FitchRatings

Insurance
Life Insurers
United States

Pacific LifeCorp

And Operating Subsidiaries

Key Rating Drivers

Strong Business Profile: Pacific LifeCorp, along with its insurance subsidiaries, collectively referred to as PLC, is one of the leading providers of individual life insurance and retirement savings products in the U.S. The company maintains a strong competitive position within the affluent market and benefits from an extensive distribution network. PLC has made meaningful progress in diversifying its revenues and earnings away from legacy variable annuities (VAs).

Very Strong Statutory Capital: Fitch Ratings views the capitalization of Pacific Life Insurance Company (PLIC), PLC's key operating subsidiary, as very strong based on its RBC ratio of 635% and a Prism score of 'Very Strong' at YE 2019. PLIC's total adjusted capital (TAC) increased 6% through YE 2019 to $11.3 billion. PLC's financial leverage ratio remained flat at 15%. PLC's total financing and commitments (TFC) ratio improved significantly to 0.7x at YE 2019 from 1.2x at YE 2018, primarily due to the sale of its asset-intensive aircraft leasing subsidiary late in 2019.

Reduced RBC Volatility: PLC diversified and de-risked its product portfolio and strengthened its VA hedging program, which should diminish its capital impact from significant equity market deterioration. The company also reinsures a portion of its VA business to third-party reinsurers.

Strong Earnings: In 2019, PLC reported net income of $728 million, down from the $916 million reported in 2018. The results reflect strong investment performance and a gain on the sale of PLC's aircraft leasing subsidiary offset by adverse mortality experience, the negative effect of lower interest rates on reserves and deferred acquisition costs, lower fees and spreads, losses on static hedges and some actuarial and assumption changes.

Moderate Investment Risk: Fitch views the overall quality of PLC's investment portfolio as generally good, but notes the company's above-average exposure to corporate bonds rated 'BBB' could have a material effect on earnings and capital in a severe credit market downturn.

Coronavirus Pandemic: Fitch expects PLC will experience a modest degree of capital and earnings-related pressure over the near term as a result of the coronavirus pandemic. Such pressures surround a persistent low interest rate environment and investment-related losses amplified by ratings migration risk within the fixed-income portfolio. Longer-term concerns include the potential for a prolonged, steep macroeconomic downturn, changes in policyholder behavior and low interest rates that will persist for multiple years.

Rating Sensitivities

Pandemic Impact: The ratings remain sensitive to any material change in Fitch's rating case assumptions with respect to the coronavirus pandemic.

Business Risk: A material change in business risk profile that indicates a risk appetite lower than the life insurance sector as a whole could lead to an upgrade.

Financial Metrics: ROE above 10%, financial leverage of 15% or less, and a TFC ratio of 0.8x or below would put positive pressure on the rating. Deterioration in capitalization demonstrated by a Prism capital model score below 'Very Strong' or significant earnings and capital volatility, such as a 10% or more drop in TAC, could result in a downgrade. An increase in financial leverage at or above 20% or a TFC ratio above 1.2x could also result in a downgrade.

Ratings

Pacific LifeCorp	
IDR	A
Senior Unsecured Debt	A–
Pacific Life Insurance Company	
Pacific Life & Annuity Company	
Pacific Life Re Limited	
Insurer Financial Strength	AA–

Note: See additional ratings on page 10.

Outlook

Stable

Financial Data

Pacific LifeCorp

($ Mil.)	2018	2019
Total Assets	157,694	171,471
Shareholders' Equity	12,177	15,601
Net Income	916	728
Operating ROE (%)	6.8	6.9
Financial Leverage Ratio (%)	15	15

Note: Reported on a GAAP basis.
Source: Fitch Ratings, Pacific LifeCorp.

