

NN Group N.V.

And Operating Subsidiaries

Key Rating Drivers

Very Strong Capital, Decreasing Leverage: NN Group N.V.'s Solvency II (S2) ratio was 209% at end-1H21 (end-2020: 210%, including Nationale-Nederlanden Bank N.V. (NN Bank)) – broadly in line with most other large Dutch insurers. Improved operating capital generation (OCG) and good financial market performance supported the group's S2 ratio in 1H21.

The group's Prism Factor-Based Capital Model (FBM) score was 'Extremely Strong' based on end-2020 financial data. Financial leverage fell to 22% in end-1H21 (end-2020: 23%) due to changes in equity components, as the face value of total outstanding debt was unchanged at EUR5.8 billion.

Resilient Operating Performance: Fitch Ratings assesses NN's profitability as 'Strong' based on a long-term improvement in the group's operating earnings, pre-tax operating return on assets (ROA) of 1.2% (2019:1.2%), and net income return on equity (ROE) of 6% (2019:7%) in 2020. NN had strong operating earnings of EUR1.9 billion in 2020 and EUR1.1 billion in 1H21, supported by resilient performance at all operating units. We expect the pandemic to have little effect on NN's 2021 financial performance – full-year earnings could be well ahead of 2020.

Very Strong Business Profile: Fitch ranks NN's business profile as 'Favourable' compared with other Dutch insurance companies. Recent acquisitions in the Netherlands have firmly established NN as the market leader in disability and accident (D&A), and life and pension insurance, and as the second-largest insurer in property and casualty (P&C).

NN is focused on well established insurance lines in both life and non-life insurance, which we believe represent lower-than-average business risk compared to main competitors. International operations are well established and accounted for about 50% of NN's gross written premiums (GWP) in 2020.

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 13x, stable market access, and financial flexibility underpinned by adequate cash reserves and contingent funding. NN maintains stable market access at favourable pricing as reflected in the consistent tightening of spreads on NN's outstanding debt securities since March 2020.

Low Investment Risk: We assess NN's investment and asset risk as low and score the credit factor as 'Very Strong'. Investments are mainly investment-grade debt securities and Dutch residential mortgages. NN is optimising its investment portfolio by shifting to higher-yield fixed-income assets, and by increasing mortgage exposure. This could lead to an incrementally higher investment risk but is unlikely to affect our investment and asset risk assessment. The risky asset ratio was 46% at end-2020 (end-2019: 43%).

Rating Sensitivities

Higher Leverage, Weaker Capital: The ratings could be downgraded if NN's financial leverage increases above 30%, or if its group's S2 ratio falls below 170%.

Weaker Operating Performance: The ratings could also be downgraded if NN's operating earnings weaken, as reflected by ROA of 1% or below.

Lower Financial Leverage, Stable Earnings: The ratings could be upgraded if NN's financial leverage falls below 15% and operating earnings remains strong, as reflected by ROA of 1.3% or higher, and if the group's S2 ratio remains above 200%.

Ratings

NN Group N.V.
Issuer Default Rating A+

**Nationale-Nederlanden
Levensverzekering Maatschappij N.V.**
Insurer Financial Strength AA-

**Long-Term Debt Ratings
(NN Group NV.)**
Senior A
Subordinated BBB+

Outlooks

Issuer Default Rating Stable
Insurer Financial Strength Stable

Consolidated Financial Data

NN Group N.V.		
(EURbn)	31 Dec 20	31 Dec 19
Total assets	264	249
Total equity (excluding hybrid debt)	37	31
Total gross written premiums	14	15
Net income	1.9	2.0

Source: Fitch Ratings; NN

Applicable Criteria

[Insurance Rating Criteria \(April 2021\)](#)

Related Research

[Planned NNIP Sale Is Neutral to NN's Ratings \(August 2021\)](#)

[Dutch Insurance Dashboard: Mid-Year 2021 \(September 2021\)](#)

