FitchRatings

ProAssurance Corporation

And Insurance Subsidiaries

Key Rating Drivers

Proposed Acquisition Net Negative: ProAssurance Corporation (PRA) announced in February 2020 a proposal to acquire NORCAL Group (unrated by Fitch) for approximately $450 million with an anticipated close late 2H20. Fitch Ratings has concerns about growth in the medical professional liability insurance (MPLI) business as the industry is experiencing deteriorating profitability and reserve strength.

The transaction is expected to increases PRA's financial leverage, though financing terms are still being actively worked. Fitch anticipates that any increase in financial leverage will not be above 30% and will be temporary.

Modest Coronavirus Impact: Favorably, the company repositioned its asset portfolio in early 1Q20 to where the risky asset ratio was 35%, compared with 56% at YE 2019. From an underwriting perspective, the company did establish a $10 million incurred but not reported (IBNR) reserve in 2Q20, which was 1.7 points on the YTD combined ratio.

Healthcare professional liability (HCPL), the company's largest segment with approximately 60% of 1H20 earned premiums, was affected by provider closures and mitigations from state and federal liability immunity regulations.

Profitability Weakens: PRA's calendar-year combined ratio for the nine months ended Sept. 30, 2020 was 116% versus 119% for 2019. At YE 2019, PRA had the eighth consecutive year of calendar-year performance deterioration. On an accident-year basis, results deteriorated as well. The company is actively re-underwriting the book of business. Returns on capital are inconsistent with prior rating expectations and have been poor enough to cause operating fixed-charge coverage ratios to turn negative.

Reserve Strength Diminished: PRA reported $12 million in favorable reserve development in 2019, or approximately 1% of prior-year equity, markedly lower relative to 2015–2018 that averaged approximately 7% of prior-year equity. MPLI reserves are inherently long tail and difficult to predict.

While Fitch believes PRA's reserves will continue to display prudence, the absolute level of favorable reserve development is anticipated to be neutral. Adding NORCAL will expand the exposure to MPLI reserves, which is somewhat offset by recent substantial reserve strengthening by NORCAL and a purchase price that represents a significant discount to statutory surplus.

Rating Sensitivities

Pandemic Assumptions: The ratings remain sensitive to any material change in Fitch's rating case assumptions with respect the coronavirus pandemic. Periodic updates to our assumptions are possible given the rapid pace of changes in government actions and the pace with which new information is available on the medical aspects of the outbreak.

Resolution of Rating Watch: Fitch will resolve the Rating Watch status upon closing or financing of the NORCAL transaction. Further unanticipated large losses prior to closing within PRA or NORCAL, or other factors that reduce longer term performance expectations for the combined organization, could to lead to a downgrade. If Fitch's assessment of the combined organization and financing are within rating tolerances, Fitch will likely affirm all ratings with Negative Outlook.

Upgrade Unlikely: A near-term rating upgrade is unlikely given the concentration to MPLI and concerns about profitability and reserves. However, a sustained underwriting profit and neutral to favorable reserve development could lead to an upgrade.

Ratings

ProAssurance Corporation

Long-Term IDR	BBB
Senior Unsecured	BBB–
Subsidiaries	
Insurer Financial Strength	A–

Watch

Negative

Financial Data

ProAssurance Corporation

($ Mil., GAAP)	2018	2019
Net Income	47	1
Shareholders' Equity	1,523	1,512
Calendar-Year Combined Ratio (%)	101.5	118.9
Accident-Year Combined Ratio (%)	112.7	120.3

Source: Fitch Ratings, ProAssurance Corporation SEC filings.

Applicable Criteria

Insurance Rating Criteria (August 2020)

Related Research

ProAssurance Corporation – Ratings Navigator (November 2020)

