FitchRatings

**Insurance**
Mortgage Insurers
United States

# Radian Group Inc.

## Ratings

| | |
|---|---|
| **Radian Group Inc.** | |
| Long-Term IDR | BBB |
| Senior Unsecured Long-Term Rating | BBB– |
| **Subsidiaries** | |
| Insurer Financial Strength | A– |
| **Outlook** | |
| Long-Term IDR | Stable |

## Financial Data

**Radian Guaranty Inc.**

| ($ Mil.) | 12/31/20 | 12/31/21 |
|---|---|---|
| New Insurance Written | 105,024 | 91,830 |
| Insurance in Force | 246,144 | 245,972 |
| Risk in Force | 60,656 | 60,913 |
| Statutory Capital | 3,879 | 4,666 |
| Statutory Net Income | 442 | 754 |

Note: Reported on a statutory accounting basis.
Source: Fitch Ratings, Radian Guaranty Inc.

## Applicable Criteria

Insurance Rating Criteria (November 2021)

## Related Research

Radian Group Inc. – Ratings Navigator (April 2022)

U.S. Mortgage Insurance Dashboard: March 2022 (March 2022)

Fitch Ratings 2022 Outlook: U.S. Mortgage Insurance (December 2021)

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## Key Rating Drivers

**Moderate Company Profile**: Radian Guaranty Inc. is the fourth-largest of the six active U.S. mortgage insurers (USMIs) based on new insurance written (NIW), with a 15.7% market share, and the third largest based on statutory capital of $4.7 billion at YE 2021. Radian Guaranty is one of four legacy USMIs that wrote business prior to 2009. As a result, Radian Guaranty has residual exposure to mortgages written under the previous underwriting standards.

**Strong Capitalization:** Radian Guaranty's capital ratio improved in 2021 as its private mortgage insurer eligibility requirements (PMIERs) coverage rose to a very strong 162% at YE 2021, from a strong 140% at YE 2020. In February 2022, Radian Guaranty paid $500 million in cash and marketable securities to Radian Group Inc. as an extraordinary distribution in the form of a return of paid-in capital.

As a result, Radian Guaranty's statutory policyholders' surplus declined by $500 million, reducing the PMIERs coverage ratio to 144% at March 31, 2022, which Fitch Ratings views as strong. Radian Group employed moderate financial leverage of 24.8% at March 31, 2022, down from 25.4% at YE 2021.

**Negative Unassigned Surplus:** Although Radian Guaranty continued to report statutory profit in recent years, it reported negative unassigned surplus of $562.8 million at Dec. 31 2021. Radian Guaranty will not be able to pay a dividend without regulatory approval until it has positive unassigned surplus. The current expectation is that Radian Guaranty will be able to begin releasing contingency reserves into surplus in 2024, which should improve its unassigned surplus position. Positively, the Radian operating companies are able to pay their proportionate share of interest to the holding company under a global cost allocation and services agreement.

**Holding Company Liquidity:** Radian Group maintains material liquidity at the holding company level, including $604.9 million in cash and marketable securities at YE 2021, which increased to $1.0 billion at March 31, 2022 following the $500 million return of capital to Radian Group. This level should be more than adequate to meet its cash needs, including for holding company expenses, interest on financial debt and stock repurchases.

**Financial Performance Improves:** Radian Guaranty's statutory combined ratio dropped to 38.6% in 2021 from 74.0% in 2020, as coronavirus-related delinquencies declined following increased incurred losses in 2020 from the pandemic as unemployment rose and borrowers took advantage of forbearance programs.

The percentage of loans in default on primary mortgage insurance declined to 2.56% at March 31, 2022 from 2.91% at Dec. 31, 2021 and 5.25% at Dec. 31, 2020. This level is approaching the pre-pandemic 1.83% rate at March 31, 2020. In addition, favorable statutory reserve development increased to 14.0 points in 2021 from 3.2 points in 2020. Sizable positive development continued in 1Q22 due to more favorable cure activity than originally estimated.

## Rating Sensitivities

### Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- An improvement in company profile score to ‘a–’.
- Consistently maintaining PMIERs coverage ratio above 150%, while maintaining the holding company capital buffer.
- An improvement in statutory or cash coverage.
- Due to its monoline nature, any strongly positive event for the mortgage insurance industry that results in a higher industry profile and operating environment (IPOE) score.

