activities in life and non-life insurance, as well as banking. NN is the largest insurer in life and pensions in the Netherlands and holds a number two position in P&C and D&A. In non-life, NN had market shares of 28% in D&A and 22% in the P&C segment, while in life it had a 40% share in group pensions, both based on 2021 GWP. NN's asset-management arm, NNIP, was sold in April 2022.

The 'Favourable' business risk profile score reflects NN's business focus on established insurance lines in both life and non-life insurance, which we believe represent lower-than-average risk compared to main competitors. The group is predominantly exposed to longevity risk and, to a lesser extent, mortality and morbidity, which provides a natural hedge. NN discontinued sales of most traditional individual life insurance products in the Netherlands, and of variable annuity products in Japan. NN is establishing a fee-based pension insurance business, as is the broader Dutch life insurance market.

The 'Favourable' diversification score reflects the group's diversification, both by business lines and by geographies. NN's international operations are well established and accounted for about 30% of NN's 2022 operating result.

NN has a significant franchise in Japan, where it is a leading provider of the corporate-owned life insurance (COLI) niche sector. COLI products offer protection, savings and pensions insurance for the owners and employees of small and medium-sized enterprises (SMEs) and represent about 20% of the Japanese life market. In Europe outside the Netherlands, NN mainly offers life insurance and pension products to retail and SME clients in Belgium, central and eastern Europe (CEE) and Spain. NN has a top three position in most CEE markets.

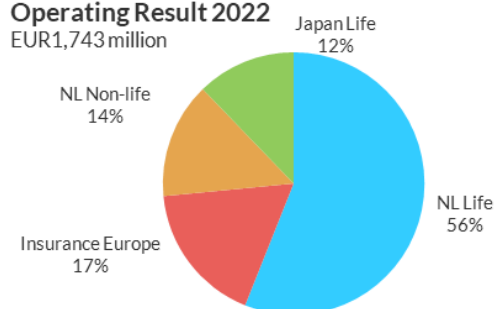
### Company Profile Scoring

Business profile assessment	Favourable
Business profile sub-factor score	aa
Corporate governance assessment	Moderate/Favourable
Corporate governance impact (notches)	0
Company profile factor score	aa

Source: Fitch Ratings

### Operating Result 2022

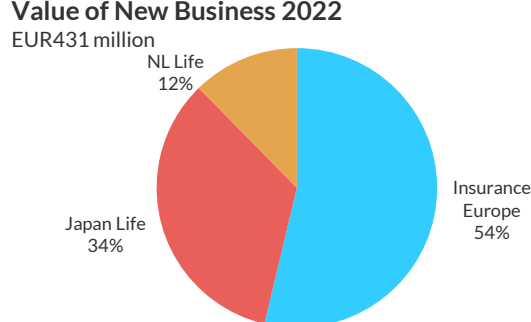
EUR1,743 million



NL: Netherlands  
Source: Fitch Ratings, company data

### Value of New Business 2022

EUR431 million



Source: Fitch Ratings, company data

## Ownership

### Neutral Ownership

NN's ownership is neutral to its rating. The company has been listed on the Euronext Amsterdam stock exchange since July 2014 and has a fragmented shareholder structure. No single shareholder has a majority stake.

## Capitalisation and Leverage

### Very Strong Capitalisation, Low Financial Leverage

Fitch's assessment of NN's capitalisation remains 'Very Strong'. The group scored 'Very Strong' on Fitch's Prism FBM based on end-2022 results (end-2021: 'Extremely Strong'). Mark-to-market losses on investments were only partially offset by the company's solid capital generation. NN's S2 ratio was 201% at end-1H23 (end-2022: 197%). Operating capital generation exceeded capital repatriation in the form of the regular EUR250 million share buyback programme and the EUR309 million interim 2023 dividend.

