



Environmental Social and Governance Risks

Integration and Transparency In Ratings

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FitchRatings

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1

What is Fitch's ESG Relevance Score?

... and why are we doing it

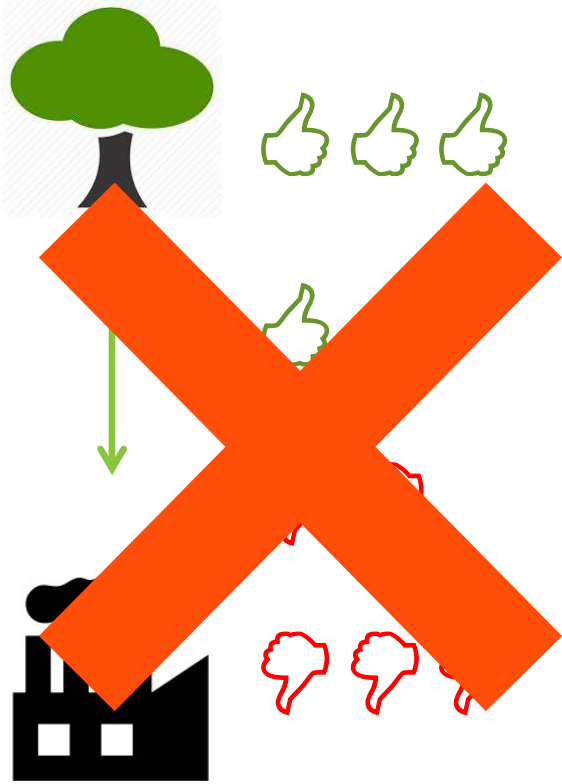
We Are Measuring Which ESG Risks Appear in Our Ratings



- Which specific ESG risks are potentially relevant for each issuer's credit profile.
- Which ESG risks are relevant for different sectors, and even countries or regions.
- Which ESG risks have risen to a level where they are an active factor in the rating decision, on an issuer-by-issuer basis.
- Which ESG risks actually led to a rating change.

Source: Fitch Ratings

We Are NOT Measuring Overall ESG Performance Of An Entity



How Are We Defining Relevance And Materiality To Credit?

Relevance Score	Definition
5	Highly relevant, a key rating driver that has a significant impact on the entity rating on an individual basis. Equivalent to 'Higher' relative importance on a credit Navigator
4	Relevant to rating, but not a key rating driver, but has an impact on the entity rating in combination with other factors. Equivalent to 'Moderate' importance within a credit 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

Source: Fitch Ratings

Important Aspects of ESG Relevance Scores

EVERY SECTOR

NAME BY NAME

CURRENT

CREDIT FOCUSED

INTEGRATED WITH CORE ANALYSIS

The image displays four screenshots of Fitch Ratings ESG Relevance score dashboards, each showing a different sector and its corresponding ESG Relevance score. Each dashboard includes a header with the Fitch Ratings logo, the company name, and the ESG Relevance score (represented by a green bar chart). Below the header is a table of ESG Relevance factors and their scores, along with a 'Support Rating' and 'Issuer Default Rating'.

ABC Bank Group Limited (Banks Ratings Navigator)

Peer Ratings	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity	Viability Rating	Support Rating Floor	Issuer Default Rating
AAA									AAA	AAA	AAA
AA+									AA+	AA+	AA+
AA									AA	AA	AA
AA-									AA-	AA-	AA-

ABC Airports A/S (Infrastructure Ratings Navigator)

Factor Levels	Revenue Risk - Volume	Revenue Risk - Price	Infrastructure Development & Renewal	Debt Structure (Senior Debt)	Coverage	Leverage	Issuer Default Rating
AAA							AAA
AA+							AA+
AA							AA
AA-							AA-

Republic of ABC (Ratings Navigator Sovereigns)

Sovereign Rating Model (SRM) Output ¹					AA	Qualitative Overlay (QO) ²		-1	AA-
Factors	Structural	Macroeconomic	Public Finances	External Finances	SRM Predicted Rating	Factors		Notch Adjustment	Long-Term FC IDR ³
Weights(%)	54.7	10.5	16.7	18.1					
Percent Rank ⁴					AAA	Structural		0	AAA

ABC Life Holdings, Inc. (Insurance Ratings Navigator Life Insurance (US))

Factor Levels	Industry Profile & Operating Environment	Business Profile	Capitalization & Leverage	Debt Service Capabilities & Financial Flexibility	Financial Performance & Earnings	Investment & Asset Risk	Asset/Liability & Liquidity Management	Reserve Adequacy	Reinsurance, Risk Mitigation & Catastrophe Risk	Other Factors & Criteria Elements (see below)	Insurer Financial Strength
AAA											AAA
AA+								Credit Factor	Credit Factor		AA+
AA								Not Applicable	Not Applicable		AA

Important Aspects of ESG Relevance Scores

FACTOR BY FACTOR

SECTOR SPECIFIC

COMPREHENSIVE

ALIGNED WITH RATING HORIZON

SAME ANALYTICAL TEAM

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	5	Regulatory Risk - emissions standards	Cost Position of Key Operations; Profitability; Financial Structure; Financial Flexibility
Energy Management	3	Energy use in operations	Cost Position of Key Operations; Profitability; Financial Structure; Financial Flexibility
Water & Wastewater Management	3	Water usage in operations (including exposure to regions with water scarcity)	Cost Position of Key Operations; Profitability; Financial Structure; Financial Flexibility
Waste & Hazardous Materials Management; Ecological Impacts	4	Total amount of landfills and mineral processing waste produced; management of landfills; dams	Cost Position of Key Operations; Profitability; Financial Structure; Financial Flexibility
Exposure to Environmental Impacts	5	Exposure to extreme weather events	Cost Position of Key Operations; Profitability; Financial Structure; Financial Flexibility