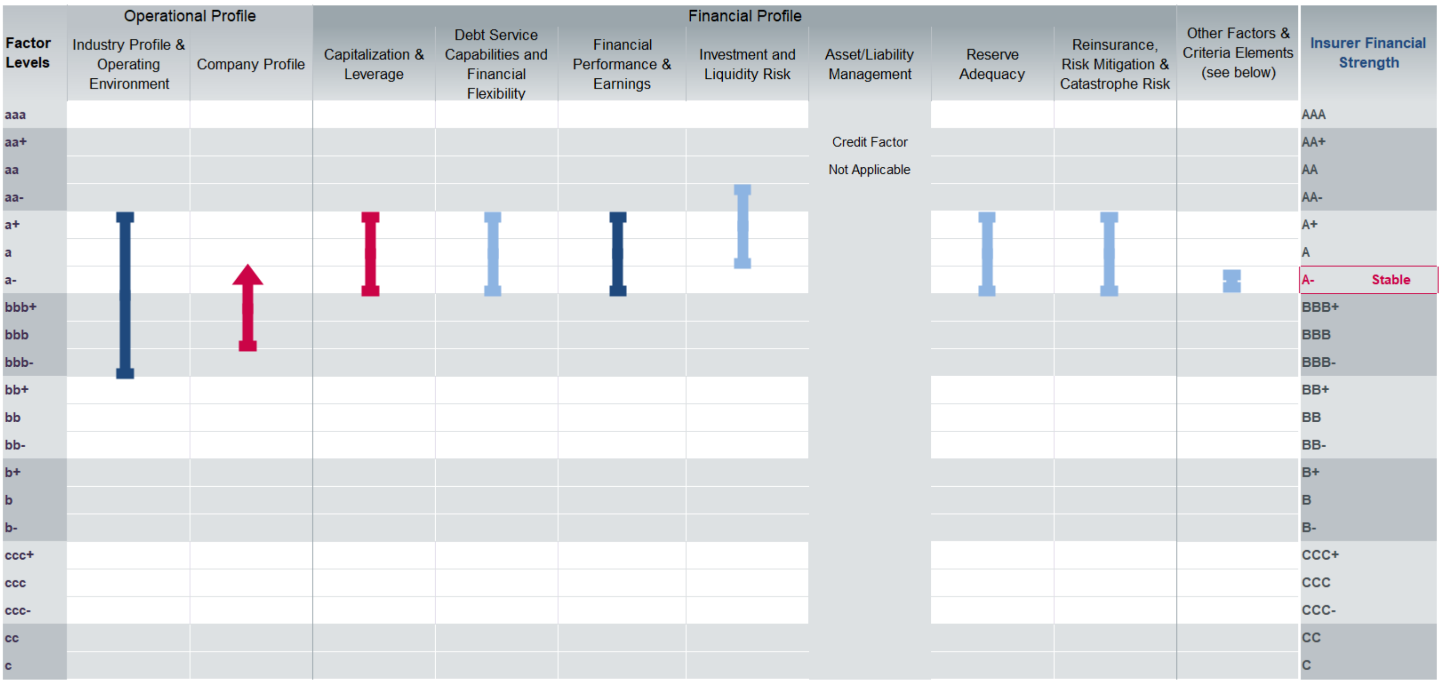
### Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- A decline in company profile score to below ‘bbb+’.
- A decline in the PMIERs coverage ratio to below 123%, or an indication that holding company capital is not available to support the insurance entities.
- Stagnation or deterioration in statutory or cash coverage, especially if Radian Group's tax- and expense-sharing arrangement is revoked.
- Due to its monoline nature, any strongly negative event for the mortgage insurance industry that results in a lower IPOE score.

## Latest Developments

- The company profile score was moved to ‘bbb+’ with a Positive Outlook from ‘bbb+’ with a Stable Outlook to reflect a one-notch increase in the six-notch IPOE range to ‘a+ to bbb–’ from ‘a to bb+’.
- The capitalization and leverage score was moved to ‘a’ with a Stable Outlook from ‘a–’ with a Stable Outlook to reflect improved capital strength, as measured by increased PMIERs coverage ratios.

## Key Credit Factors — Scoring Summary




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

| Bar Chart Legend: |
|---|
| Vertical Bars = Range of Factor |
| Bar Colors = Relative Importance |
| Higher Influence |
| Moderate Influence |
| Lower Influence |
| Bar Arrows = Factor Outlook |
| ⇧ Positive |
| ⇩ Negative |
| ⇳ Evolving |
| ▭ Stable |

# Company Profile

### Moderate Business Profile

Fitch ranks Radian Group's overall business profile at the high end of "moderate" compared with other U.S. mortgage insurers. Given this ranking, Fitch scores Radian's business profile at 'bbb+' under its credit factor scoring guidelines.