[Fitch Affirms Netherlands at 'AAA'; Outlook Stable \(April 2021\)](#)

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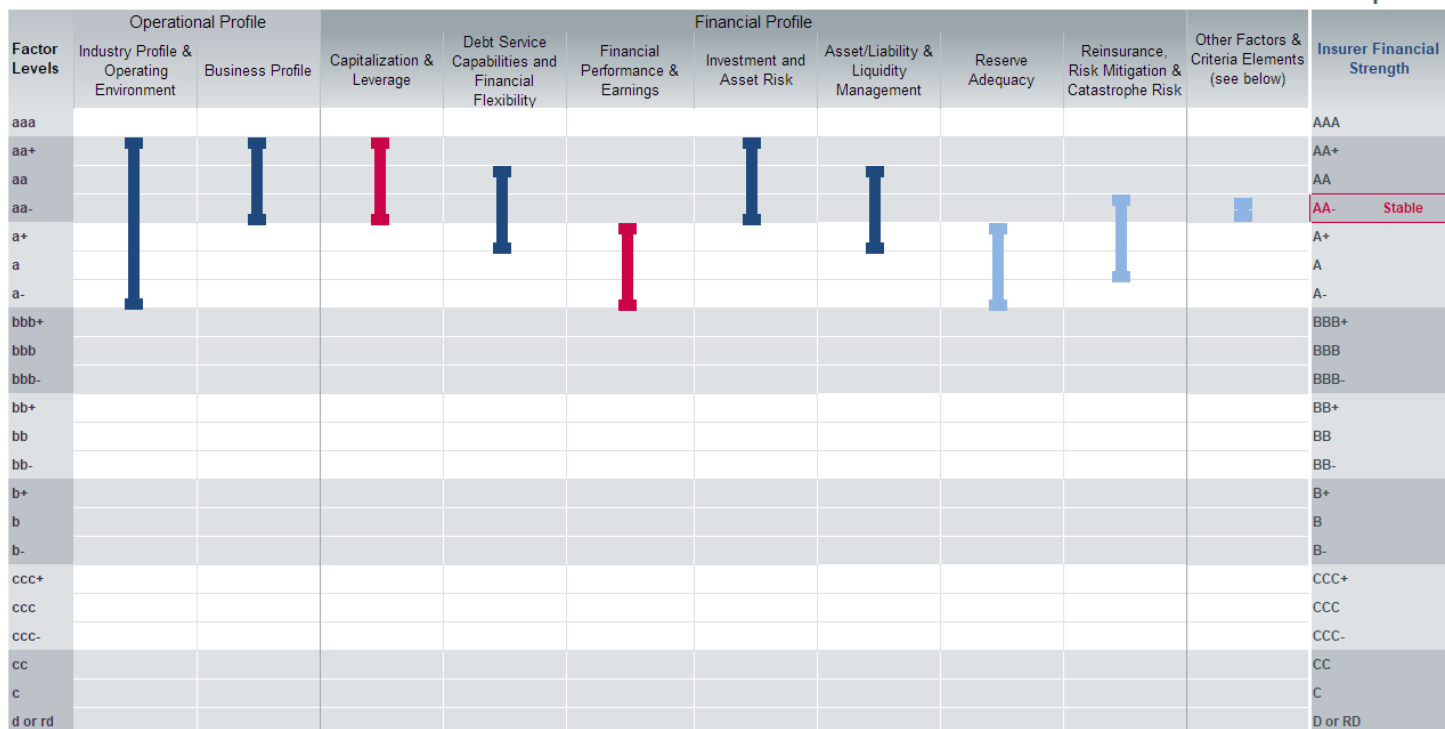
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Key Credit Factors – Scoring Summary

NN Group N.V.