Social (S)

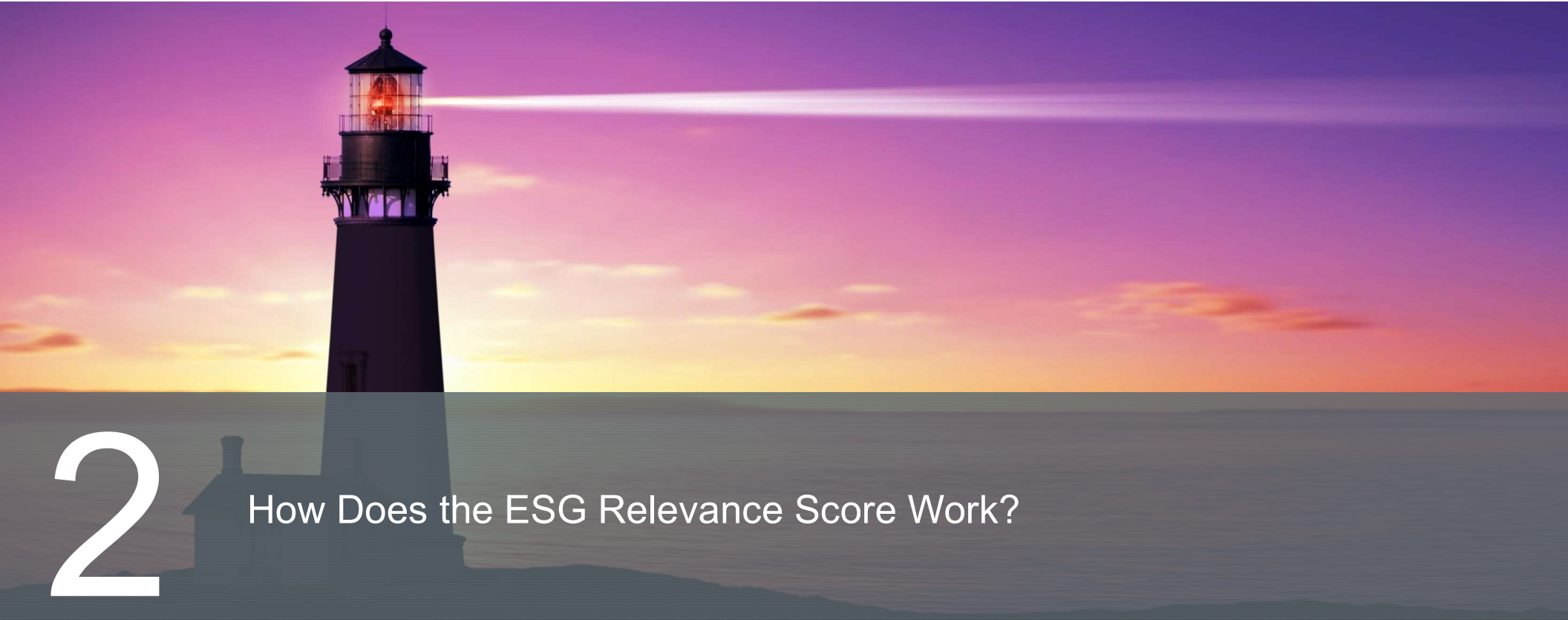
General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	5	Relationships with local communities and/or land rightsholders	Cost Position of Key Operations; Profitability; Financial Structure; Financial Flexibility
Customer Welfare - Fair Messaging; Privacy & Data Security	1	n.a.	n.a.
Labor Relations & Practices	3	Impact of labor negotiations and employee strikes/lockout	Cost Position of Key Operations; Profitability; Financial Structure; Financial Flexibility
Employee Wellbeing	5	Worker safety and accident prevention	Management and Corporate Governance
Exposure to Social Impacts	4	Social resistance to major projects or operations that leads to delays and cost increases	Profitability; Financial Structure; Financial Flexibility



Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	5	Strategy development and implementation	Management and Corporate Governance
Governance Structure	5	Board independence and effectiveness, ownership concentration	Management and Corporate Governance
Group Structure	4	Complexity, transparency and related-party transactions	Management and Corporate Governance
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance





2

How Does the ESG Relevance Score Work?

Breaking it Down

Example of Published ESG Relevance Score

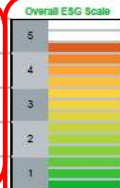
Credit-Relevant ESG Derivation

Volkswagen AG has 2 ESG key rating drivers and 7 ESG potential rating drivers

- ➔ Volkswagen AG has exposure to emissions regulatory risk which, on an individual basis, has a significant impact on the rating.
- ➔ Volkswagen AG has exposure to board independence risk which, on an individual basis, has a significant impact on the rating.
- ➔ Volkswagen AG has exposure to waste & impact management risk but this has very low impact on the rating.
- ➔ Volkswagen AG has exposure to customer accountability risk and product quality & safety risk but this has very low impact on the rating.
- ➔ Volkswagen AG has exposure to labor relations & practices risk but this has very low impact on the rating.
- ➔ Volkswagen AG has exposure to shifting consumer preferences but this has very low impact on the rating.

