

Thai Life Insurance Public Company Limited

Key Rating Drivers

'Favourable' Business Profile: Fitch Ratings considers Thai Life Insurance Public Company Limited's (TLI) business franchise substantive, despite a moderate operating scale relative to regional insurers. TLI has retained its position as one of the leading domestic players. Its products are comprehensive with better bancassurance capacity and a robust agency channel. We rank TLI's business profile as 'Favourable' in relation to all other Thai life insurers.

Solid Capital Buffers: We expect TLI's strong capitalisation to provide an adequate buffer against lower interest rates, thinner profit and short-term market volatility. TLI estimates its risk-based capital (RBC) ratio at end-2019 was not materially different from the 409% at end-3Q19. A prudent investment strategy and its profitability should help position TLI to meet regulatory capital levels. Its 'Strong' score in Fitch's Prism Factor-Based Model (FBM) at end-3Q19 and end-2018 was supported by reasonable asset and insurance risks.

Greater Earnings Pressure: The company's earnings are being tested by Thailand's challenging operating environment. TLI faces slower new business growth with compressed profit margins along with subdued investment yields. We expect a revision in product offerings with stricter focus on profitability to mitigate its risks and help TLI maintain stable earnings metrics. TLI's three-year (2016-2018) average pretax return on assets (ROA) of 2.2% and annualised pretax ROA of 1.9% at end-3Q19 were in line with Fitch's expectation for 'A' rated insurers.

Steady Bond Allocation: Fitch believes TLI's investment allocation is reasonably cautious despite the gradual addition of riskier assets to its portfolio to offset lower bond returns. TLI held 12% of its total investment in equity securities at end-3Q19, slightly above its 11% average in 2016-2018. TLI's bond holdings were steady at 79% of total investment but its corporate bonds, rather than government bonds, have picked up slightly to increase yields.

Improving Duration Gap: The improvement in asset-liability management helps TLI lower its exposure to interest rate volatility. TLI has solid liquidity to meet its claims and cash outflows.

Rating Sensitivities

Credit Reassessment: Fitch is developing updated assumptions to support a review of the insurers it rates, focused on the significant uncertainties created by the coronavirus pandemic. Assumptions will be put in place for interest rates; declines in the market value of stocks, bonds, derivatives and other capital-market instruments owned or traded by insurers; market liquidity; and the magnitude of COVID-19-related claim or benefit exposures.

Fitch plans to conduct pro forma analysis for individual insurers to reflect these assumptions, and compare the pro forma results to current rating sensitivities. We expect to place ratings on Rating Watch Negative or to downgrade them if sensitivities are notably breached.

Deterioration in Financials: Persistent weakening of TLI's capitalisation or profitability could result in negative rating action such as a prolonged drop in the RBC ratio to below 280% with Fitch's Prism FBM falling below 'Strong', or a persistent decline of pretax ROA to below 1%.

Stronger Credit Profile: Clear improvement in TLI's business profile and maintenance of its capitalisation will lead to an upgrade, including a larger operating scale with better diversification in business lines, geographies and distribution sources, while being able to sustain capital adequacy well into the 'Strong' level as measured by Fitch's Prism FBM score.

Ratings

Thai Life Insurance Public Company Limited

Insurer Financial Strength A-
National Insurer Financial Strength AAA(tha)

Outlooks

Insurer Financial Strength Stable
National Insurer Financial Strength Stable

Financial Data

Thai Life Insurance Public Company Limited

(THBbn)	30 Sep 19	31 Dec 18
Gross premiums written	64.9	86.2
Total assets	444.9	416.8
Return on assets (pretax) (%)	2 ^a	2
Return on equity (%)	12 ^a	11
Liquid-asset ratio (%)	102	103

Note: ^aannualised
Source: Fitch Ratings; TLI

Applicable Criteria

[Insurance Rating Criteria \(March 2020\)](#)

[National Scale Ratings Criteria \(July 2018\)](#)