We expect operating capital generation to add between 15pp and 20pp to the S2 ratio in 2023, and sensitivity to shock scenarios to remain within acceptable limits. Key stress scenarios are higher credit spreads for government bonds and mortgages, as well as shocks to equity and real estate prices. NN's tight asset-liability management eliminates sensitivity to parallel interest rate changes to a large extent. In 1H23 the company took management action to reduce the sensitivity to yield curve steepening, which is generally more pronounced due to the application of the ultimate forward rate for long-term liabilities.

Fitch believes NN's capitalisation has sufficient headroom in the 'AA' category to withstand potential adverse developments of the unit-linked Dutch court ruling and expects capitalisation to remain very strong in 2023 and 2024.

The group's Fitch-calculated FLR rose slightly to 23% at end-2022 from 22% at end-1H22, due to lower adjusted IFRS equity on the back of a net loss in 2H22 and capital repatriation to shareholders. Fitch expects the FLR to decline after the EUR500 million senior unsecured notes matured in January 2023 and were not replaced. In May 2023, NN issued EUR1 billion of subordinated notes that were neutralised by a liability management transaction that involved a voluntary buy-back of outstanding debt instruments.

### Financial Highlights

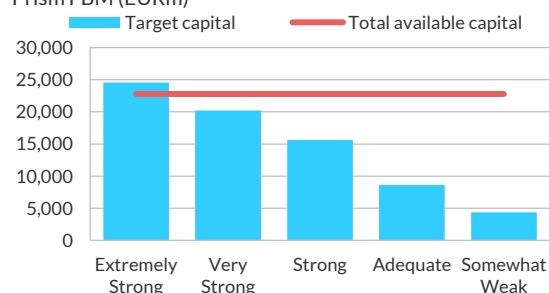
(%)	End-2022	End-2021
TFC/total equity (x)	0.9	0.7
Gross leverage (x)	12.6	7.2
Financial leverage (goodwill supported)	22.9	23
Regulatory capital ratio	197	213

Gross leverage: (gross premiums written + gross insurance liabilities)/equity capital

Source: Fitch Ratings, NN Group N.V.

### Capitalisation Adequacy

Prism FBM (EURm)



Source: Fitch Ratings

### Fitch's Expectations

- NN's capitalisation to remain 'Very Strong' and the group's S2 ratio to remain at around 200% at end-2023, helped by strong operating capital generation on the back of better results for Netherlands non-life and banking.
- The group's FLR to improve in 2023 due to a lower absolute debt level and to remain stable in 2024.

### Financial Highlights

	2022	2021
Prism score	Very Strong	Extremely strong
Prism total AC (EURm)	22,799	32,248
Prism AC/TC at Prism score (%)	113	109
Prism AC/TC AT higher Prism score (%)	93	n.a.

AC - Available capital. TC - Target capital  
Source: Fitch Ratings, NN Group N.V.

## Debt Service Capabilities and Financial Flexibility

### Very Strong Financial Flexibility

NN's 'Very Strong' debt-servicing capability and financial flexibility is based on a high FCC ratio (three-year average: 9x), stable market access, and financial flexibility that is underpinned by adequate cash reserves and contingent funding.

Holding company had cash reserves of EUR1.9 billion at end-1H23 (end-2022: EUR2.1 billion), well in excess of cash requirements in a one-in-20 combined stress scenario. Revolving credit facilities of EUR1.9 billion further support the group's financial flexibility in stress events.

We expect the strong financial performance of subsidiaries to support cash remittances to the holding company in 2023 and that there will not be a need for significant cash to be downstreamed over the next year.

NN maintains stable market access and could achieve favourable pricing, as reflected in the consistent tightening of spreads on NN's outstanding debt securities since March 2020.

### Financial Highlights

(x)	End-2022	End-2021
Fixed-charge coverage ratio (including gains and losses)	0.7	14.8
Fixed-charge coverage ratio (excluding gains and losses)	8.9	9.5

Source: Fitch Ratings, NN Group N.V.