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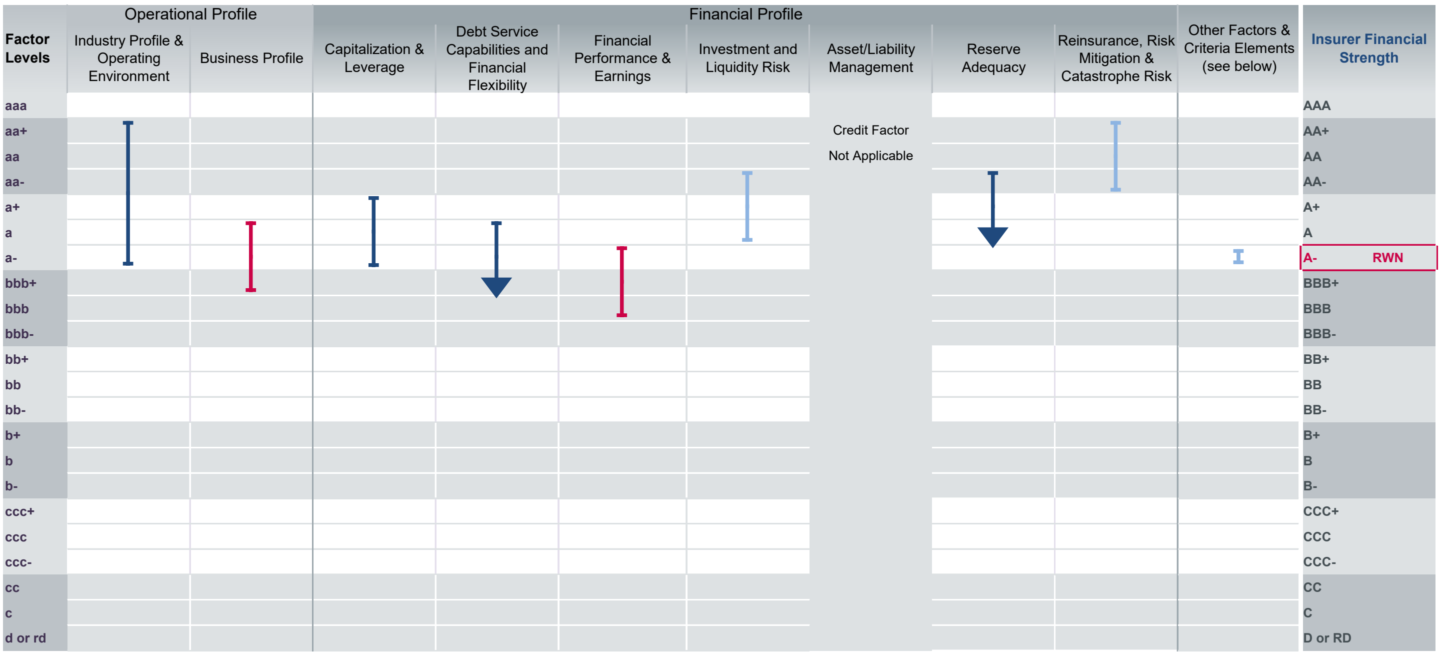
Key Credit Factors — Scoring Summary



Other Factors & Criteria Elements				
Provisional Insurer Financial Strength				**A-**
Non-Insurance Attributes	Positive	**Neutral**	Negative	+0
Corporate Governance & Management	**Effective**	Some Weakness	Ineffective	+0
Ownership / Group Support	Positive	**Neutral**	Negative	+0
Transfer & Convertibility / Country Ceiling	Yes	**No**	AAA	+0
Insurer Financial Strength (IFS)			Final:	**A-**
IFS Recovery Assumption	**Good**			-1
Issuer Default Rating (IDR)			Final:	**n.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

- The company announced in February 2020 that it signed a definitive agreement to acquire NORCAL Group., representing one of the largest MPLI transactions PRA has executed.
- The company announced a $161 million pretax goodwill impairment charge in 3Q20 related to prior acquisitions in the MPLI space.

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

Moderate Profile

PRA is a specialty property/casualty (P/C) insurer based in Birmingham, AL. The company was traditionally focused on the MPLI market, growing through numerous acquisitions of other MPLI specialists. Changing fundamentals in MPLI led the company to seek diversification opportunities, deploying retained earnings from past underwriting success into other P/C segments, including: workers' compensation, other professional liability lines and internationally in the Lloyd's of London market.

Fitch ranks PRA's business profile as moderate compared with all other U.S. non-life insurance companies, due to the company's leading business franchise, diversification and risk profile. Given this ranking, Fitch scores PRA's business profile at 'a' under its rating guidelines and it carries a moderate weight.

Moderate Competitive Positioning

Competitive positioning is comprised of two subfactors: general and operating scale. Together these factors aggregate into a moderate position. PRA has a substantive business franchise within the sector and some competitive advantages that are, in part, derived from its franchise and expertise in healthcare professional liability. As of YE 2019, the company had approximately $843 million of net written premiums and $1.5 billion of equity.