Applicable Criteria

Insurance Rating Criteria (August 2020)

Related Research

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

U.S. Life Insurers' Investment Portfolios (Results of Fitch's YE 2019 Survey) (October 2020)

U.S. Life Insurers' Commercial Mortgage Update (Mortgage Loan Forbearance Activity Moderate, but Elevated Losses Expected) (September 2020)

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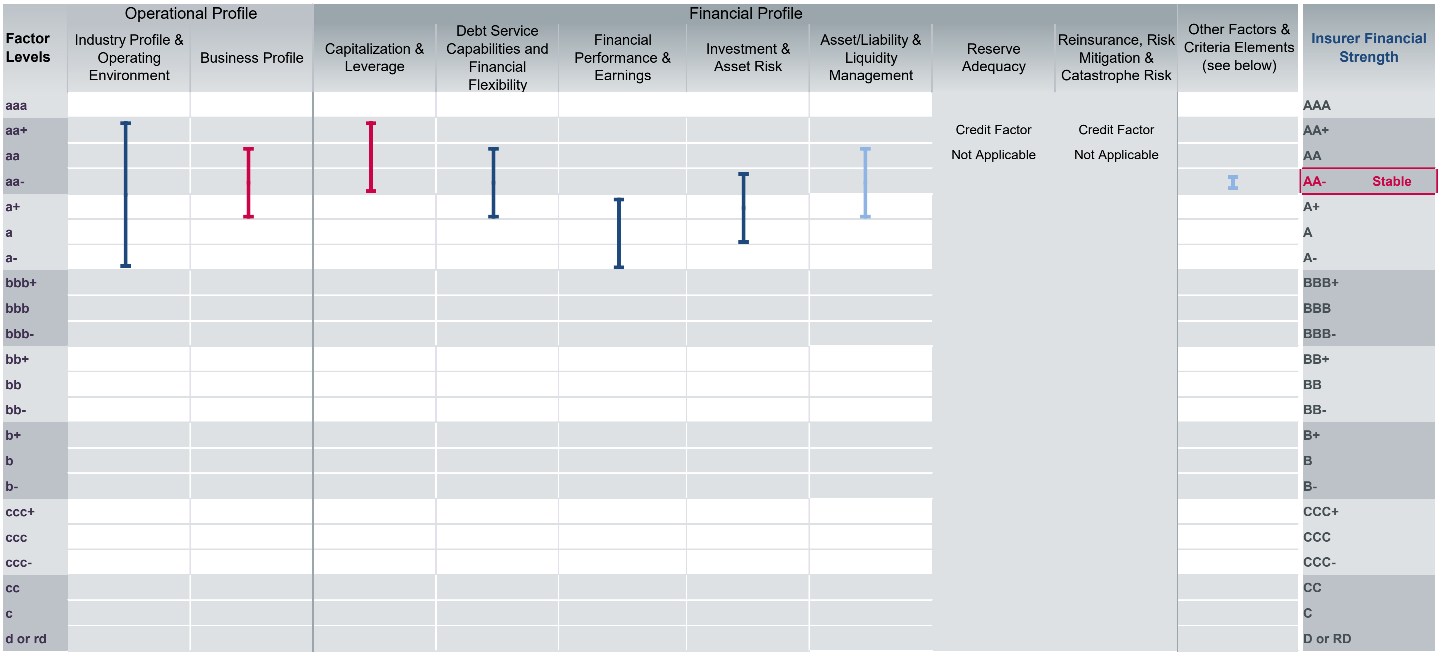
Key Credit Factors — Scoring Summary



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

- On Dec. 5, 2019, Pacific LifeCorp announced it sold its remaining 75.5% interest in Aviation Capital Group (ACG) to Tokyo Century Corporation, which now owns 100% of ACG.

Industry Profile and Operating Environment (IPOE)

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

Business Profile

Overall Favorable Business Profile

PLC is a well-diversified company, with substantial size and competitive positioning, all attributes Fitch views as “favorable” (i.e. consistent with the ‘AA’ rating category). These favorable attributes are partially offset by a “moderate” (i.e. consistent with the ‘A’ rating category) business risk profile. Fitch believes PLC’s business risk profile is improving as more volatile product lines are replaced with less volatile products. Overall, Fitch considers PLC’s business profile to be favorable.