Radian Group was formed in 1999 when predecessor companies Commonwealth Mortgage Assurance Company and Amerin Guaranty Corporation merged. Thus, Radian Guaranty is a legacy mortgage insurer — one of the four surviving mortgage insurers that wrote business prior to the 2007–2009 recession.

Radian Guaranty has a substantive franchise within the USMI sector. Radian Group has a nascent competitive advantage through its diversification into other mortgage credit-related businesses, such as mortgage, real estate and title services.

Radian Guaranty's operating scale is favorable overall. Radian Guaranty had a 15.7% USMI market share for 2021 based on NIW, the fourth largest in the industry. Fitch considers this level of market share to be moderate, but notes that only 6 percentage points of market share separate all six competitors. Radian Guaranty's statutory capital was $4.7 billion at Dec. 31, 2021, although it declined to $4.4 billion at March 31, 2022 due to a $500 million return of capital to Radian Group. However, this level remains at the high end of the favorable range.

Radian Guaranty has slightly above-average exposure to high loan-to-value mortgages and borrowers with FICO scores below 680. As a legacy mortgage insurer, Radian Guaranty does have exposure to loans written prior to 2009 and bears the PMIERs asset charge that is associated with reserves from those vintages. This is a disadvantage, but it is a disadvantage that diminishes as each subsequent year passes and the pre-2009 loans amortize. Eventually, the loans from those vintages will amortize to the point that there is no longer a distinction between the "new" USMIs and the "legacy" USMIs

By regulation, USMIs are monoline insurers. All six USMIs have roughly the same geographic diversification, writing in all 50 states and the District of Columbia. No state accounts for more than 9.3% of Radian Guaranty's risk in force. Radian Guaranty's three largest states are California, Texas and Florida, which are the three most populous states. The company is also well diversified by customer. The company's MI sales force markets to mortgage originators, such as mortgage bankers, commercial banks, savings institutions, credit unions and community banks. Its largest single mortgage insurance customer accounted for 13.9% of primary NIW during 2021.

In differentiation to most of its competitors, Radian Group also offers mortgage services, real estate services and title services outside of its mortgage insurance operation through its homegenius segment. These businesses provide information and other resources used to originate, evaluate, acquire, securitize, service and monitor residential real estate and loans secured by residential real estate. Radian Group markets these services to mortgage lenders, financial institutions, investors and government entities. Title insurance is sold to mortgage lenders and directly to borrowers. The common thread is that all of these other businesses leverage Radian Group's underwriting expertise, mortgage data and technology. For 2021, homegenius revenue comprised 11% of total reportable segment GAAP revenue, up from 8% for 2020, and generated a modest operating loss.

### Corporate Governance Is Moderate/Favorable

Corporate governance is ranked as moderate/favorable and, as such, Fitch utilizes the unadjusted business profile score when scoring company profile. Radian Group's risk appetite is driven by strategies set forth by its executive management team. Radian Group defines risk appetite qualitatively through the key risk categories where strategic execution can take place. Risk appetite statements are reviewed, modified (where appropriate) and approved by Radian Group's Enterprise Risk Management Executive Steering Committee on an annual basis at a minimum, or more frequently, as warranted. Risk appetite statements were established for credit, operational, regulatory and compliance, strategic and financial risks.

# Ownership

Radian Group, Inc. is publicly owned, which is neutral to the rating.

## Capitalization and Leverage

### Strong Capitalization and Reasonable Financial Leverage

Radian Guaranty is well capitalized based on the historical regulatory risk-to-capital metric. Previously, Radian Guaranty was less well capitalized relative to peers when risk-adjusted metrics were used. The $525 million senior notes issue in 2020 and increased use of mortgage insurance-linked notes (MILNs) have elevated Radian Guaranty's capital ratios, but also drove increases in financial leverage and total financing and commitments (TFC) leverage.

The risk-to-capital ratio is the traditional metric used by most state regulators to measure capital adequacy. Radian Guaranty's risk-to-capital ratio was a strong 11.1:1 at YE 2021, which compares favorably with the regulatory maximum of 25:1. However, this is a relatively simplistic capital measure that does not consider either asset or insurance risk.