Related Research

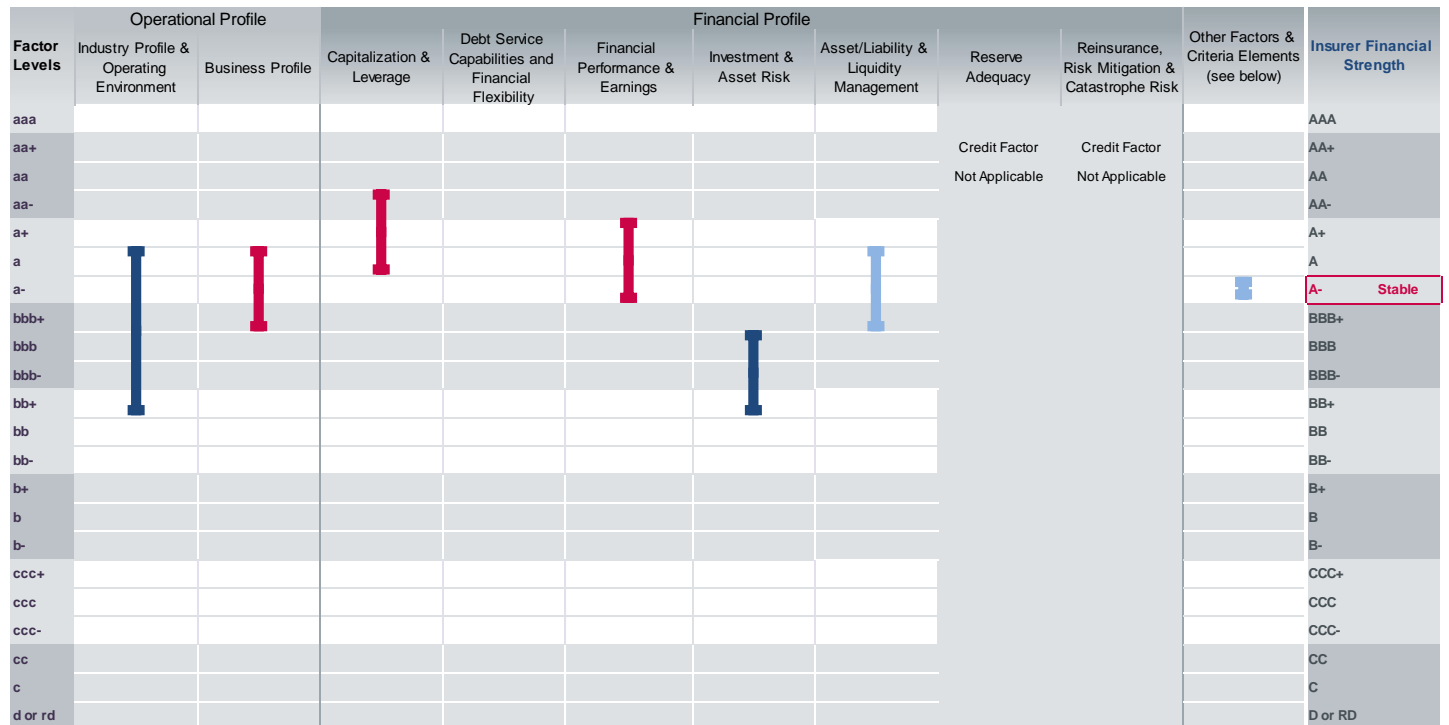
[Fitch Ratings: Thai Life Insurers Face Challenges from Lower Returns \(January 2020\)](#)

Analysts

Thanasit Utamaphethai
+66 2 108 0154
thanasit.utamaphethai@fitchratings.com

Siew Wai Wan
+65 6796 7217
siewwai.wan@fitchratings.com

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	A-	+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

Business Profile

Fitch ranks TLI's business profile as 'Favourable' relative to that of other Thai life insurers to reflect its 'Favourable' competitive positioning and large domestic market share, 'Moderate' business risk profile and 'Favourable' diversification. This ranking results in Fitch scoring the insurer's business profile at 'a-' under the agency's credit-factor scoring guidelines.

Substantive Domestic Franchise

The company has the second-largest market share in Thailand by total premiums written of 15% at end-2019 (2018: 14%). Its franchise strength is underpinned by a robust tied-agency force. TLI encourages its agents to raise their skill levels and improve service capability by achieving industry-accepted certifications such as Certified Financial Planner or Chartered Financial Practitioner.

The company has close ties with Japan's Meiji Yasuda Life Insurance Company (IFS A+/Stable) since 2013. We think the cooperation can enhance TLI's competitiveness in terms of attracting and retaining Japanese corporate customers based in Thailand.

Diversified Distribution Sources

Fitch believes TLI's business diversification remains favourable and on a par with its high-profile domestic peers. The company pursues a multi-distribution channel strategy to balance out its reliance on the agency channel. For instance, TLI raised its non-agency revenue from the acquisition of Thai Cardif Life Assurance Public Company Limited in 2015.