Insurance Ratings Navigator
EMEA Composite



Other Factors & Criteria Elements				
Provisional Insurer Financial Strength				AA-
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: AA-
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

- NN intends to sell its EUR3.3 billion Belgian closed book life portfolio to Athora Belgium. The transaction is neutral to NN's credit profile and is expected to have a 1% positive effect on the group's S2 ratio. Closing is expected by mid-2022.
- NN announced the sale of NN Investment Partners (NNIP) to Goldman Sachs Asset Management for EUR1.7 billion. The sale will not significantly affect NN's long-term financial performance. Asset management accounted for 8%–9% of NN's operating earnings in recent years.

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 NN's business profile as 'Favourable' compared with other insurance companies in the Netherlands, driven by its 'Most Favourable' competitive positioning, 'Favourable' business risk profile and 'Favourable' diversification. Given this ranking, Fitch scores NN's business profile at 'aa' under its credit factor scoring guidelines.

NN is a leading Dutch insurance and financial services group with activities in non-life and life insurance, as well as banking. Recent acquisitions in the Netherlands have firmly established NN as the market leader in D&A and as the second-largest insurer in P&C, and secured its leading position in the life and pensions segment. In non-life, NN had market shares of 32% in D&A and 25% in the P&C segment; in life it had a 40% market share in group pensions and 21% in individual life, based on 2019 gross premiums¹. NN's asset-management arm, NNIP, is a global top-100 asset manager with EUR285 billion of assets under management at 1H20.

The 'Favourable' business risk profile score reflects NN's business focus on well-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 focusing on 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 50% of 2020 GWP.

NN has a significant franchise in Japan, where it is a top-three insurer in the corporate-owned life insurance (COLI) niche. COLI products offer protection, savings and pensions insurance for the owners and employees of small and medium-sized enterprises (SME) and represent about 20% of the Japanese life market. In Europe, NN primarily offers life insurance and pension products to retail and SME clients in Belgium, Central Eastern and South Eastern Europe (CESEE) and Spain. NN has top-three positions in most CESEE markets.

Ownership

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

¹ Source: De Nederlandsche Bank, NN

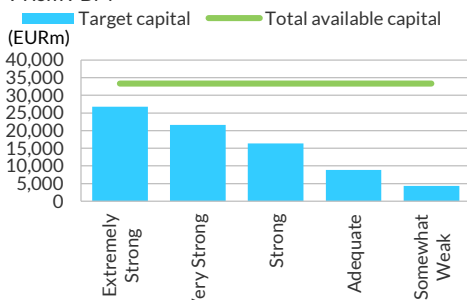
Capitalisation and Leverage

Very Strong Capitalisation, Decreasing Leverage

Our assessment of NN's capitalisation was 'Very Strong' at end-1H21, reflecting the company's resilience to the coronavirus pandemic. NN's S2 ratio was 209% at end-1H21 (end-2020: 210%, which already reflected the inclusion of NN Bank), generally aligned with most other large Dutch insurers. In 1H21, improved OCG and the good performance of financial markets supported the group's S2 ratio, offset by distributions to shareholders, reduction of the ultimate forward rate (UFR), and higher capital requirements due to shifting of investments. The group's FBM score was unchanged at 'Extremely Strong' based on end-2020 financial data.

Capitalisation Adequacy

Prism FBM



Source: Fitch Ratings

Financial Highlights

	2020	2019
Prism score	Extremely Strong	Extremely Strong
Prism total AC EURm	33,342	28,098
Prism AC/TC at Prism score (%)	125	109
Prism AC/TC at higher Prism score (%)	n.a.	n.a.

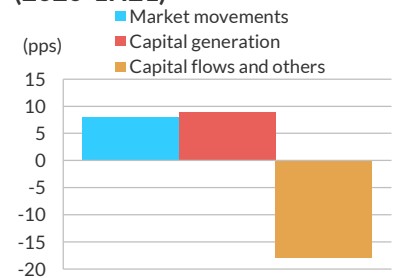
AC - Available Capital, TC - Target Capital
Note: Reported on a IFRS basis
Source: Fitch Ratings, Company.