The PMIERs coverage ratio (the ratio of total available assets to minimum required assets) is a risk-adjusted metric. Total available and minimum required assets are calculated using a factor-based model designed by the government-sponsored enterprises (Fannie Mae and Freddie Mac). Radian Guaranty's PMIERs coverage rose to 162% at YE 2021, from 140% at YE 2020, which is consistent with the 'aa' benchmark, but still slightly lower than peers.

In February 2022, Radian Guaranty paid $500 million in cash and marketable securities to Radian Group. This transfer was approved by the Pennsylvania Insurance Department as an extraordinary distribution in the form of a return of paid-in capital. As a result, Radian Guaranty's statutory policyholders' surplus declined by $500 million, reducing the PMIERs coverage ratio to 144% and increasing the risk-to-capital ratio to 12.1:1 at March 31, 2022, which are consistent with 'a+' and 'a' benchmarks, respectively.

Radian Group also maintains material liquidity at the holding company level. This liquidity could be used to support any capital needs at the operating companies. However, some of that liquidity is needed to support other commitments, such as holding company expenses, including interest on financial debt, and stock repurchase programs.

To date, Radian completed six MILN (Eagle Re 2018-1, Eagle Re 2019-1, Eagle Re 2020-1, Eagle Re 2020-2, Eagle Re 2021-1 and Eagle Re 2021-2) for initial amounts of $434 million, $562 million, $488 million, $390 million, $498 million and $484 million, respectively. The MILN program decreases minimum required assets (the numerator of the PMIERs coverage ratio), but increases operating leverage, which is reflected in Radian Group's TFC ratio. At YE 2021, Radian Group's TFC ratio was 0.9x, up from 0.8x at YE 2020, which is considered high and a caution to the rating.

MILNs improve reported PMIERs. However, the MILNs amortize in parallel with the underlying mortgage loans. Thus, Radian Guaranty is exposed to the risk that capital market conditions could change and access to funding could dry up temporarily. Positively, the MILN market demonstrated resiliency and remained open during the pandemic, although the market was briefly disrupted at the onset in Spring 2020.

Radian Group employed moderate financial leverage of 24.8% at March 31, 2022, down from 25.4% at YE 2021 and 25.9% at YE 2020, which is consistent with the benchmark for the rating level.

#### Financial Highlights

| (%) | 2020 | 2021 |
|---|---|---|
| Financial Leverage | 25.9 | 25.4 |
| Risk to Capital (x) | 12.7 | 11.1 |
| PMIERs Coverage | 140 | 162 |

PMIERs – Private mortgage insurer eligibility requirements.
Note: Financial leverage is GAAP basis. Risk to capital is on a statutory basis for Radian Guaranty only.
Source: Fitch Ratings, Radian Group Inc.

#### Fitch Expectations

- The risk-to-capital ratio will remain strong. PMIERs coverage ratio should be maintained at strong to very strong levels.

## Debt Service Capabilities and Financial Flexibility

### Mixed Debt Service Capabilities and Strong Financial Flexibility

Although Radian Group reports a GAAP fixed-charge coverage consistent with the rating level, Radian Guaranty is not able to pay an ordinary dividend to Radian Group. Positively, the Radian operating companies are able to pay their proportionate share of interest to the holding company under a global cost allocation and services agreement.

At YE 2021, the company held $605 million in cash and marketable securities at the holding company, which increased to $1.0 billion at March 31, 2022, following the $500 million return of capital to Radian Group. This level should be more than adequate to meet cash needs, including the holding company expenses, stock repurchase program, operating company capital and provide a cushion of at least 2x forward debt service.

Although Radian Guaranty continued to report a statutory profit in recent years, it reported negative unassigned surplus of $562.8 million at Dec. 31 2021. Radian Guaranty will not be able to pay a dividend without regulatory approval until it has positive unassigned surplus. The current expectation is that Radian Guaranty will be able to begin releasing contingency reserves into surplus in 2024, which should improve its unassigned surplus position.

There is modest laddering to Radian Group's debt. At YE 2021, Radian Group had outstanding senior note issues of $450 million, $525 million and $450 million maturing in 2024, 2025 and 2027, respectively.

Radian Group has market access in the equity, debt, bank and MILN markets. Debt is fixed rate and intermediate term. Radian Group has contingency funding in the form of a $275 million unsecured revolving credit facility through December 2026. The full amount of the revolving credit facility was available at YE 2021. Radian Guaranty also has access to additional liquidity through its membership in the Federal Home Loan Bank of Pittsburgh.