The insurer has also been strengthening its relationships with local commercial banks, resulting in its bancassurance sales expansion. TLI's premiums via the bancassurance channel rose to 22% of the total by end-2019 from 19% in 2016. However, the share of TLI's agency channel among its distribution sources is likely to remain higher than the industry average of 49% over the longer term due to the strength of its tied-agency force.

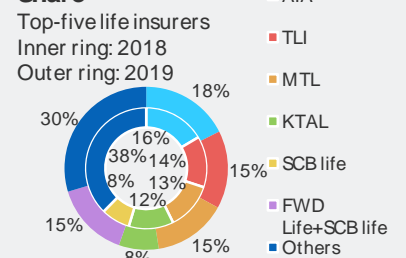
TLI also expanded beyond Thailand for the first time by acquiring a 35% stake in Myanmar-based Citizen Business Insurance Public Company Limited in 2019. The insurer expects to gain long-run benefits from Myanmar's growth potential relative to a more mature Thai market. The agency believes the plan will support TLI's credit profile by expanding its operating scale to a size that is comparable with that of other larger regional players.

Broad Product Offerings

We consider TLI's risk appetite to be on a par with that of its local peers. The insurer has a comprehensive product suite, covering whole life, term life, health protection, investment-linked, and retirement products. The insurer also joined its domestic peers to offer products designed for the high-net-worth segment, online-based policies and incrementally value-added health insurance riders.

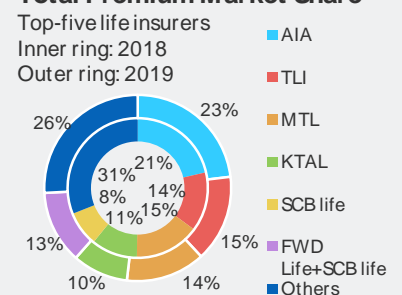
TLI monitors its insurance policies to ensure their sound profitability in response to a persistent low interest rate environment. The company's commitment to take immediate action to reprice or discontinue any unprofitable product is in line with industry practice, which is neutral to its risk profile.

New Business Premium Market Share



Note: AIA: AIA (Thailand) Co.,Ltd.; MTL: Muang Thai Life Assurance PLC.; TLI: Thai Life Insurance PLC.; KTAL: Krungthai AXA Life Insurance PLC.; SCB Life: SCB Life Assurance PLC.; FWD Life: FWD Life Insurance PLC
Source: Fitch Ratings, Thai Life Assurance Association

Total Premium Market Share

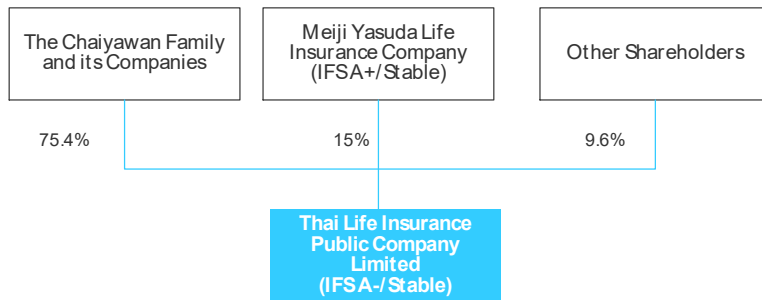


Source: Fitch Ratings, Thai Life Assurance Association

Ownership

Fitch believes the ownership does not affect the insurer’s financial strength. TLI’s shareholding is privately held by the Chaiyawan family and related companies. Meiji Yasuda Life became TLI’s strategic partner in 2013 and has continued to support the company’s technical expertise and business operations. Chaiyawan family members serve as senior directors and executives on the company’s board along with a representative from Meiji Yasuda Life.

Structure Diagram



Capitalisation and Leverage

Sound Capital Buffers

Financial Highlights

	2015	2016	2017	2018	3Q19	Fitch's expectation
Operating leverage (x)	6	5	5	5	5	TLI's non-risk-based capitalisation to be stable and its RBC ratio maintained at a level well above the regulatory requirement
Asset leverage (x)	6	5	5	5	5	
Regulatory RBC (%)	376	315	321	362	409	
Total financing commitment ratio (x)	-	-	-	-	-	
Shareholders' equity/assets (%)	14	14	15	15	16	

Source: Fitch Ratings, TLI

Solid Capital Base

TLI's capitalisation has been consistently improving in the past few years, reflected in its RBC adequacy ratio of 409% at end-3Q19, well above the 140% regulatory minimum and in line with that of other large life insurer peers in the country. TLI's stronger capital position has been driven by a narrower asset-liability mismatch, stable profit and investment returns, sound assets, as well as moderate dividend payouts.