Financial Highlights

(x)	31 Dec 20	31 Dec 19
TFC ratio	0.4	0.4
Net leverage (non-life)	6.5	8.2
Asset leverage (life)	5.1	5.3
Financial leverage (%)	23	26
Group S2 ratio (%)	210	224

TFC: Total Financing and Commitments
Source: Fitch Ratings; NN

Solvency II Variances (2020-1H21)



Source: Fitch Ratings, NN

We expect OCG to add between 15pp and 20pp to the S2 ratio in 2021, and sensitivity to shock scenarios to be 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 interest rate changes to a large extent; however, sensitivity to yield curve steepening is more pronounced due to the application of the UFR for long-term liabilities.

Financial leverage fell to 22% at end-1H21 (end-2020: 23%) due to changes in equity components, while total face value of outstanding debt has been unchanged at EUR5.8 billion, since end-2020.

Fitch Expectations

- Prism FBM score 'Extremely Strong' over the next 12 months.
- Gradual increase in OCG, driven by investment portfolio optimisations and higher contribution of non-life, to underpin the group's S2 ratio.
- Financial leverage to remain stable.

Debt Service Capabilities and Financial Flexibility

Very Strong Financial Flexibility

NN's 'Very Strong' debt-servicing capability and financial flexibility is based on a three-year average FCC of 13x, stable market access, and financial flexibility that is underpinned by an adequate cash reserves and contingent funding.

Holding company cash capital was EUR1.5 billion at end-1H21 (end-2020: EUR1.2 billion), well in excess of cash requirements in a 1-in-20 stress event. EUR1.75 billion in contingent credit facilities further support the group's financial flexibility in stress events.

We expect the strong financial performance of subsidiaries and lifting of dividend restrictions to support cash remittances to the holding company in 2021, and that there will be no need for significant cash down-streaming 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.

Fitch Expectations

- Debt servicing capability to remain very strong.
- Adequate financial flexibility maintained.

Financial Performance and Earnings

Long-Term Improving Trend Affirmed

We assess NN's profitability as 'Strong' based on the long-term improving trend in the group's operating performance, its ROA of 1.2% and ROE of 6% in 2020. We expect the pandemic to have only a negligible effect on the group's 2021 financial performance, with earnings from the life closed book and international units to remain resilient.

NN's operating earnings (2020: EUR1.9 billion; 1H21: EUR1.1 billion) were supported by the resilient performance of all operating units. Through the year, the group has taken mitigating actions to balance the negative effects of the coronavirus pandemic, including the further optimisation of investments and focus on costs. In 2020, NN has completed its EUR400 million five-year cost-saving target, and progressed well with the integration of Vivat Schadeverzekeringen N.V. (Vivat Non-Life). Upon completion of the cost saving plan, we expect NN to manage expenses in line with the run-off of the life closed book.

NN's combined ratio (COR) was 92% at end-1H21. This was an improvement over end-2020, and was mainly driven by lower claims and price increases in the D&A segment (1H21 COR: 94.6%). The P&C business (1H21 COR: 90.8%) continued to benefit from reduced economic activity in the Netherlands, as the group has limited exposure to business interruption, travel and event-cancellation insurance. Accordingly, P&C claims remained low both in 2020 and 1H21. NN does not have significant non-life operations outside of the Netherlands.

In 2H21, the group will book an estimated EUR70 million loss from flood damages that took place in the Netherlands in July 2021. This, together with potential volatility in D&A claims caused by subsequent waves of the pandemic could pressure CORs in 2H21, but we expect the 2021 full year COR to remain broadly stable compared to 2020.

Fitch Expectations

- Investment portfolio optimisations, cost discipline and Vivat Non-Life cost synergies to support financial performance.
- D&A price adjustments to support the non-life result.
- No significant impact on the group's performance metrics from the NNIP sale.