### Financial Highlights

| (x) | 2020 | 2021 |
|---|---|---|
| Fixed-Charge Coverage | 6.9 | 9.9 |
| Statutory Coverage | 1.0 | 1.0 |

Note: Reported on a GAAP basis.
Source: Fitch Ratings, Radian Group Inc.

### Fitch Expectations

- Coverage is expected to remain at the current levels over the near term, with pandemic-related delinquencies primarily resolved.

## Financial Performance and Earnings

### Performance Improves Following Pandemic-Driven Losses

Radian Guaranty's statutory combined ratio dropped to 38.6% in 2021 from 74.0% in 2020, as coronavirus-related delinquencies declined following increased incurred losses in 2020 due to the pandemic as unemployment rose and borrowers took advantage of forbearance programs. The percentage of loans in default on primary mortgage insurance declined to 2.56% at March 31, 2022 from 2.91% at Dec. 31, 2021 and 5.25% at Dec. 31, 2020. This level is approaching the pre-pandemic 1.83% rate at March 31, 2020. In addition, favorable statutory reserve development increased to 14.0 points in 2021 from 3.2 points in 2020. Sizable positive development continued in 1Q22 due to more favorable cure activity than originally estimated. The combined ratio fluctuated in the 39%–56% range over the 2015–2019 five-year period. These results reflect the much improved underwriting standards over the past 10 years and the general run off of losses from legacy (pre-2009) business.

Radian Guaranty is one of the four legacy USMIs. As such, it is operating at scale. The USMI industry loss ratio spiked in 2007 at the beginning of the recession and remained above 100% through 2012. That recession ended in 2009. Increases in unemployment or declines in home prices tend to increase mortgage insurance losses.

### Financial Highlights

| ($ Mil.) | 2020 | 2021 |
|---|---|---|
| Consolidated GAAP Net Income | 394 | 601 |
| Statutory Income | 442 | 754 |
| Statutory Combined Ratio (%) | 74.0 | 38.6 |
| Return on Statutory Capital (%) | 11.4 | 16.2 |

Note: Return on statutory capital is Radian Guaranty only, not combined.
Source: Fitch Ratings, Radian Group Inc.

### Fitch Expectations

- Earnings should remain favorable in the near term assuming robust economic activity.

## Investment and Asset Risk

### Low-Risk Investment Portfolio

Radian Guaranty takes little risk in its asset portfolio. Radian Guaranty is one of a few USMIs that invest in residential mortgage-backed securities (RMBS). The concern is that losses on RMBS investments would correlate with insured losses. Radian Guaranty limits its RMBS investment to agency issues, which have either explicit or implicit guaranties from the U.S. government. When counting the RMBS investments as risky assets, Radian Guaranty's exposure to risky assets is consistent with the 'a–' benchmark.

The reported liquidity ratio at YE 2021 is consistent with the 'bbb–' benchmark. However, reported liabilities include the $3.9 billion contingency reserve. Liquidity relative to only loss and loss adjustment expense reserves would be consistent with the 'aaa' benchmark.

### Financial Highlights

| (%) | 2020 | 2021 |
|---|---|---|
| Risky Assets to Surplus | 34 | 27 |
| RMBS to Surplus | 73 | 55 |
| Liquid Assets to Liabilities | 85 | 88 |

RMBS – Residential mortgage-backed securities. Note: Reported on a combined statutory basis.
Source: Fitch Ratings, Radian Guaranty Inc.

### Fitch Expectations

- Fitch does not expect a significant change in Radian Guaranty's investment risk profile over the next 12–24 months.

## Reserve Adequacy

### Strong Reserve Adequacy Under Benign Conditions

Recent loss reserve development continues to be favorable, including $139 million in 2021 and $35 million in 2020, with additional prior-period reserve releases in 1Q22. The five-year average is consistent with the 'aaa' benchmark. However, over a longer time frame, loss reserve development has been more volatile, with periods of both material adverse and favorable development. The current favorable development trend is consistent with the low-loss economic environment of recent years and the pandemic-related moratorium on foreclosures.

### Financial Highlights

| (%) | 2020 | 2021 |
|---|---|---|
| Loss Reserve Development to Surplus | (3.2) | (16.2) |

Note: Reported on a combined statutory basis.
Source: Fitch Ratings, Radian Guaranty Inc.