The insurer's insurance liabilities to capital remain lower than that of its rated peers. TLI's favourable buffer is demonstrated by a steady operating leverage ratio of about 5x, below the 13x-19x range for 'A' rated insurers according to Fitch's guideline.

Stable Capital Position During Regime Transition

Fitch expects TLI's capital buffers to remain sound in 2020, even though its capitalisation may be pressured by the drop in interest rates and a rise in risky asset investments. The insurer does not expect its capital to deteriorate significantly in the wake of the country's second-phase RBC framework that started end-2019. This is because the new regime's decreasing insurance liability risk charge will partly offset the market risk charge should risky asset investments rise.

TLI has also pledged to reprice its products' premiums to take into account lower interest rate assumptions. A shift in its mix to products with lower or no guaranteed benefits will alleviate potentially onerous capital requirements given dwindling interest rates.

'Strong' Prism Score

Fitch's Prism FBM score of 'Strong' based on TLI's financials at end-2018 is supported by the insurer's healthy core operations with steady investment returns and reasonable dividend payouts. The insurer's capitalisation may be more sensitive to increasing profit pressure and lower bond yields; however, we think TLI's Prism FBM score at end-2019 remained 'Strong' as there were no significant changes to its investment and reserve profile.

Financial Performance and Earnings

Rising Pressure on Profitability

Financial Highlights

(%)	2015	2016	2017	2018	3Q19	Fitch's expectation
Return on equity	13	13	13	11	11	Earnings growth to moderate due to slower business and subdued investment returns. However, its earnings profile should remain sound.
Return on assets (pretax)	3	3	2	2	2	
Change in gross premiums	12	14	3	5	5	
Investment yield	4	4	4	4	4	
Growth in life assets - relative	3	1	-4	3	n.a.	

Source: Fitch Ratings, TLI

Slower Premium Growth

TLI estimates gross premiums written will decline in 2020. This could result from soft demand for new policies due to a slowdown in the domestic economy, a drop in sales on large ticket-size savings products, and stricter bancassurance supervision by the regulator. This is in line with the industry as gross premiums contracted by end-2019.

TLI reported three-year (2017-2019) average premium growth of 5%, faster than the industry average of 3%. This was driven by TLI's main product of savings-type insurance plans distributed through its robust tied-agency force. Its stronger bancassurance franchise through more extensive coordination with commercial bank partners improved the revenue contribution from its bancassurance channel.

Pressure on Earnings

We believe TLI's earnings profile could be affected by market-wide subdued investment returns, thinner product margins and a drop in new business premiums. However, we think the insurer's profit-led product-mix recalibration will mitigate the risks to its bottom-line results. TLI's steady earnings continue to compare well with Fitch's score for 'A' rated insurers. The insurer's 2016-2018 average pretax ROA of 2.2% and annualised pretax ROA of 1.9% at end-3Q19 were above Fitch's guideline of 0.65%-0.99%.

Focus on Sound Risk-Adjusted Profits

Fitch expects TLI to manage its business strategy prudently. The insurer prioritises sound risk-adjusted profits rather than top-line earnings growth, which rely on large-ticket savings-type policies. The insurer can reprice a quotation based on evolving operating and investment assumptions. In addition, affiliated riders could be bundled to improve and sustain profit margins.

Investment and Asset Risk

Risky Asset Holdings Expand, Investment Strategy Unchanged

Financial Highlights

	2015	2016	2017	2018	3Q19	Fitch's expectation
Risky assets ratio (%) ^a	151	178	185	183	193	Continued prudent investment strategy to balance risks and rewards.
Below-investment-grade bonds to capital (%)	52	55	61	66	73	
Total investment assets (THBbn)	289	330	368	401	429	
Cash and cash equivalents/total invested assets (%) ^b	8	5	2	3	2	
Fixed-income securities/total invested assets (%)	78	77	78	81	79	
Stocks/total invested assets (%)	7	11	12	10	12	
Sovereign investment concentration risk (%) ^c	342	304	303	331	287	

^a Risky assets include equities, below-investment-grade bonds on the international rating scale, and sovereign debt subject to a scaling adjustment

^b Cash and cash equivalents include highly liquid short-term investments, deposits with original maturities of more than three months

^c Sovereign investments include government and state-owned enterprise securities

Source: Fitch Ratings, TLI

Stable Asset Allocation

We believe TLI's investment strategy has been reasonably stable over the past five years. The insurer's main investment assets are national-scale or international-scale investment-grade bonds. TLI does not expect a material shift in its investment mix in 2020 despite greater pressure from declining investment yields.