Financial Highlights

(EURm)	31 Dec 20	31 Dec 19
FCC ratio (x)	14	12
Cash at holding companies	1,170	1,989

Source: Fitch Ratings; NN

Debt Maturities (Within Five Years)

(As of 30 June 2021)	(EURm)
2022 (senior)	600
2023 (senior)	500
Total	1,100

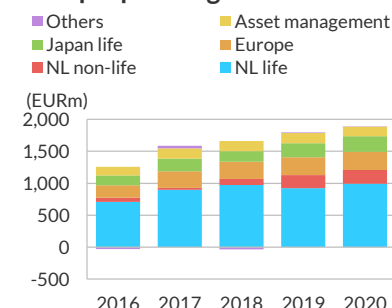
Source: Fitch Ratings; NN

Financial Highlights

(EURm)	31 Dec 20	31 Dec 19
Net income ROE (%)	6	7
Pre-tax operating return on assets (%)	1.2	1.2
Non-life combined ratio (Netherlands only; reported)	95.3	95.4
P&C combined ratio (Netherlands only; reported)	92	97
D&A combined ratio (Netherlands only; reported)	102.6	92.3

Source: Fitch Ratings; NN

Group Operating Result



Source: Fitch Ratings, NN Group

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 to equity ratio, a predominantly investment-grade debt portfolio, and a well-collateralised Dutch residential mortgage portfolio.

NN is gradually shifting to higher-yield fixed-income assets, and increasing its mortgage exposure to optimise returns of its investment portfolio. This could lead to lower average ratings of the bond portfolio, but unlikely to affect our assessment of investment and asset risk.

Fitch assesses the credit risk of NN's EUR55 billion (27% of total investments) 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-1H21, the average loan-to-value ratio was favourable at 65%, and about 35% of the total exposure was backed by government guarantees, provided through the Stichting Waarborgfonds Eigen Woningen (Netherlands IDR: AAA), which further reduces credit risk.

Fitch Expectations

- Investment risk metrics will remain in line with a 'Very Strong' assessment.
- Dutch residential mortgages to perform well, supported by a strong Dutch housing market.

Asset Liability and Liquidity Management

Effective Interest Rate Risk Management; Sound Liquidity

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 UFR under S2, used for maturities exceeding 20 years. NN's S2 ratio is moderately sensitive to the expected UFR reduction to 3.45% in 2022 (from 3.6% in 2021).

Fitch believes market risks arising from guarantees provided to policyholders in separate account businesses such as the variable annuity (VA) 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 VA portfolio runs off. VAs 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 EUR1.75 billion committed revolving credit facility with a syndicate of banks provide additional sources of liquidity.

Fitch Expectations

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

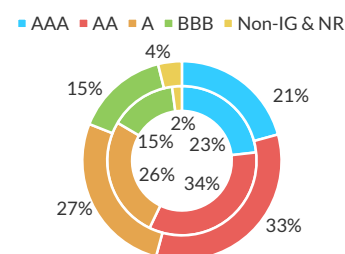
Financial Highlights

(EURb)	31 Dec 20	31 Dec 19
Risky assets to equity (%)	46	43
Unaffiliated shares to equity (%)	22	18
Non-investment grade bonds to equity (%)	11	8

Source: Fitch Ratings; NN

Bond Portfolio Ratings

(Outer ring: 2020; EUR106bn
Inner ring: 2019; EUR109bn)



Source: Fitch Ratings; NN

Financial Highlights

(%)	31 Dec 20	31 Dec 19
Liquid assets to net technical reserves (non-life)	94	n.a.
Liquid assets to net technical reserves (life, excluding unit linked)	109	n.a.
Interest rate sensitivity of the S2 ratio (+50bps parallel)	3	6
Interest rate sensitivity of the S2 ratio (-50bp parallel)	-3	-6

Source: Fitch Ratings; NN

Reserve Adequacy

Favourable Reserve Development

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

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

NN experienced overall positive reserve run-off results over a five-year horizon; however, minor unfavourable developments have occurred for accident years 2014 and 2015, mainly in the motor segment. There has been no additional need for reserve-strengthening apart from a one-off EUR40 million addition in 2017 as part of the best-estimate liability review.