## Financial Performance and Earnings

### Strong and Improving Financial Performance

Fitch assesses NN's profitability as 'Strong' based on the long-term improving trend in the group's operating performance. The reported operating result dropped to EUR1.7 billion in 2022 from EUR2 billion in 2021 on a weaker combined ratio in Netherlands non-life, the sale of investment firm NNIP and lower revenue in Japan Life. In 1H23, the operating result rose to EUR1.4 billion thanks to higher contributions of Netherlands non-life and banking, in particular. Recent acquisitions in Greece and Poland also contributed to operating earnings.

NN's reported combined ratio (IFRS 17) improved to 90.1% in 1H23 (1H22: 93.5%; 2022: 92.3%) mainly thanks to lower natural catastrophe claims. The company continued to successfully manage the negative impact of high inflation and rising minimum wages on claims inflation by price increases.

In 2022, its ROA of dropped to 0.1% (2021: 1.3%) and its return on equity to 6% (2021: 9%) due to mark-to-market losses on the investment portfolio. While further negative revaluations on real estate are likely, the revaluation loss on derivatives used for hedging should reduce in-line with the lower incremental increase in interest rates in 2023.

Reported net income fell to EUR586 million in 1H23 from EUR1,741 million in 1H22, which included a one-off gain of EUR1.1 billion related to the sale of NNIP. However, it was significantly up from a net loss of EUR107 million in 2H22 thanks to lower revaluation losses.

## Financial Highlights

(%)	End-2022	End-2021
Net income return on equity	6.4	9.4
Pre-tax operating profit return on equity	8.2	6.3
Net combined ratio	93.6	95.6
Operating ratio	89.7	92.1

Source: Fitch Ratings

## Fitch's Expectations

- The ROA to improve to above 1% in the medium term on smaller revaluation losses.
- Better operating earnings in 2023 thanks to improvements in Netherlands non-life and banking.

## Investment and Asset Risk

### Low Investment Risk

Fitch assesses NN's investment and asset risk as low and scores the credit factor as 'Very Strong' based on its low risky-assets/equity ratio, a predominantly investment-grade debt portfolio and a well-collateralised Dutch residential mortgage portfolio. NN's strategic asset allocation remained broadly unchanged in 2022.

The mark-to-market losses on bonds reduced NN's IFRS capital, which led to a significant increase in the group's risky-assets ratio to 116% (58%). However, we expect that a large portion of those unrealised losses will be recaptured in shareholders' equity over time due to bonds approaching their par value as maturity nears.

Fitch assesses the credit risk of NN's EUR60 billion residential mortgage portfolio as 'Low' given low historic delinquency rates and strong collateralisation. The book is concentrated on Dutch residential mortgages with some diversification in Belgium, although the Belgian portfolio is small. At end-1H23, the average loan/value ratio was favourable at 55%, and about 25% of the total exposure was backed by government guarantees, provided through the Stichting Waarborgfonds Eigen Woningen (Netherlands IDR: 'AAA'). In addition, 75% of the portfolio had a fixed-rate period of more than 10 years, reducing the risk of more expensive instalments for mortgage holders.

## Financial Highlights

(%)	End-2022	End-2021
Risky assets/capital (total)	116	58
Unaffiliated shares/capital (total)	50	23
Non-investment-grade bonds/capital (total)	30	18
Investments in affiliates/capital (total)	35	18

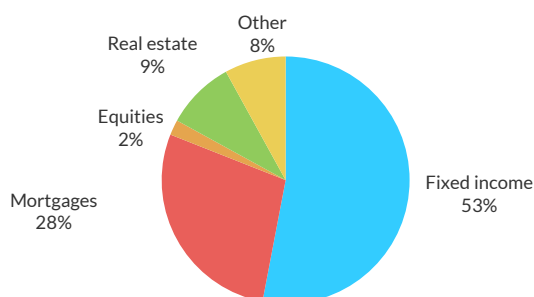
Source: Fitch Ratings, NN Group N.V.

## Fitch's Expectations

- No significant change in asset allocation in 2023 and 2024.