Moderate Business Risk Profile

PRA's risk profile is on par to with the sector, but it does operate in volatile lines of business in MPLI. Over the past 30 years, the MPLI industry loss ratios were as high as 138% and as low as 54%. This volatility, coupled with the longer-duration MPLI reserves, is representative of the inherent underwriting risk of the MPLI product. PRA's workers' compensation business focuses on lower-risk occupational classes and has administrative and claims management capacities that lead to shorter-duration losses than many peers in this segment that in turn reduces risk of adverse reserve development.

Ownership Is Neutral to Rating

ProAssurance Corporation is publicly traded on the New York Stock Exchange under the ticker PRA. Public ownership is neutral to the rating.

Capitalization and Leverage

Capital Is Strong

Fitch views PRA's capital to be strong and supportive of the current rating category. Overall capital has a moderate influence in determining the company's ratings.

PRA's capital metrics deteriorated over time due to the company returning approximately $1.5 billion to shareholders via share repurchases and both regular and special dividends since 2014. Management has a target of 0.75x operating leverage.

Financial leverage has been steady for the last several years, but increased with the goodwill impairment, which is anticipated to increase to the mid to upper 20% range after the NORCAL transaction, still within rating tolerances. GAAP equity declined by 12% in 2020. The company is expected to have the capacity to withstand capital volatility in the continuing pandemic.

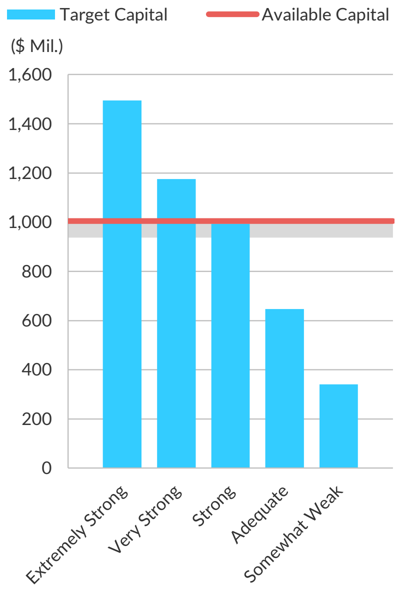
PRA scored 'Strong' on Fitch's Prism capital model based on YE 2019 results. This is the second consecutive 'Strong' score. Primary drivers for target capital (TC) are underwriting, investment, and reserves. Favorably the company does not have meaningful natural catastrophe-related exposures or latent claims, such as asbestos, contributing to TC. The Prism score is more conservative than traditional nonrisk-adjusted capital metrics. Fitch believes that Prism captures several risks — such as underwriting and reserve volatility, coupled with profitability expectations — giving a more comprehensive view of capital.

Financial Highlights

($ Mil.)	2018	2019
Total Capital	1,812	1,798
Financial Leverage Ratio (%)	16	16
Net Premium Written/ Common Equity (x)	0.6	0.6
Net Leverage (x)	2.1	2.3
Total Assets/ Common Equity (x)	3.0	3.2
RBC (%)	312	271

Note: GAAP accounting principles. Common equity excludes FAS 115 and shadow reserve adjustments. RBC is on company action level and on a consolidated basis.
Source: Fitch Ratings, S&P Global Market Intelligence.

2019 Prism Score — ProAssurance Corporation



($ Bil.)	2017	2018	2019
Prism Score	Very Strong	Strong	Strong
AC/TC at Prism Score (%)	121	116	106
AC/TC at Higher Prism Score (%)	91	98	89
Statutory Surplus	1.2	1.0	0.9
Affiliated Investments	(0.0)	(0.0)	(0.0)
Unrealized Bond Gains/(Losses)	0.0	(0.0)	0.0
Other Adjustments	0.0	0.0	0.0
Available Capital (AC Base)	1.2	1.1	1.0
Target Capital Contributors (%)			
Underwriting	27	23	37
Reserves	21	25	13
Investments	26	29	26
Catastrophe	5	4	4
Other	21	19	20

AC – Available capital. TC – Target capital. Note: Red line is AC base; shaded area represents the high and low of AC due primarily to unrealized bond gains/(losses).
Source: Fitch Ratings.

Fitch Expectations

- Operating leverage will remain below 0.8x over the long term.
- Financial leverage will not exceed 28% over the long term.
- The Prism score will remain 'Strong' or better going forward.

Debt Service Capabilities and Financial Flexibility

Strong Financial Flexibility and Coverage

Fitch views PRA's financial flexibility and debt service capabilities to be strong but declining. Overall capital has a moderate influence in determining the company's ratings.