### Fitch Expectations

- Favorable reserve development will continue under current macroeconomic conditions, with the potential for additional release of pandemic reserves. However, adverse reserve development could occur under an economic downturn, particularly if housing prices decline sharply.

## Reinsurance, Risk Mitigation and Catastrophe Risk

### Reinsurance Used for Risk Mitigation and Capital Relief

Radian Guaranty uses both quota-share and excess of loss (XOL) reinsurance to manage its risk appetite and PMIERs capital requirements. A portion of the company's single premium business was reinsured through a series of quota-share transactions. Radian Guaranty also has an older quota-share program dating back to 2012 and XOL protection in the form of the Eagle Re MILN transactions.

In 2016, 2018 and 2020, Radian Guaranty entered into quota-share agreements for their single-premium business with a panel of reinsurers. Starting in 2018, Radian Guaranty began to reinsure a portion of its mortgage insurance exposure through a series of insurance-linked security transactions (the Eagle Re transactions). To date, there have been six Eagle Re transactions, providing total initial coverage amounts of $2.9 billion, with $2.3 billion of remaining coverage at YE 2021.

The Eagle Re structures are fully collateralized with U.S. Treasury money market funds. Currently, all USMIs are using MILN as a cost-effective way to manage risk and meet PMIERs requirements.

Historically, USMIs employed relatively little reinsurance protection other than the originator captive arrangements that were in place prior to the 2007–2009 recession. This approach resulted in higher reported earnings when losses were low, but potentially crippling losses in extreme adverse events, such as the 2007–2009 recession. More recently, mortgage insurers employed quota-share and MILN-based reinsurance in an effort to manage capital, distribute risk and achieve compliance under the new PMIERs risk-based capital model. Since the current loss environment was favorable to mortgage insurers, it was difficult to assess the effectiveness of this risk mitigation strategy. However, if the loss environment turns significantly negative, it should become apparent whether the strategy has been effective in materially reducing mortgage insurance losses.

### Financial Highlights

| (%) | 2020 | 2021 |
|---|---|---|
| Reinsurance Recoverables to Policyholders' Surplus | 37 | 22 |
| Net Written Premium to Gross Written Premium | 92 | 95 |

Note: Reported on a combined statutory basis.
Source: Fitch Ratings, Radian Guaranty Inc.

### Fitch Expectations

- Amortization of the first three Eagle Re structures stopped due to increased delinquencies caused by the pandemic. Eagle Re MILNs will provide offsetting loss benefits if delinquencies result in actual paid losses above the attachment points. Fitch expects all USMIs to continue to use MILNs for reinsurance purposes.

# Appendix A: Peer Analysis

### Peer Comparison

Click here for a report that shows a comparative peer analysis of key credit factor scoring.

# Appendix B: Industry Profile and Operating Environment

### Industry Profile and Operating Environment (IPOE)

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

# Appendix C: Other Rating Considerations

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

### Group Insurance Financial Strength (IFS) Rating Approach

Radian Guaranty is considered Core to Radian Group's mortgage insurance operations. It is the group's lead operating company, representing substantially all of the combined statutory assets and earned premium.

### 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 senior unsecured debt. Standard notching relative to the IDR was used. |

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

### Debt Maturities

| ($ Mil., as of Dec. 31, 2021) | |
|---|---|
| 2022 | 0 |
| 2023 | 0 |
| 2024 | 450 |
| 2025 | 525 |
| 2026 | 0 |
| 2027 | 450 |
| **Total** | **1,425** |

Source: Fitch Ratings, Radian Group Inc.

### Hybrid – Equity/Debt Treatment

None.

### Transfer and Convertibility Risk (Country Ceiling)

None.

### Criteria Variations

None.

# Appendix D: Environmental, Social and Governance Considerations

FitchRatings | Radian Guaranty Inc. | **Insurance Ratings Navigator** Mortgage Insurance

**Credit-Relevant ESG Derivation**

Radian Guaranty Inc. has 6 ESG potential rating drivers

- Radian Guaranty Inc. 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.
- Radian Guaranty Inc. 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 and 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; Company Profile | 4 |
| Labor Relations & Practices | 2 | Impact of labor negotiations, including board/employee compensation and composition | Company Profile | 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 | Company Profile; Investment and 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 | Company 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 | Company Profile | 4 |
| Group Structure | 3 | Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership | Company Profile; Ownership | 3 |
| Financial Transparency | 3 | Quality and timing of financial reporting and auditing processes | Company Profile | 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 Consideration

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

DISCLAIMER & DISCLOSURES