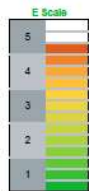
Showing top 9 issues

key driver	2	Issues
driver	0	Issues
potential driver	7	Issues
not a rating driver	2	Issues
	3	Issues



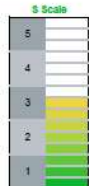
Environmental (E)

General Issue	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	5	Emissions and pollutants from vehicles sold	Brand Positioning; Profitability; Financial Structure
Energy Management	2	Fuel economy requirements of the product	Brand Positioning; Profitability; Financial Structure
Water & Wastewater Management	2	Water usage in manufacturing	Competitive Position; Cost Structure; Profitability; Financial Structure
Waste & Hazardous Materials Management; Ecological Impacts	3	Waste and recycling in manufacturing operations; use of environmentally friendly materials	Brand Positioning; Profitability; Financial Structure
Exposure to Environmental Impacts	1	n.a.	n.a.



Social (S)

General Issue	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Data security; vehicle safety	Brand Positioning; Profitability
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction	Cost Structure; Profitability
Employee Wellbeing	1	n.a.	n.a.
Exposure to Social Impacts	3	Client focus on promoting less vehicle ownership; shift in consumer preferences toward cleaner energy	Profitability



Governance (G)

General Issue	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance
Governance Structure	5	Board independence and effectiveness; ownership concentration	Management and Corporate Governance
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance



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 left-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 the number of general 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 and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

CREDIT-RELEVANT ESG SCALE

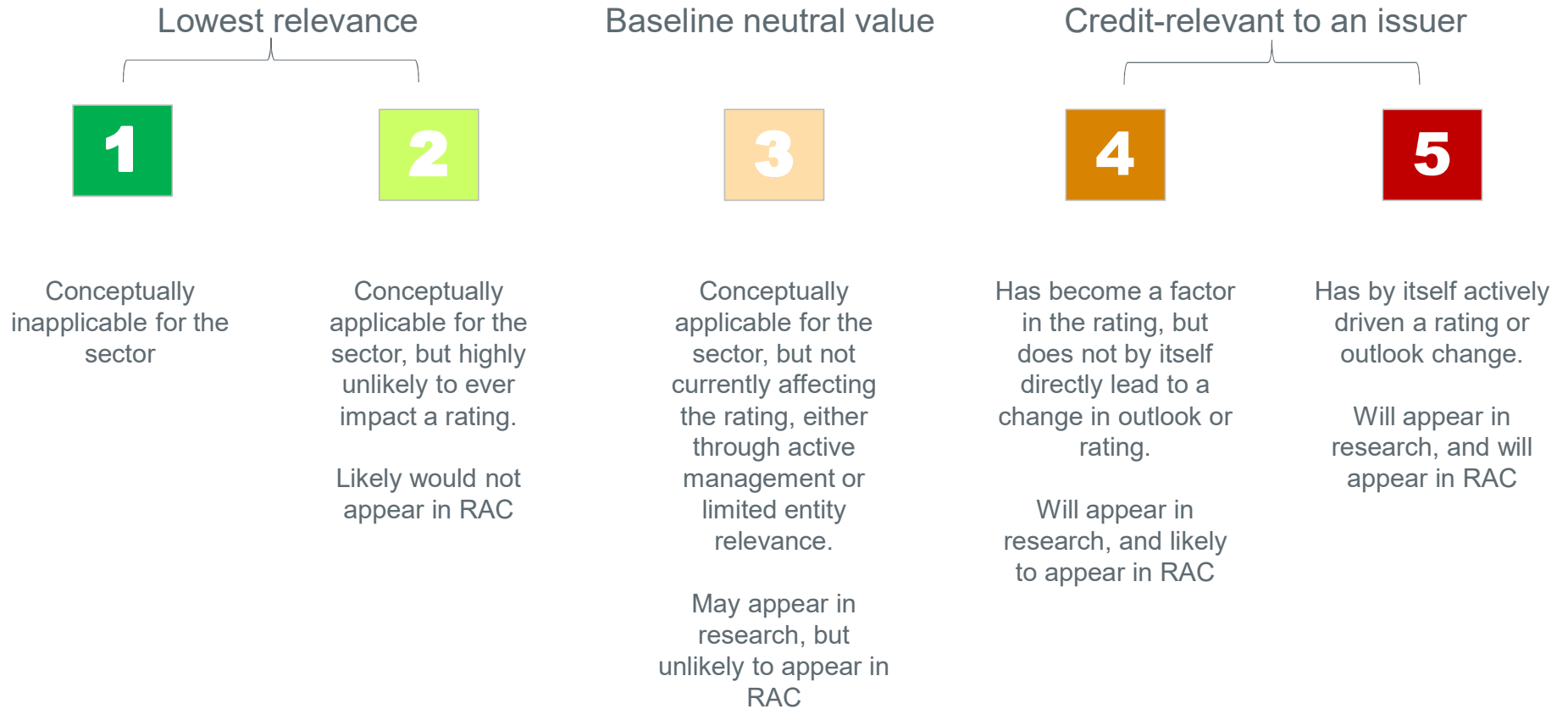
How relevant are E, S and G issues to the overall credit rating?
5: Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4: Relevant to rating, not a key rating driver but has an impact on 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 "low" 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.