PLC has a substantive business franchise with many competitive advantages. The company ranks among the 20 largest U.S. life insurers, measured in terms of admitted assets or surplus. PLC’s YE 2019 total assets were $153 billion while surplus exceeded $10 billion. PLC is a top 10 U.S. annuity writer, scoring in the top 10 for VAs and fixed annuities (FAs). PLC is also a top-10 writer of individual life insurance. The company has a solid competitive position in the affluent and emerging affluent markets, and is establishing a presence in the middle market.

Fitch considers PLC’s risk appetite to be on par with the industry as a whole. In recent years, the company changed its focus to more established, less volatile, lines of business.

PLC has diversified its product portfolio by reducing its exposure to legacy VAs with more feature-rich guarantee riders and increasing its emphasis on FAs, investment-only VAs (IOVA) and indexed universal life (IUL) products, as well as growing its institutional and life reinsurance business. PLC’s life insurance sales are predominantly IUL, followed by variable UL and life insurance with long-term care benefits. Universal life with no-lapse guarantee (ULNLG) sales account for approximately 1% of total life sales. PLC’s institutional business offers pension risk transfer, institutional annuities, stable value and institutional investment products.

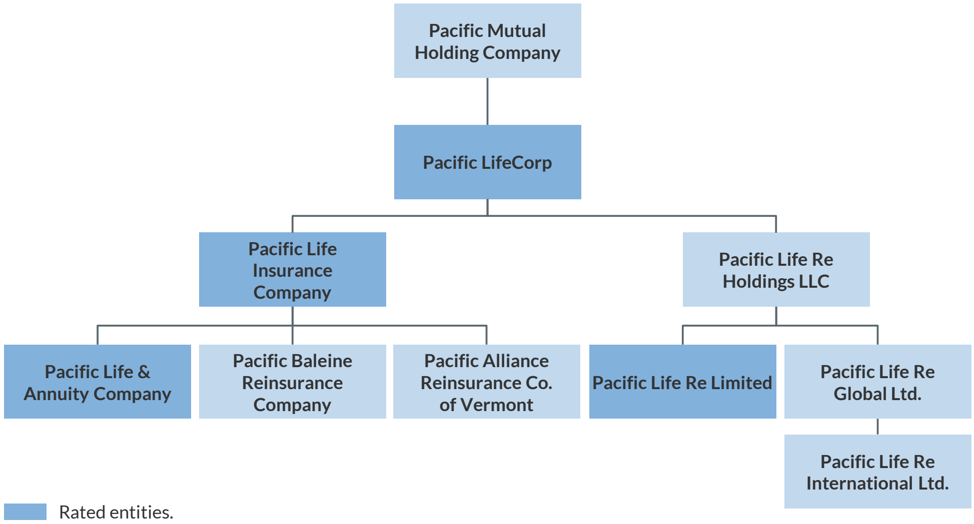
Fitch believes PLC is well diversified by business line, geography and distribution channel. PLC focuses on diverse, third-party, independent distribution channels as opposed to captive distribution. In addition to direct sales of products in the U.S. market, Pacific Life Re Limited (PLRL), a wholly owned subsidiary of PLC, reinsures mortality, morbidity and longevity risks primarily in Europe, Asia and Australia.

Ownership

PLC is an intermediate holding company formed in 1997 as the result of the conversion of PLIC to a mutual holding company structure. PLC is owned by Pacific Mutual Holding Company, a mutual holding company formed as a part of the conversion. Pacific Mutual Holding Company must always own at least 51% of PLC, and PLC must always own 100% of PLIC.

Fitch believes a mutual ownership structure has fewer conflicts in owner and creditor interest and has generally allowed management to hold more conservative levels of capital. During the financial crisis, mutual insurers generally benefited from having a stronger capital buffer than stock insurers more focused on growth and return targets.

Simplified Organization Chart — Pacific LifeCorp



Source: Fitch Ratings, Pacific LifeCorp.

Capitalization and Leverage

Statutory Capital Is Very Strong, TFC Ratio Declined

PLC's insurance subsidiaries are very strongly capitalized on a statutory basis. Financial leverage is consistent with the rating category.

The statutory capitalization of PLC's insurance subsidiaries exceeds expectations for the rating level. As of Dec. 31, 2019, the company reported TAC of $11.3 billion, representing a five-year CAGR of 7.5%. This was primarily driven by improved operating results and unrealized investment gains. The company's Prism capital model score was 'Extremely Strong' at YE 2019.