It is unlikely TLI will significantly accelerate its risky investment activities over the medium term in light of the stringent capital rules of Thailand's second-phase RBC framework. However, a moderate increase in the risky-asset ratio is possible because investment returns have narrowed for an extended period and the insurer needs to moderate the impact.

Rising Asset Risks

Fitch re-evaluated the insurer's risky assets according to the agency's revised methodology by adding a scaled portion of sovereign-related investments. The ratio's reassessment reflects an incremental sovereign risk for countries with sovereign ratings of 'BBB+' and below. Thailand's sovereign rating is 'BBB+' with a Stable Outlook.

TLI's risky-asset ratio rose to 193% by end-3Q19, reflecting an increase in stock and corporate bond holdings. The ratio exceeds Fitch's 109% guideline for 'A' rated insurers; however, the risk should be partly balanced by TLI's strong capital.

Limited Downside Risk for State-Related Bonds

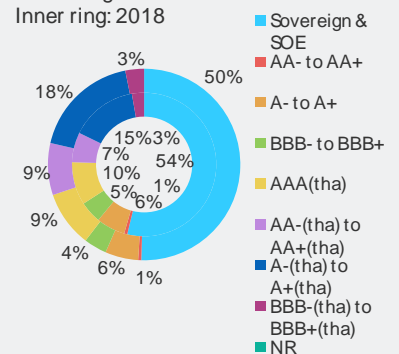
The insurer holds long-tenor sovereign-related fixed-income securities to match its long-term insurance liabilities. The agency's view on Thailand's sovereign rating Outlook of Stable indicates contained risk to the ratings of state and state-owned enterprises' fixed-income securities. However, limited supplies of government-related bonds and falling interest rates may result in an increase in corporate bond holdings.

Fixed-Income Securities

By credit rating

Outer ring: 3Q19

Inner ring: 2018



Source: Fitch Ratings, TLI

Asset/Liability and Liquidity Management

Strengthening Asset and Liability Management

Financial Highlights

	2015	2016	2017	2018	3Q19	Fitch's expectation
Liquid-asset ratio (%)	105	106	104	103	102	Stable asset and liability management profile with sound liquidity position
Duration gap (years)	5	5	4	3	2 ^a	
Cash and equivalents to policyholder liabilities (%)	10	6	3	3	2	

^aAt end-1H19
Source: Fitch Ratings, TLI

Improving Duration Gap

TLI's asset and liability management has become more robust as its duration mismatch narrows, lowering the interest rate sensitivity of its risk-based capitalisation. We think the improvement supports TLI's credit profile relative to its local insurance peers. However, further narrowing of the mismatch could be hampered by continued low interest rates.

Sufficient Liquidity

The insurer has maintained a liquid-asset ratio of over 100% for several years, better than the score of 53%-67% for 'A' rated insurers, according to Fitch's guideline. This demonstrates TLI's favourable liquidity position to handle cash outflows and insurance obligations.

Reinsurance, Risk Mitigation and Catastrophe Risk

TLI has consistently engaged highly rated reinsurers to mitigate risks, particularly for newly introduced products and catastrophes. The company's retention limit has not changed significantly over the past several years in light of its relatively stable risk profile.

Appendix A: Industry Profile and Operating Environment

This section discusses Thailand's life and non-life insurance sector.

Regulatory Oversight

Fitch considers Thailand's regulatory environment to be less developed. Insurers are governed by the Insurance Act and regulated by the Office of Insurance Commission (OIC), the country's insurance regulatory body. The regulator has adhered to a RBC regime since 2011 with plans for an enhanced framework to bring the local RBC in line with international standards. The OIC has adopted the Enterprise Risk Management and Own Risk and Solvency Assessment frameworks, which require insurers to establish internal risk governance and conduct self-assessments of their capital positions. In the event of insolvency, legislation allows the OIC to take certain actions to obtain resolution.