Extract of Analyst Commentary From 4's & 5's Report

Volkswagen AG	EAQ	5	<p>Tightening global emissions legislation remains a pivotal issue for the industry. Adoption rate of electric vehicles (EV) is still uncertain; and EVs are less profitable, so an increasing share of EVs will initially burden manufacturers' earnings.</p> <p>Despite impressive resilience to the emissions scandal revealed in late 2015, global investigations are not over, we estimate total cost of the diesel issue of around EUR28 billion between 2015 and June 2018.</p> <p>A 20% blocking minority in voting resolutions, potential conflicts of interest on the part of some board members, and lack of independence and diversity at the supervisory board level, combined with evidence of serious internal control issues from the emissions scandal.</p>
	GGV	5	
Whirlpool Corp.	SCW	4	Potential exposure to liabilities from Grenfell fire in central London in 2017, linked to a product sold by an acquired manufacturer prior to Whirlpool's involvement.
Beijing Automotive Group Co Ltd	GST	4	[+] Complex but supportive group structure imposed by Chinese government joint venture requirements for auto sector, proposed to expire by 2022.
China Hongqiao Group Limited CJSC	GTR	4	In the past, delays in publication of its annual report. Rating Sensitivity for upgrades includes "consistent financial reporting and adequate internal controls".
Dongfeng Motor Group Company	GST	4	[+] Complex but supportive group structure imposed by Chinese government joint venture requirements for auto sector, proposed to expire by 2022.

Source: Fitch Ratings

More on the Issuer Scoring



Source: Fitch Ratings



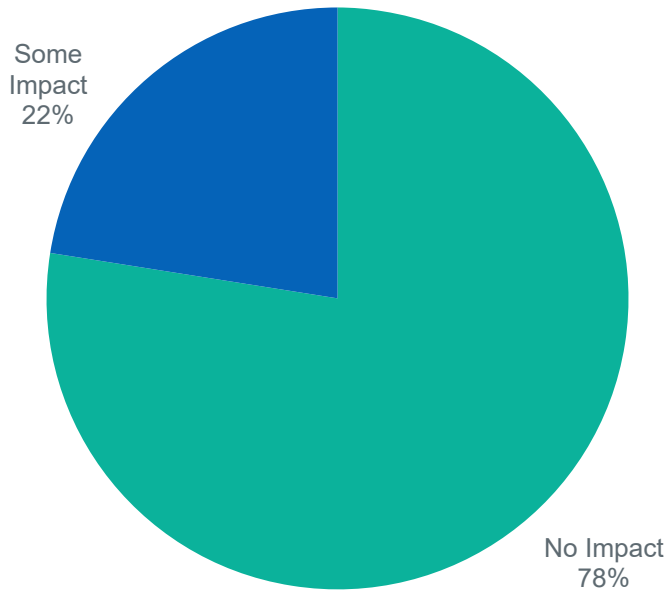
3

Current Levels of ESG Impact on Credit Ratings

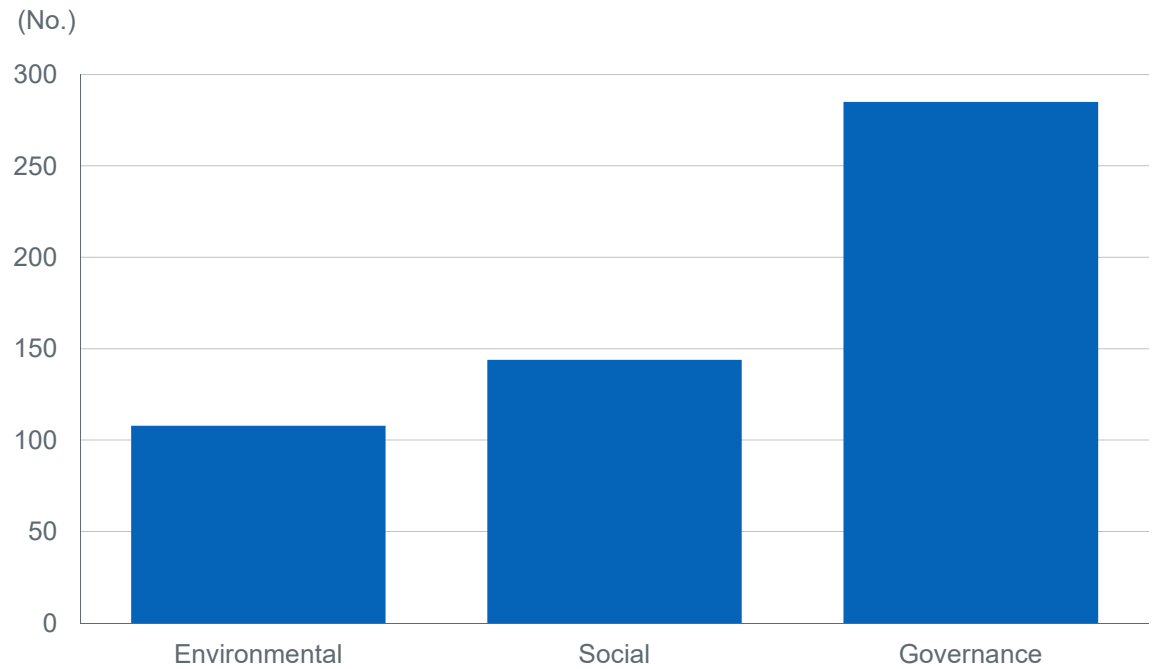
Corporates & Financial Institutions

ESG Relevance Summary for 1,534 Corporate Issuers Currently Published

Relevance to Issuer Portfolio



ESG Elements Driving Issuer Credit Impact (ESG Score of 4 or 5)