The trend of increasing bodily injury claims is market-specific to the Netherlands and has affected most insurers operating in the market. However, due to the positive effects from lower claims frequency amid the pandemic, Fitch does not expect significant non-life reserve adjustments in the short term.

Fitch Expectations

- Reserves to remain adequate; no significant adjustments expected.

Reinsurance, Risk Mitigation and Catastrophe Management

Adequate Reinsurance Protection Limits Catastrophe Risk

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 counterparties.

NN's risk framework is calibrated predominantly to maintain solvency coverage above 100% in a 1-in-20 stress scenario without having to raise equity capital or being forced to 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 key non-market risk scenarios modelled by NN. NN has a longevity hedge arrangement in place for its life insurance subsidiary, based on life and health expectations related to the Dutch population.

NN is exposed to catastrophe risk in both life and non-life insurance. NN 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 counterparties rated in the 'A' category or above.

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

Fitch Expectations

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

Financial Highlights

(%)	31 Dec 20	31 Dec 19
Loss reserves to equity (non-life, x)	4	5
Change in the ratio of loss reserves to earned premiums	5	3
One year reserve development to prior year equity	-0.4	-0.5
One year reserve development to prior year loss reserves	-2.3	-2.4

Source: Fitch Ratings; NN

Financial Highlights

(%)	31 Dec 20	31 Dec 19
Net written premiums to gross written premiums (non-life)	94	95
Reinsurance recoverables to capital (non-life)	22	26

Source: Fitch Ratings; NN

Appendix A: 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 (Nationale-Nederlanden Levensverzekering Maatschappij N.V.) insurance subsidiary 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, 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 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 senior debt securities issued by NN Group N.V. Standard notching relative to the IDR was used.

Hybrids

For hybrid securities issued by NN Group N.V. (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 relative to NN Group N.V.'s IDR, which was based on minus two notches for recovery and minus one notch for non-performance risk.

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

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	Grandfathering status	Amount (EURm)	CAR Fitch (%)	CAR reg. override (%)	FLR debt (%)
NN Group N.V.					
4.63% Tier 2 callable subordinated	Grandfathered for S2	1,000	0	100	100
4.38% Restricted Tier 1 perpetual callable subordinated	Grandfathered for S2	750	0	100	100
4.5% Restricted Tier 1 perpetual callable subordinated	Grandfathered for S2	1,000	0	100	100
4.63% Tier 2 callable subordinated	-	850	0	100	100
Nationale-Nederlanden Levensverzekering Maatschappij N.V.					
9% Tier 2 callable subordinated	Grandfathered for S2	500	0	100	100

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

Corporate Governance and Management

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

Transfer and Convertibility Risk (Country Ceiling)

None.

Criteria Variations

None.

Appendix B: Environmental, Social and Governance Considerations

Credit-Relevant ESG Derivation

Credit-Relevant ESG Derivation			Overall ESG Scale		
NN Group N.V. has 7 ESG potential rating drivers					
<ul style="list-style-type: none"> ➔ 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. ➔ 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. ➔ 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. ➔ Governance is minimally relevant to the rating and is not currently a driver. 	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.	
Energy Management	1	n.a.	n.a.	
Water & Wastewater Management	1	n.a.	n.a.	
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	
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	

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.

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.	
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	
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Corporate Governance & Management	
Employee Wellbeing	1	n.a.	n.a.	
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	

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Corporate Governance & Management; Business Profile	
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	
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Corporate Governance & Management; Ownership	
Financial Transparency	3	Quality and timing of financial reporting and auditing processes	Corporate Governance & Management	

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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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