Fixed-charge coverage declined sharply over the last several years largely tied to the deterioration in profitability. Declining profits over time are a function of reduced favorable reserve development and a higher underlying loss ratio on underwriting results. Fitch anticipates fixed-charge coverage to at best move towards the low- to mid-single-digit range over the near term.

PRA could pay $88 million to the holding company in 2020 from the operating companies without seeking regulatory approval for extraordinary dividends. This compares favorably with the modest amount of annual interest expense. As of Dec. 31, 2019, PRA held $280 million of cash and investments outside of the insurance company subsidiaries that were available for use without prior regulatory approval of which $17 million was used to pay shareholder dividends in January 2020.

Fitch Expectations

- Fixed-charge coverage will range from low- to mid-single-digit range over the near term.
- The holding company will maintain at least one year's worth of expenses in cash.

Financial Performance and Earnings

Adequate Profitability

Fitch views PRA's financial performance and earnings to be adequate and supportive of the current rating category. Overall profitability has a high influence in determining the company's ratings.

Strong calendar-year combined ratios in prior years were attributable in large part to significant favorable, prior-period loss reserve development. Reserve development, while still positive, diminished significantly, adding pressure on profitability. The company reported a large underwriting loss in 2019, thus reporting a combined ratio of 119%, which has not improved as of YTD is 116%. Accident-year underwriting results show a general flat to deteriorating trend, with an accident-year combined ratio of 122% for nine months ended Sept. 30, 2020.

Management notes that there is a national trend of higher severity tied to more frequent large legal settlements and jury verdicts in MPLI claims that is boosting current period loss ratios. Fitch expects this trend to continue in the near term with calendar-year combined ratios approximating 107%–110% as premium rate increases are prevalent in the MPLI market in 2020, but at a rate not likely in excess of current loss trends.

NORCAL's underwriting performance and profitability was worse than PRA's in recent years, including a statutory combined ratio of 103% and 176% in 2018 and 2019, respectively, and a net income of $50 million in 2018 and a net loss of $211 million in 2019. The acquisition does expand the scale and geographic scope of PRA's underwriting portfolio. These attributes, along with diversification in other specialty lines, allows for greater flexibility relative to other MPLI specialists to withdraw or pull back from overly competitive or difficult local markets as the company re-underwrites and reprices substantial portions of its business to restore profits.

Fitch Expectations

- Near-term expectations for underwriting results are a GAAP calendar-year combined ratio that approximates 107%–110%.
- The operating ratio is expected to gravitate towards 100%.

Financial Highlights

($ Mil.)	2018	2019
Holding Company Cash and Investments	180	215
Cash Flows from Operations	177	148
Interest Expense	16	17
Fixed-Charge Coverage (x)	6	NM
Statutory Interest Coverage (x)	8	5

NM – Not meaningful. Note: GAAP.
Source: Fitch Ratings, S&P Global Market Intelligence.

Debt Maturities

($ Mil., as of Dec. 31, 2019)	
2020	0
2021	0
2022	0
2023	250
2024	0
2025 or Later	38

Source: Fitch Ratings, ProAssurance Corporation.

Financial Highlights

($ Mil.)	2018	2019
Net Premiums Earned	819	848
Realized Investment Gains/(Losses)	(43)	60
Net Income	47	1
Combined Ratio (%)	101.5	118.9
Accident-Year Combined Ratio (%)	112.7	120.3
Operating Ratio (%)	90.3	107.9
ROE (%)	3.0	0.1

Note: GAAP accounting principles. ROE excludes FAS 115.
Source: Fitch Ratings, S&P Global Market Intelligence.

Investment and Liquidity

Very Strong Investment Profile

Fitch views PRA's investment and liquidity to be very strong and supportive of the current rating category. Overall investments and liquidity have a lower influence in determining the company's current ratings.

PRA's fixed-income portfolio, which represents approximately 70% of invested assets, had an average credit quality of 'A+' at 1H20, with 94% of the portfolio invested in investment-grade securities. The duration of the portfolio was 3.1 years, with an average tax-equivalent income yield of 3.3%.

Total fixed-income assets exceed net reserves by 115% at 1H20. Overall, PRA actively monitors duration management and does not extend duration for incremental yield.