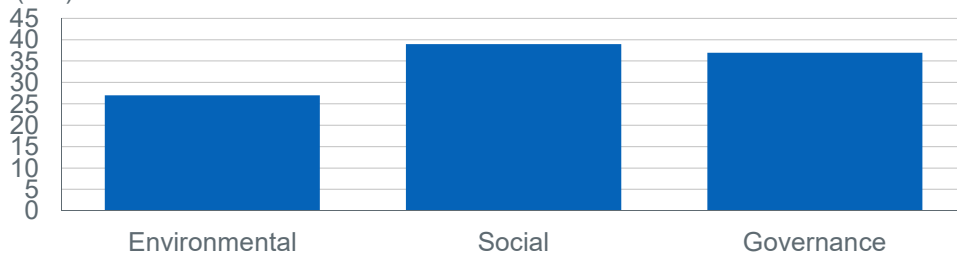
Source: Fitch Ratings

ESG Relevance Summary: Developed Markets

DM – Europe

ESG Elements Driving Issuer Credit Impact

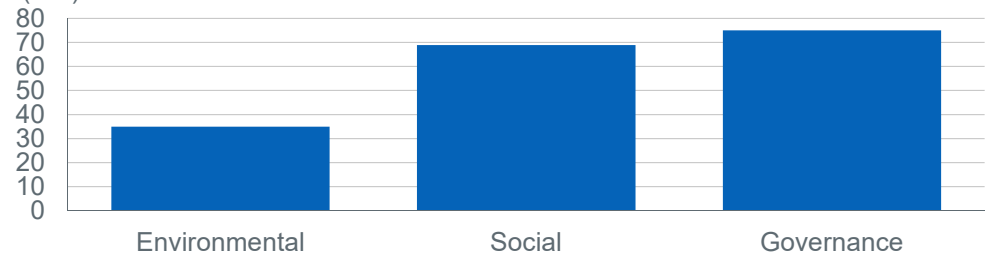
(ESG Score of 4 or 5)
(No.)



DM – Americas

ESG Elements Driving Issuer Credit Impact

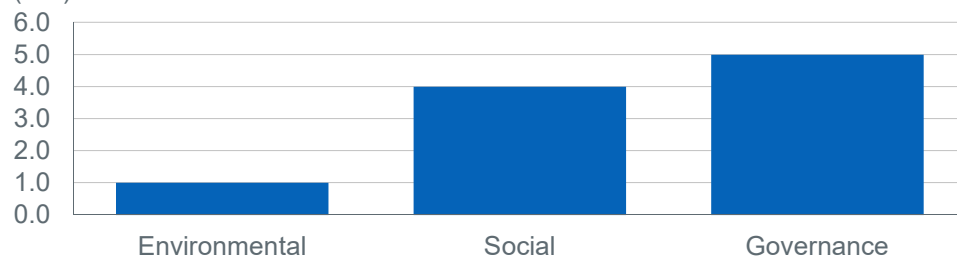
(ESG Score of 4 or 5)
(No.)



DM – Asia

ESG Elements Driving Issuer Credit Impact

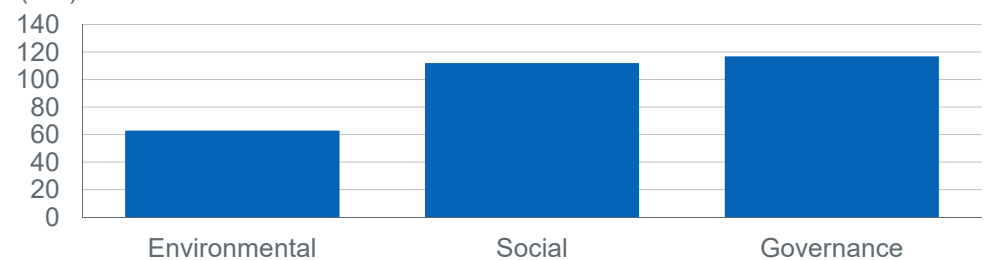
(ESG Score of 4 or 5)
(No.)



DM – Total

ESG Elements Driving Issuer Credit Impact

(ESG Score of 4 or 5)
(No.)



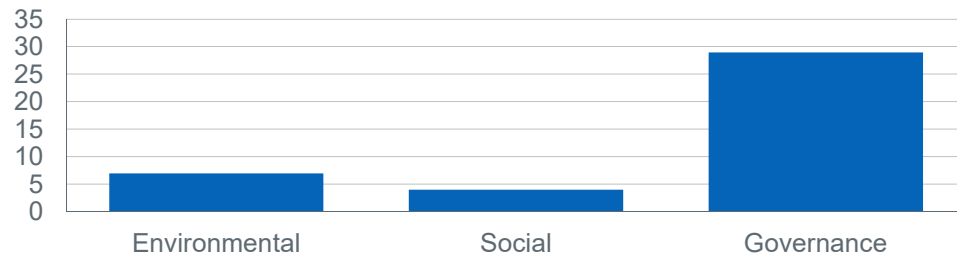
Source: Fitch Ratings

ESG Relevance Summary: Emerging Markets

EM – CEEMEA

ESG Elements Driving Issuer Credit Impact

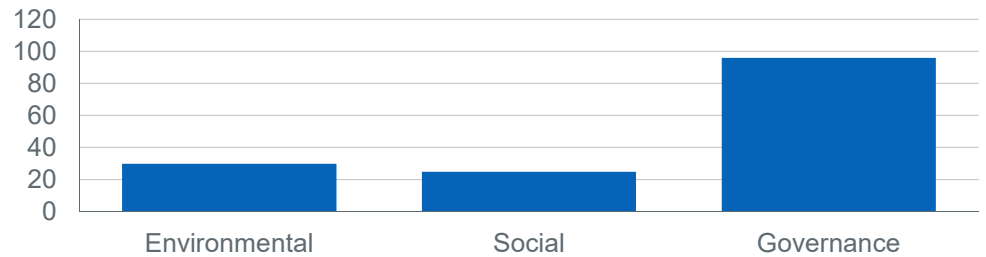
(ESG Score of 4 or 5)
(No.)