## Investment Split 2022

EUR145 billion (without unit-linked and banking)



Source: Fitch Ratings, company data

## Asset/Liability and Liquidity Management

### Very Strong Asset Liability and Liquidity Management

Fitch assesses NN’s asset-liability and liquidity management as ‘Very Strong’, based on a comprehensive risk-management framework, prudent investment policy and effective hedging.

NN uses cash-flow matching, duration matching and derivatives-based hedging to manage interest rate risk. Residual interest rate risk mainly arises from the application of the ultimate forward rate (UFR) under S2, used for maturities exceeding 20 years. NN’s S2 ratio is sensitive to changes in the expected UFR, which is set to drop by 15bp to 3.3% in 2024.

Fitch believes market risks arising from guarantees provided to policyholders in separate account businesses, such as the variable annuity portfolio, the Dutch group pension business, and some unit-linked products, are adequately managed and hedged resulting in only moderate net hedge result each year. NN does not separately hedge market risks related to performance guarantees on some unit-linked policies.

Risks associated with guarantees are declining gradually as defined-benefit pensions shift to defined contributions, and the Japan closed block variable annuity portfolio runs off. Variable annuities include embedded guarantees, which give rise to risks that are long-tailed and difficult to hedge and reserve for, in Fitch’s view.

NN maintains a sound liquidity profile based on Fitch’s assessment of NN’s liquidity ratios and NN’s own liquidity stress-test results. Repo lines with external counterparties and a EUR1.9 billion committed revolving credit facility with a syndicate of banks provide additional sources of liquidity.

### Financial Highlights

(%)	End-2022	End-2021
Non-life liquid assets/non-life loss reserves	132	91
Life liquid assets/life technical reserves	73	90

Source: Fitch Ratings, NN Group N.V.

## Reserve Adequacy

### Favourable Reserve Development

NN’s ‘Strong’ reserving score reflects an overall favourable run-off experience over a five-year horizon and the absence of material past reserve shortfalls. The high inflation environment has required the upward revision of wage assumptions in D&A in 2022. Fitch expects further reserve strengthening of a moderate size in D&A in 2023.

### Financial Highlights

(%)	End-2022	End-2021
Reserve development/prior-year capital	-2.9	-1.8
Reserve development/prior-year loss reserve	-0.7	-0.4
Net technical reserves/net written premiums	199.2	193.8
Net loss reserves/incurred losses (x)	2.8	2.8

Source: Fitch Ratings, NN Group N.V.

## Reinsurance, Risk Mitigation and Catastrophe Risk

### Adequate Reinsurance Protection

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

NN's risk framework is calibrated predominantly to maintain solvency coverage above 100% in a one-in-20 combined stress scenario without having to raise equity capital or sell assets. NN manages its risk profile by allocating risk limits to each business unit based on outputs from NN's internal risk model. Increased longevity in the Dutch pension business is among the non-market risk scenarios modelled by NN. The company has a longevity hedge arrangement for its life insurance subsidiary, based on life and health expectations of the its insured population.

The insurer is exposed to catastrophe risk in both life and non-life insurance. It runs a sophisticated reinsurance programme mainly through its captive internal reinsurer to limit non-life earnings volatility. The captive reinsurer further cedes risks exceeding its limits to the open market. The credit quality of the reinsurance panel is strong, with all external reinsurance counterparts rated in the 'A' category or above.

Overall, Fitch views NN's maximum risk retention as conservative relative to its capital.

### Financial Highlights

(%)	End-2022	End-2021
Reinsurance recoverables/non-life capital	12	22.4
Net written premiums/gross written premiums	94.5	94.3
Reinsurers' share of earned premiums	5.6	5.6

Source: Fitch Ratings, NN Group N.V.



## Appendix A: Peer Analysis

### Peer Comparison

Click [here](#) for a report that shows a comparative peer analysis of key rating driver scoring.