The risky asset ratio decreased at YE 2019 and further decreased at 1H20 to 35%, with the main driver being the company sold some equities. In particular, the company sold a sizeable portion of the investment portfolio prior to the March 2020 decline. Overall, this ratio is in line with PRA's very strong investment profile.

Financial Highlights

($ Mil.)	2018	2019
Cash and Invested Assets	3,430	3,566
Cash and Invested AssetsCommon Equity (x)	2.3	2.4
Investment Yield (%)	2.5	2.7
Risky Assets Ratio (%)	68	56
Liquid Assets/ Technical Reserves (%)	158	149

Note: GAAP accounting principles. Common equity excludes FAS 115.
Source: Fitch Ratings, S&P Global Market Intelligence.

Fitch Expectations

- The company will maintain a conservative investment portfolio that continues to invest in majority of investment-grade fixed-income securities that are closely matched to liability duration.
- The risky asset ratio will not materially increase over the near term.

Reserve Adequacy

Reserve Position Is Relatively Strong

PRA's reserve adequacy is supportive of the current rating category. Overall reserve adequacy has a moderate influence in determining the company's ratings and is on a negative trajectory.

PRA's reserves are sufficient and neutral to the rating. The inherent underwriting risk of the MPLI product is evidenced by segment loss ratios that are among the most volatile in the P/C industry, as well as periods of sharp reserve deficiencies in MPLI.

PRA demonstrated expertise and conservatism over the longer term in setting loss reserves. Fitch's analysis of PRA's reserves still indicates sufficiency, but overall redundancy significantly diminished from prior years. Similar to industry trends, the company saw an increase in higher severity and higher frequency of large verdicts and legal settlements.

As of YE 2019, PRA carried net reserves of approximately $2 billion. The company's 10-K filing indicates that at an 80% confidence interval, reserve estimates range from $1.5 billion on the low end to $2.5 billion on the high end. Premiums for all states are reviewed at least annually, and loss reserves are reviewed twice yearly.

NORCAL reported weaker reserve experience than PRA, including adverse development of $146 million incurred in 2019. While the acquisition adds exposure to MPLI reserves for PRA, this recent reserve strengthening and a significant discount in the NORCAL purchase price relative to statutory surplus is a risk mitigant.

The company did establish a $10 million IBNR reserve for the coronavirus in 2Q20. Primary exposures relative to the coronavirus include misdiagnoses, complications from delayed procedures and failure to prevent infection particularly in senior care settings. Risks are slightly offset by state and federal liability immunity for healthcare professionals.

Financial Highlights

($ Mil.)	2018	2019
P/C Loss Reserves	1,776	1,956
P/C PAY Reserve Development[a]	(92)	(12)
P/C PAY Reserve Development/NPE (%)[a]	(11.2)	(1.4)
P/C PAY Reserve Development/P/C PY Reserves (%)[a]	(5.8)	(0.8)
P/C Reserves/NPE	1.2	1.3

[a]Negative numbers are favorable.
P/C – Property/casualty. PAY – Prior accident year. PY – Prior year. NPE – Net premiums earned. Note: GAAP accounting principles.
Source: Fitch Ratings, S&P Global Market Intelligence.

Fitch Expectations

- Management will maintain the same prudent reserving process going forward.
- Reserve development will be plus or minus 3% of prior-year reserves.

Reinsurance, Risk Mitigation and Catastrophe Management

Reasonable Reinsurance Protection Limits Large Losses

Fitch views PRA's reinsurance, risk mitigation and catastrophe risk to be very strong and supportive of the current rating category. Overall, this category has a lower influence in determining the company's ratings.

PRA generally reinsures professional liability risks under annual treaties whereby the company maintains 100% of the first $1 million per claim and reinsurers the remainder up to $25 million with a retention of 4%–9% based on layer. Large professional liability risks that are above basic reinsurance treaties are reinsured on a facultative basis.

Medical technology and life sciences product coverages are separately reinsured, generally with 100% retention on the first $1 million of coverage and 10% of coverage exceeding those levels up to $9 million.

The traditional workers' compensation book provides for 100% retention up to $500,000, with coverage up to $119.5 million per loss event with nothing retained.

Fitch Expectations

- No material changes to PRA's reinsurance, risk mitigation practices and catastrophe risk are anticipated over the rating horizon.

Financial Highlights

($ Mil.)	2018	2019
Reinsurance Recoverables	355	403
RR/Shareholders' Equity (%)	23	27
Retention Ratio (%)	87	87

Note: GAAP
Source: Fitch Ratings, S&P Global Market Intelligence.