EM – Americas

ESG Elements Driving Issuer Credit Impact

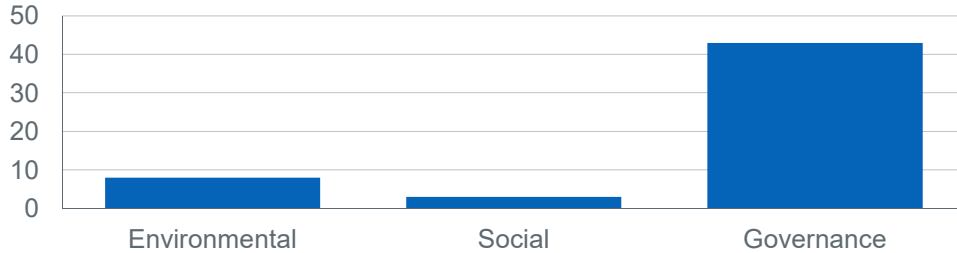
(ESG Score of 4 or 5)
(No.)



EM – Asia

ESG Elements Driving Issuer Credit Impact

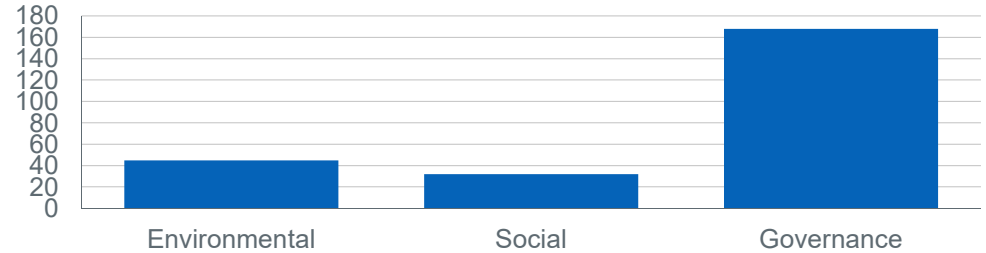
(ESG Score of 4 or 5)
(No.)



EM – Total

ESG Elements Driving Issuer Credit Impact

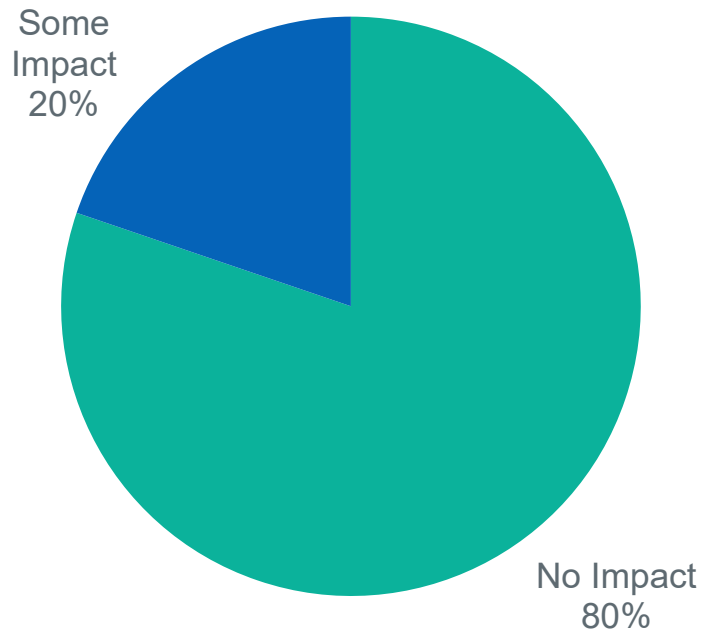
(ESG Score of 4 or 5)
(No.)



Source: Fitch Ratings

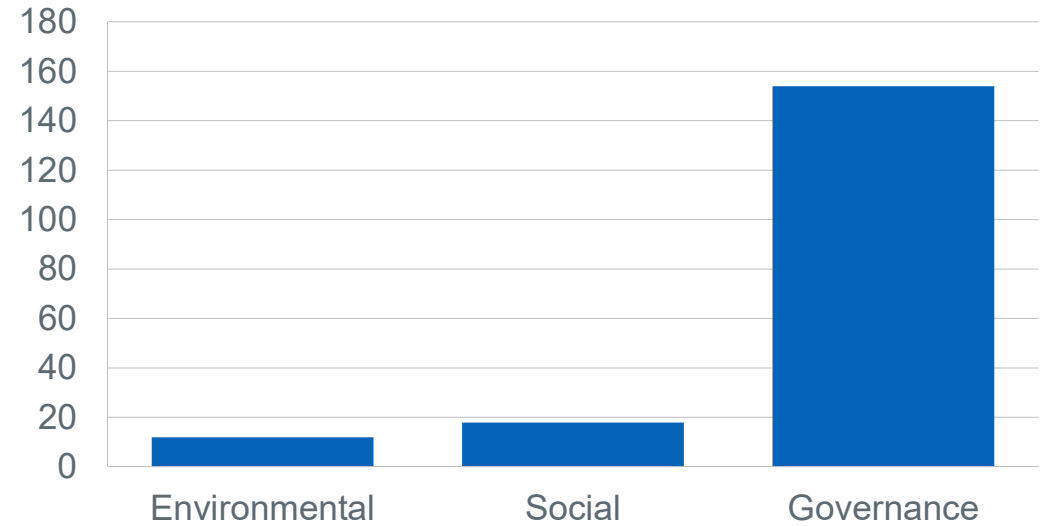
ESG Relevance Summary for 905 Financial Institutions