## Appendix B: Industry Profile and Operating Environment

### Industry Profile and Operating Environment (IPOE)

Click [here](#) for a link to a report that summarises the main factors driving the above IPOE score.

## Appendix C: Other Rating Considerations

Below is a summary of additional ratings considerations that are part of Fitch's *Insurance Rating Criteria*.

### Group Insurance Financial Strength (IFS) Rating Approach

Fitch views the group's Dutch life insurance subsidiary (Nationale-Nederlanden Levensverzekering Maatschappij N.V.) as 'Core' to the group due to its strategic importance, high degree of integration and common branding with the group. The IFS rating of NN's life insurance operating subsidiary is therefore based on a group rating approach.

### Notching

For notching purposes, Fitch assesses the Dutch regulatory environment 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.	
Operating company debt	
Not applicable.	
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 senior debt securities issued by NN Group N.V. Standard notching relative to the IDR was used.	
Hybrids	
For hybrid securities issued by NN (excluding securities formerly issued by Delta Lloyd NV), a baseline recovery assumption of 'Poor' and a non-performance risk assessment of 'Moderate' were used. Notching of minus three was applied from NN's IDR, based on minus two for recovery and minus one for non-performance risk.	
IFS – Insurer Financial Strength. IDR – Issuer Default Rating Source: Fitch Ratings	

## Debt Maturities

### Debt Maturities

As of end-October 2023	(EURm)
2027	600
2031 and beyond	3,285
Perpetual	1,415
<b>Total</b>	<b>5,300</b>

Source: Fitch Ratings, NN Group N.V.

### Short-Term Ratings

Not applicable.

### Hybrid – Equity/Debt Treatment

Fitch does not provide equity credit for perpetual callable subordinated notes due to their coupon step-up feature at the time of issuance.

### Hybrids Treatment

Hybrid	Amount	CAR	CAR reg.	FLR
		Fitch (%)	override (%)	debt (%)
<b>NN Group N.V.</b>				
XS2616652637, call 2033, 2043	EUR1.000m	0	100	100
XS2526486159, call 2032, 2043	EUR500m	0	100	100
XS1550988643, call 2028, 2048	EUR850m	0	100	100
XS1028950290, call 2026, perpetual	EUR1,000m	0	100	100
XS1054522922, call 2024, 2044	EUR335m	0	100	100
XS1076781589, call 2024, perpetual	EUR415m	0	100	100

CAR – Capitalisation ratio. FLR – Financial leverage ratio

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

### Recovery Analysis and Recovery Ratings

Not applicable.

### Transfer and Convertibility Risk (Country Ceiling)

None.

### Criteria Variations

None.

## Appendix D: Environmental, Social and Governance Considerations

FitchRatings		NN Group N.V.		Insurance Navigator EMEA Composite	
<b>Credit-Relevant ESG Derivation</b>					
NN Group N.V. has 7 ESG potential rating drivers					
<ul style="list-style-type: none"> <li>➔ NN Group N.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.</li> <li>➔ NN Group N.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.</li> <li>➔ NN Group N.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.</li> <li>➔ Governance is minimally relevant to the rating and is not currently a driver.</li> </ul>					
	key driver	0	issues	5	
	driver	0	issues	4	
	potential driver	7	issues	3	
	not a rating driver	2	issues	2	
		5	issues	1	
<b>Environmental (E)</b>					
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	
<b>Social (S)</b>					
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; Company Profile; Reserve Adequacy	4	
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile	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	Company Profile; Investment & Asset Risk; Financial Performance & Earnings; Reinsurance, Risk Mitigation & Catastrophe Risk	1	
<b>Governance (G)</b>					
General Issues	G Score	Sector-Specific Issues	Reference	G Scale	
Management Strategy	3	Operational implementation of strategy	Company 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	Company Profile	4	
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile; Ownership	3	
Financial Transparency	3	Quality and timing of financial reporting and auditing processes	Company Profile	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 Principles 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, either due to their nature or to the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg)

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