Technical Sophistication of Insurance Market; Diversity and Breadth

The domestic market has moderate technical sophistication and product diversity. The life market is dominated by endowment and term products. The non-life segment concentrates on motor, personal accident and industrial lines. Thailand's penetration rate is moderate with growth potential particularly in investment-linked, healthcare, personal and property products. The country's regulator has been consistently working with the industry to promote the expertise of local insurers.

Competitive Profile

Competition is often intense and not rational. The non-life industry is under pricing pressure, particularly in the motor segment, as it is composed of more than 50 players while the 10-largest non-life insurers have control of 60% of the market. The life insurance segment is also dominated by large companies; the 10-biggest life insurers account for above 85% of total market premiums with steady dominance by top players. Competition in the life industry in bancassurance and short-term savings products has been declining, resulting from the regulator's stricter market conduct measurement and plans for more stringent capital rules.

Financial-Market Development

Fitch considers Thailand's debt and equity markets to be relatively deep and liquid. Government bonds comprise a large part of the country's debt issuance and bonds with tenor of up to 10 years are actively traded in the secondary market. The equity market is active and sizeable regionally in terms of trading activities and the retail investor base. The Thai banking sector has a reasonably sound credit profile, especially its healthy capitalisation. Regulatory supervision is in line with international standards, including the adoption of the Basel III framework and IFRS9. Thai insurance companies can decide to adopt IFRS9 at the same time as IFRS17 implementation in 2023.

Country Risk

Fitch rates the local-currency sovereign obligations of Thailand at 'BBB+' with a Stable Outlook. The mid-point of the sector's six-notch Industry Profile and Operating Environment (IPOE) score, based on the IPOE range suggested by the performance of the sub-factors, is in line with the local-currency sovereign rating of Thailand.

Appendix B: Peer Analysis

Steady Performance, Growth Not Materially Outpacing the Industry

Fitch expects TLI's profitability growth to slow over the medium term, considering the more challenging business landscape and low interest rate environment. Growth in premiums written and assets is not likely to markedly outpace that of the industry, reflecting its lower focus on large ticket-sized products. TLI's capitalisation should still be favourable and stay well above the minimum regulatory requirement.

Peer Comparison

	IFS Rating	Country	Return on equity ^b (%)	Return on assets (pretax) ^b (%)	Gross premiums (USDbn)	Total assets ^a (USDbn)	Shareholders' equity (USDbn)	Local solvency ratio (%)
TLI	A-/AAA(tha)	Thailand	12	2	3	13	2	362
Muang Thai Life Assurance Public Company Limited	A-/AAA(tha)	Thailand	18	3	3	15	2	324
Heungkuk Life Insurance Co., Ltd.	BBB+	Korea	6	0.3	3	25	1	186
FTLife Insurance Company Limited	A-	Hong Kong	7	2	1	7	2	555
FWD Life Insurance Company (Bermuda) Limited	A	Hong Kong	17	1	2	11	1	267

^a Excluding reinsurance assets

^b three-year average (2016-2018), the rest of the figures are based on 2018

Source: Fitch Ratings, Fitch Solutions, companies

Appendix C: Other Ratings Considerations

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

Group IFS Rating Approach

Not applicable.

Notching

For notching purposes, the regulatory environment of Thailand 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.

Operating company debt

Not applicable.

Holding company IDR

Not applicable.

Holding company debt

Not applicable.

Hybrids

Not applicable.

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

Short-Term Ratings

Not applicable.

Hybrid - Equity/Debt Treatment

None.

Corporate Governance and Management

Corporate governance and management are effective and neutral to the rating. The insurer has set up an effective risk management and corporate governance framework in line with that of the regulator's expectation. TL's board comprises three independent directors out of 12 members. Several sub-committees are also in place including the executive, risk management, investment, audit, as well as nomination and remuneration committees.

Transfer and Convertibility Risk (Country Ceiling)

None.

Criteria Variations

None

Appendix D: Environmental, Social and Governance Considerations

Credit-Relevant ESG Derivation

Credit-Relevant ESG Derivation			Overall ESG Scale			
Thai Life Insurance Public Company Limited has 6 ESG potential rating drivers			key driver	0	issues	5
<ul style="list-style-type: none"> Thai Life Insurance Public Company Limited 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. Thai Life Insurance Public Company Limited 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. 	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 relevant 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 our ESG Relevance Score, visit www.fitchratings.com/esg.

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