Fitch views PLC's financial leverage as consistent with rating expectations. Of the $2.3 billion of financial debt outstanding, $1.3 billion was issued by PLIC in the form of surplus notes. As of Dec. 31, 2019, the ratio of surplus notes to TAC was 11%, below Fitch's tolerance of 15%. As a result, the ratings on the surplus notes reflect standard notching.

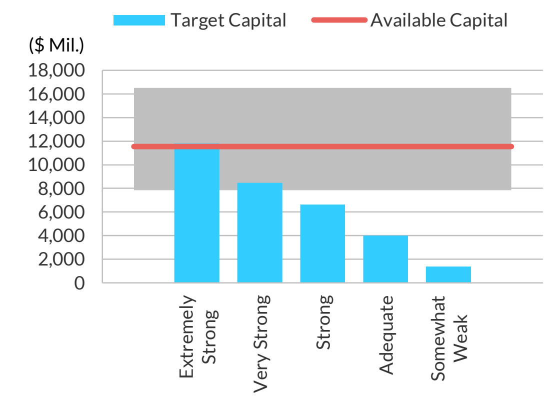
PLC's TFC ratio previously was high relative to peers. However, following the sale of ACG, PLC's TFC ratio declined substantially to 0.7x at Dec. 31, 2019 from 1.2x as of Dec. 31, 2018. The TFC ratio also includes $1.644 billion of financing instruments outstanding for Pacific Alliance Reinsurance Company of Vermont (PAR Vermont), PLRL and Pacific Baleine Reinsurance Company.

Financial Highlights

($ Mil.)	2018	2019
Total Adjusted Capital	10,661	11,261
RBC (%)	552	635
Asset Leverage (x)	13	14
Operating Leverage (x)	7	7
Financial Leverage (%)	15	15

Note: Reported on a statutory basis, except financial leverage, which is GAAP basis.
Sources: Fitch Ratings, Pacific LifeCorp, S&P Global Market Intelligence.

2019 Prism Score — Pacific LifeCorp



(%)	2019
Prism Score	Very Strong
AC/TC at Prism Score	136
Target Capital Contributors	
Life Insurance	33
Annuity	57
Accident and Health	0
Portfolio Scaling Adjustment	15
Operational Risk	9
Diversification Benefit	(14)

AC – Available capital. TC – Target capital. Note: Shaded area represents the high and low of AC due primarily to unrealized gains and surplus notes.
Source: Fitch Ratings.

Fitch Expectations

- Assuming stable equity markets, PLIC's RBC ratio is expected to remain near 600%.
- Financial leverage is expected to decrease modestly in the near to intermediate term due to growth in shareholders' equity.
- TFC is expected to remain below 1x in the near term.

Debt Service Capabilities and Financial Flexibility

Strong Coverage and Adequate Financial Flexibility

PLC's interest coverage is in line with expectations. The company has adequate financial flexibility and limited refinancing risk. Backup liquidity is in place.

PLC's GAAP interest coverage is strong for the current rating level, in the 9x–10x range. Based on statutory dividend rules, PLIC's maximum dividend capacity to its parent without regulatory approval in 2020 was $869 million, which Fitch considers to be a very strong source of debt-servicing capability. Additionally, PLC targets holding company cash levels equivalent to at least 2x interest expense, which Fitch views favorably.

Given its ownership structure, Fitch views PLC's future financial flexibility as somewhat constrained given the limited access to external equity capital. The company has demonstrated the ability to access debt markets through its issuance of surplus notes and senior debt.

PLC has no near-term refinance risk, with the majority of its debt maturing after 2030. The company's next debt maturity is $134 million of surplus notes due 2023. Other liquidity sources include PLC's $600 million revolving credit facility in place through June 2023.

PLIC maintains a $700 million CP program, which is backed by a $400 million bank line of credit maturing in June 2023. As of Dec. 31, 2019, there were no outstanding borrowings under these facilities. The insurance companies have access to funding from the Federal Home Loan Banks (FHLB) of Topeka and San Francisco, which depend on the value of the qualifying collateral. As of Dec. 31, 2019, the company had $102 million of funding agreements issued with the FHLB of Topeka and no debt outstanding with the FHLB of San Francisco.