Relevance to Issuer Portfolio



ESG Elements Driving Issuer Credit Impact (ESG Score of 4 or 5)

(No.)



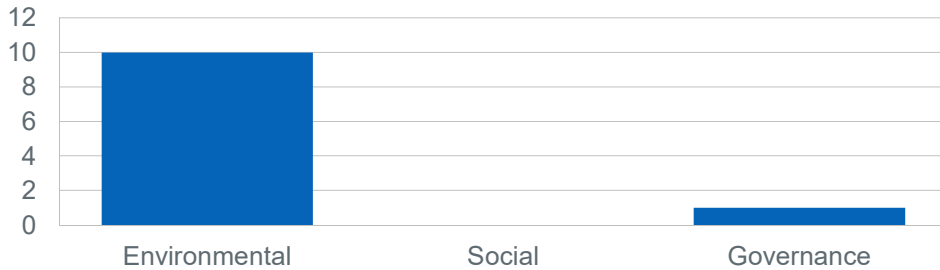
ESG Relevance Summary: FI Sector Comparison

Insurance

ESG Elements Driving Issuer Credit Impact

(ESG Score of 4 or 5)

(No.)

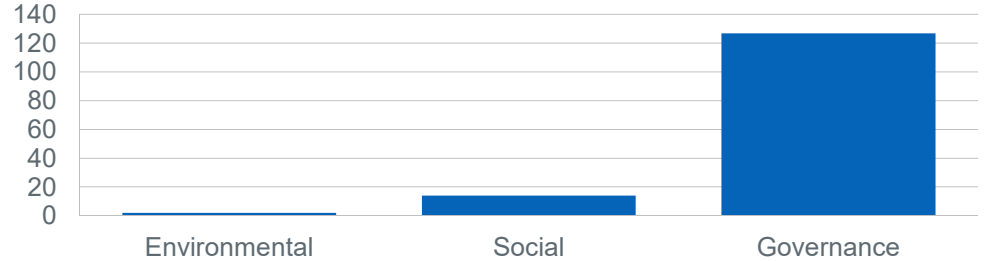


Banks

ESG Elements Driving Issuer Credit Impact

(ESG Score of 4 or 5)

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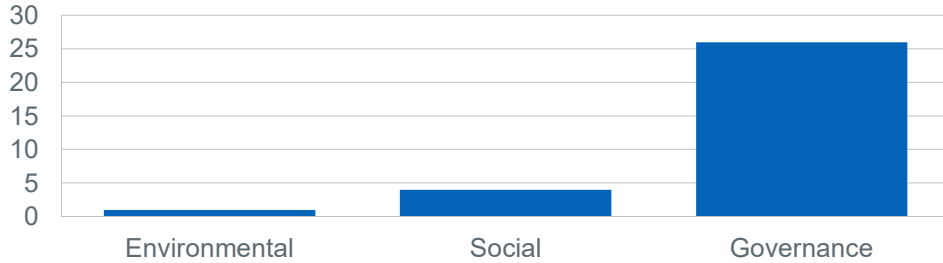


NBFIs

ESG Elements Driving Issuer Credit Impact

(ESG Score of 4 or 5)

(No.)

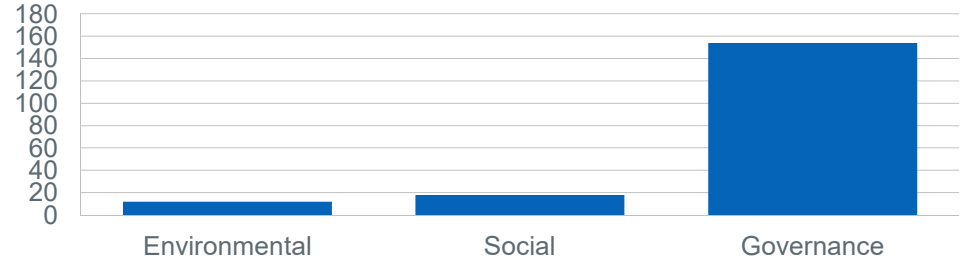


All FIs

ESG Elements Driving Issuer Credit Impact

(ESG Score of 4 or 5)

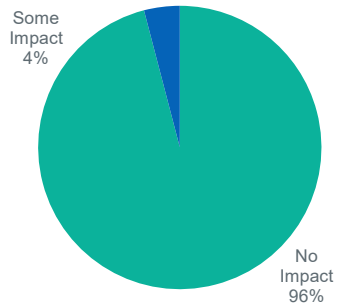
(No.)



ESG Relevance Summary: DM vs. EM Europe

Banks – DM Europe

Relevance to Issuer Portfolio

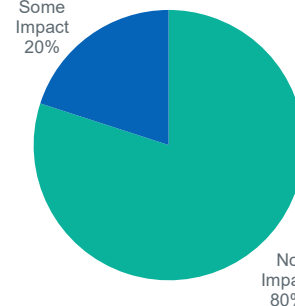


ESG Elements Driving Issuer Credit Impact (ESG Score of 4 or 5) (No.)