Appendix A: Peer Analysis

Strong Capital Position and Specialty Market Expertise

PRA's capital metrics are similar to other MPLI insurers, and compare very favorably with norms for similar rated peers. While profitability declines in MPLI, the pace will be uneven for both PRA and The Doctors Company, an Interinsurance Exchange (TDC). Compared with specialty peer writers that are one category higher than PRA, size represents a differentiating factor with PRA notably smaller than both Selective Insurance Group and W. R. Berkley Corporation.

Peer Comparison

(As of Dec. 31, 2019)	IFS Rating	Net Premium Written ($ Mil.)	CY Combined Ratio (%)	AY Combined Ratio (%)	Operating Ratio (%)	Operating Leverage (x)	Net Leverage (x)	NAIC RBC (%)	Reserve Development/ Prior Year PHS[a] (%)
ProAssurance Corp. and Affiliates	A−/RWN	679	120	121	107	0.7	3.4	271	(1)
Doctors Company Group	A/ROS	885	107	118	93	0.4	3.1	342	(4)
Selective Insurance Group	A+/ROS	2,679	94	93	86	1.4	4.4	232	(2)
W. R. Berkley Corporation	A+/ROS	6,131	94	95	86	1.0	3.6	198	1

[a]Negative indicates favorable. IFS – Insurer Financial Strength. CY – Calendar-year. AY – Accident-year. PHS – Policyholders' surplus. RWN – Rating Watch Negative.
ROS – Rating Outlook Stable. Note: Statutory accounting principles.
Source: 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 considers the rated insurance entities listed in the left margin to be Core. As such, all were assigned the group rating. These entities share common management, resources and branding. Only normal regulatory barriers exist to dividend movement between entities and up to the parent. Fitch believes the entity has adequate financial strength to support its operating subsidiaries and management is willing to do so, although no formal support agreements are in place. All operating companies have a 'A–' Insurer Financial Strength (IFS) rating based on a combined group assessment.

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 implied operating company IDR.
Holding Company IDR
Standard notching was applied between the implied 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 was applied to the senior unsecured notes. Standard notching relative to the IDR was used.
Hybrids
No hybrid debt exists at PRA currently.

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

Short-Term Ratings

None.

Hybrid — Equity/Debt Treatment

No hybrid debt exists at PRA currently.

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.

Core Subsidiaries

Allied Eastern Indemnity Company
Eastern Alliance Insurance Company
Eastern Advantage Assurance Company

ProAssurance Indemnity Company, Inc.
ProAssurance Casualty Company
ProAssurance Specialty Insurance Company
ProAssurance Insurance Company of America
Medmarc Casualty Insurance Company
Noetic Specialty Insurance Company

Appendix C: Environmental, Social and Governance Considerations

FitchRatings **ProAssurance Corporation** **Insurance Ratings Navigator** US Non-Life

Credit-Relevant ESG Derivation

ProAssurance Corporation has 6 ESG potential rating drivers

- ProAssurance Corporation 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.
- ProAssurance Corporation 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	3	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	2	Underwriting/reserving exposed to asbestos/hazardous materials risks	Capitalization & Leverage; Financial Performance & Earnings; Reserve Adequacy; Reinsurance, Risk Mitigation & Catastrophe Risk	2
Exposure to Environmental Impacts	2	Underwriting/reserving exposed to environmental and natural catastrophe risks; impact of catastrophes on own operations or asset quality; credit concentrations	Capitalization & Leverage; Financial Performance & Earnings; Reserve Adequacy; Reinsurance, Risk Mitigation & Catastrophe Risk; Investment & Asset Risk	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risk; treating customers fairly; pricing transparency; privacy/data security; legal/regulatory fines; exposure to insured and own cyber risk	Industry Profile & Operating Environment; Business Profile; Reserve Adequacy	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Corporate Governance & Management	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	3	Social responsibility and its effect on brand strength; increased vulnerability due to credit concentrations	Business Profile; Investment & Asset Risk; Financial Performance & Earnings; Reinsurance, Risk Mitigation & Catastrophe Risk	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Corporate Governance & Management; Business Profile	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Corporate Governance & Management	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Corporate Governance & Management; Ownership	3
Financial Transparency	3	Quality and timing of financial reporting and auditing processes	Corporate Governance & Management	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Priniciples for Responsible Investing (PRI) and the Sustainability Accounting Standards Board(SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of Environmental, Social and Governance (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.