Fitch Expectations

- GAAP interest coverage will be in the 8x–10x range.
- Statutory interest coverage will remain above the median ratio guideline for a company rated 'AA–'.

Financial Highlights

($ Mil.)	2018	2019
Adjusted Interest Expense	125	124
GAAP Interest Coverage (x)	9.6	10.2
Maximum Statutory Dividend Capacity	927	869
Statutory Interest Coverage (x)	14.7	13.8

Note: GAAP interest coverage consists of pretax operating earnings before interest divided by adjusted interest expense. Statutory interest coverage consists of maximum statutory dividend capacity divided by adjusted interest expense, less interest paid on surplus notes. Adjusted interest expense excludes loss on debt extinguishment and interest on operating debt, match-funded and Aviation Capital Group debt.
Sources: Fitch Ratings, Pacific LifeCorp.

Debt Maturities

($ Mil., as of Sept. 30, 2020)	
2021	0
2022	0
2023 and Later	3,010
Total	**3,010**

Source: Fitch Ratings, Pacific LifeCorp.

Financial Performance and Earnings

Less Volatile Earnings Profile

PLC's product diversification reduces earnings volatility. The company has a sizable, but shrinking, legacy VA block of business.

Fitch views PLC's earnings profile as moderate and in line with rating guidelines at the current level. The company's earnings remain exposed to market volatility and low interest rates remain a modest drag on returns. However, business growth in less market-sensitive products and businesses and enhanced hedging strategies reduce earnings volatility. Fitch expects earnings levels to be constrained by hedging costs and lower investment yields. GAAP ROE is expected to remain in the 6%–8% range in the intermediate term. For 2019, PLC reported a GAAP operating ROE of 6.9%.

Longer term, Fitch expects PLC's policyholder account balances to become more balanced between interest rate, mortality and equity market risk. PLC remains focused on growing protection risk through primary insurance or reinsurance and increasing fee-based revenue by growing its asset management business.

PLC's large VA exposure contributed to GAAP and statutory earnings volatility during prior years, due to reserve increases associated with equity market volatility and declining interest rates. Fitch believes risk mitigation practices will limit losses in a severe scenario.

Fitch Expectations

- Fitch expects volatility in operating results in the short term. In the longer term, operating return on TAC is forecast to remain in the 8%—11% range and ROE on a GAAP basis is forecast to be in the 7%—9% range.

Financial Highlights

($ Mil.)	2018	2019
Pretax Gain from Operations	735	835
Net Income	888	1,708
Pretax Return on Total Assets Post-Dividend (%)	0.54	0.58
Operating Return on TAC (%)	9.2	8.0
Growth in Revenue Before Realized Gains (%)	19.7	15.8

TAC – Total adjusted capita. Note: Reported on a statutory accounting basis.
Sources: Fitch Ratings, Pacific LifeCorp, S&P Global Market Intelligence.

Investment and Asset Risk

Moderate Investment Risk

PLC has a high-quality corporate bond portfolio and below-average risky assets. PLC's commercial mortgages and real estate investments are performing well.

PLC's bond portfolio is heavily weighted toward corporates with a modest 4% of the portfolio below investment grade. PLC's above-average exposure to corporate bonds rated 'BBB' make it susceptible to credit migration in a market downturn. Fitch believes the corporate portfolio is well diversified between sectors.

PLC's investment strategy for commercial mortgage loans and real estate emphasizes niche property types, exhibiting stable fundamental characteristics and allow PLC to employ conservative underwriting standards. As a result of this strategy, PLC's capital losses as a percentage of mortgage assets remain lower than the industry. Fitch believes the portfolio is well managed and diversified by property type. PLC's largest exposures within the commercial mortgage portfolio are apartment and office buildings and retail. This asset class is increasingly competitive as insurers attempt to augment low-yielding bonds.