NBFIs – DM Europe

Relevance to Issuer Portfolio

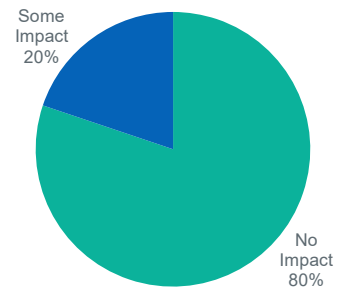


ESG Elements Driving Issuer Credit Impact (ESG Score of 4 or 5) (No.)



Banks – EM Europe

Relevance to Issuer Portfolio

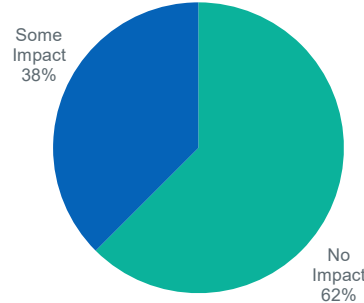


ESG Elements Driving Issuer Credit Impact (ESG Score of 4 or 5) (No.)

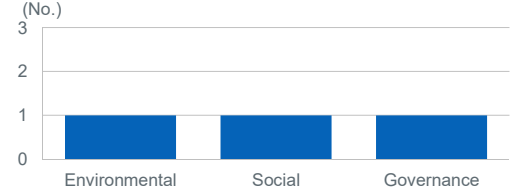


NBFIs – EM Europe

Relevance to Issuer Portfolio



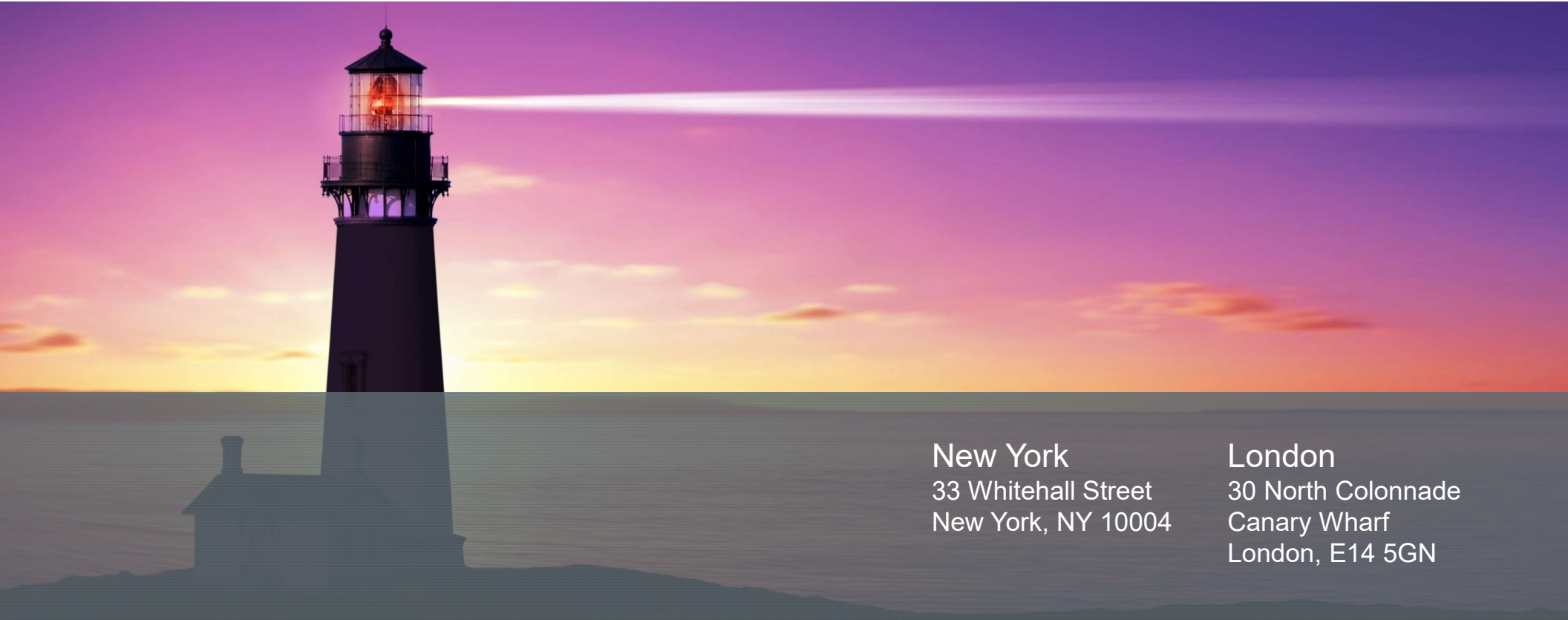
ESG Elements Driving Issuer Credit Impact (ESG Score of 4 or 5) (No.)



Fitch Ratings' credit ratings rely on factual information received from issuers and other sources. Fitch Ratings cannot ensure that all such information will be accurate and complete. Further, ratings are inherently forward-looking, embody assumptions and predictions that by their nature cannot be verified as facts, and can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed. The information in this presentation is provided "as is" without any representation or warranty. A Fitch Ratings credit rating is an opinion as to the creditworthiness of a security and does not address the risk of loss due to risks other than credit risk,

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