PLC's risky asset ratio is nearly half of the life insurance industry, reflecting below-average exposure to equities; below-investment-grade bonds; and Schedule BA assets, including private equity investments and hedge funds. PLC's risky asset ratio declined materially in 2019 following the sale of ACG, which was recorded in the statutory financial statements as a Schedule BA asset. The company's investment strategy largely reflects asset/liability management considerations.

Fitch Expectations

- No significant changes are expected in PLC's investment portfolio.
- Credit-related losses are forecast to remain below long-term averages. PLC's investment yield volatility is due to derivative accounting for hedges on VA risks.

Financial Highlights

	2018	2019
Cash and Invested Assets ($ Mil.)	79,291	90,526
Below-Investment-Grade Bonds/TAC (%)	22	22
Risky Assets Ratio (%)	69	59
Investment Yield (%)	3.98	4.80
Average NAIC Rating on Bonds	1.7	1.6

TAC – Total adjusted capita. Note: Reported on a statutory accounting basis.
Sources: Fitch Ratings, Pacific LifeCorp, S&P Global Market Intelligence.

Asset/Liability and Liquidity Management

Asset/Liability and Liquidity Management Are Very Strong

The company has a robust VA hedging program in place and has partially reinsured its VA exposure. Vermont captive insurers are used for the bulk of the company's ULNLG business. Cash flow testing results have been favorable. There is minimal disintermediation risk.

Fitch positively views the company's strengthened VA hedging program, which should lessen the capital impact and smooth GAAP net income if equity markets experience significant deterioration. The company has a VA dynamic hedging program to reduce GAAP earnings volatility. The company's FIA hedge program utilizes both static and dynamic hedging.

PLIC uses wholly owned subsidiaries, PAR Vermont and Pacific Baleine, to reinsure certain reserves related to the ULNLG business and takes reserve credits that enhance the company's capital position. Statutory reserves ceded to PAR Vermont are supported by an excess of loss reinsurance arrangement with an unrelated third party. Statutory reserves ceded to Pacific Baleine are supported by a note facility, which is credit enhanced by a third-party reinsurer, and held in a reinsurance trust for the benefit of PLIC.

Fitch views PLC's asset/liability management practices to be strong. For 2019 cash flow testing, both insurance operating companies passed all "New York 7" interest rate scenarios. As of Dec. 31, 2019, the company's net duration mismatch in aggregate was just under one year, within its target limit of less than 1.5 years.

Fitch believes PLC's fixed products are well protected against product withdrawal risks due to contract provisions, duration and cash flow matching, and disciplined investment processes. Approximately 85% of the company's general account annuity reserves and deposit liabilities are subject to market value adjustments, surrender charges equal to or above 5%, or not subject to discretionary withdrawal, discouraging surrender and protecting PLC from liquidity risks.

Financial Highlights

	2018	2019
Liquidity Ratio (%)	64.7	69.8
Operating Cash Flow Coverage (x)	1.7	2.1
Public Bonds/Total Bonds (%)	60.4	59.6
Total Adjusted Liabilities ($ Mil.)	124,923	141,646

Note: Reported on a statutory accounting basis.
Sources: Fitch Ratings, Pacific LifeCorp, S&P Global Market Intelligence.

Fitch Expectations

- PLC's liquidity metrics will remain strong and operating cash flow coverage will remain extremely strong.
- PLC's ratio of public bonds to total bonds will remain below the industry average.

Appendix A: Peer Analysis

PLC Fits Well in the 'AA–' Category

PLC fits well with other life and asset accumulation writers in the 'AA–' category. The company's capitalization, as defined by RBC and leverage metrics, is significantly stronger than 'A+' peers. Historically, PLIC's reported RBC exhibited more volatility than peers due to its decision to retain a vast majority of VA risk while most VA writers reinsured all VA riders to captives. Currently, the company reinsures a portion of its VA business to third-party reinsurers. PLC's profitability trails stock peers, which are more return-focused, but exceeds mutual peers. PLC's product profile is somewhat riskier than most mutual life insurers in Fitch's universe. The company has less asset risk than peers.

Peer Comparison

($ Mil., as of Dec. 31, 2019)	IFS Rating	TAC	RBC (%)	Asset Leverage (x)	Operating Leverage (x)	Financial Leverage Ratio (%)	Pretax ROA Post-Dividend (%)	Operating Return on TAC (%)	Risky Assets/ TAC (%)
Pacific LifeCorp	AA–	11,261	635	14	7	15	0.58	8	59
Lincoln National	A+	9,733	439	30	12	28	0.21	5	52
Principal	AA–	6,436	410	33	12	24	0.58	16	85
Prudential	AA–	20,624	426	31	15	28	0.10	2	72
Securian	AA	3,487	493	17	7	11	(0.14)	(3)	53

IFS – Insurer Financial Strength. TAC – Total adjusted capital. Note: Statutory accounting principles, except for financial leverage. Asset leverage consists of statutory assets divided by TAC. Operating leverage consists of statutory liabilities divided by TAC.
Source: Fitch Ratings, company financials, S&P Global Market Intelligence.

Appendix B: Other Ratings Considerations

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

Group IFS Rating Approach

Fitch's rating on Pacific Life & Annuity Company (PL&A) is based on the relationship with PLIC, and reflects Fitch's view that PL&A is a Core operating company within the organization. The two entities share common management, resources and branding.

PLC owns London-based PLRL. To help support PLRL, a guarantee agreement exists between PLRL and PLC. In the agreement, obligations of PLRL align with the senior unsecured obligations of PLC. A second guarantee agreement was put in place between PLIC and PLRL in March 2010 that would only be triggered in the event of nonperformance by both PLRL and PLC. PLRL's ratings are tied to PLIC's ratings based on this support agreement.

Notching

For notching purposes, the regulatory environment of the U.S. is assessed by Fitch as being Effective and classified as following a Ring-Fencing 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 ring-fenced regulatory environment. No adjustments were made for financial leverage, coverage or significant holding company liquidity.

Holding Company Debt

A baseline recovery assumption of Below Average and nonperformance risk of Minimal were applied to the senior unsecured debt. Standard notching relative to the IDR was used.

Hybrids

Since PLIC's financial leverage ratio is below 15%, its surplus notes were notched down by one from the IDR of the insurance company on an assumption of Below Average recoveries (one notch), and Minimal nonperformance risk (zero notches). Regulators have historically appeared hesitant to impose deferrals on these instruments except under relatively severe stress.

IFS – Insurer Financial Strength. IDR – Issuer Default Rating.

Short-Term Ratings

The holding company Short-Term Issuer Default Rating (IDR) was notched using standard long-term and short-term rating equivalencies, per Fitch criteria. The CP program is supported by bank backup facilities.

The operating company's Short-Term IDR was notched using standard long-term and short-term ratings equivalencies, per Fitch criteria.

Hybrids Treatment

Hybrid	Amount ($Mil.)	CAR Fitch (%)	CAR Reg. Override (%)	FLR Debt (%)
Pacific Life Insurance Company				
Surplus Notes	1,268	0	100	100

CAR – Capitalization ratio: FLR – Financial leverage ratio. Note: CAR % shows portion of hybrid value included as available capital, both before (Fitch %) and the regulatory override. 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.

Core Insurance Subsidiaries

Pacific Life Insurance Company
Pacific Life & Annuity Company
Pacific Life Re Limited

Insurer Financial Strength Rating	AA–

Transfer and Convertibility Risk (Country Ceiling)

None.

Criteria Variations

None.

Appendix C: Environmental, Social and Governance Considerations

FitchRatings **Pacific LifeCorp**

Insurance Ratings Navigator
Life Insurance (US)

Credit-Relevant ESG Derivation

Pacific LifeCorp has 6 ESG potential rating drivers

- Pacific LifeCorp has exposure to compliance risk; treating customers fairly; pricing transparency; privacy/data security; legal/regulatory fines; exposure to own cyber risk but this has very low impact on the rating.
- Pacific LifeCorp 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	6	issues	3
not a rating driver	2	issues	2
	6	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	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events/natural catastrophes on operations or asset quality; credit concentrations	Financial Performance & Earnings; 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 own cyber risk	Industry Profile & Operating Environment; Business Profile	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 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

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or 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.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.