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.)	12/31/21	12/31/22
New Insurance Written	91,830	67,954
Insurance in Force	245,972	260,994
Risk in Force	60,913	66,094
Statutory Capital	5,020	5,190
Statutory Net Income	763	1,092

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

Applicable Criteria

Insurance Rating Criteria (July 2022)

Related Research

Radian Group Inc. – Ratings Navigator (April 2023)

U.S. Mortgage Insurance Dashboard: YE 2022 (March 2023)

U.S. Mortgage Insurance Outlook 2023 (December 2022)

Analysts

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Key Rating Drivers

Moderate Company Profile: Fitch Ratings ranks Radian Group Inc.'s overall company profile at the high end of "moderate" compared with other U.S. mortgage insurers, which aligns with Fitch's 'bbb+' credit factor score.

Radian Guaranty Inc. is the third largest of the six active U.S. mortgage insurers (USMIs) based on new insurance written (NIW), with a 16.8% market share. Radian Guaranty is one of four legacy USMIs that wrote business prior to the 2007–2009 recession. Radian Guaranty's 2008 and prior vintage years represent 3.5% of insurance in force, 3.5% of risk in force (RIF) and 29.2% of loss reserves at Dec. 31, 2022.

Strong Capitalization: Radian Guaranty's private mortgage insurer eligibility requirements (PMIERs) coverage of 145% at YE 2022 is strong, although down from a very strong 162% at YE 2021. The decline reflects $500 million in cash and marketable securities paid to Radian Group Inc. in February 2022 that was approved by the Pennsylvania Insurance Department as an extraordinary distribution. In December 2022, Radian Guaranty also paid a $282 million return of capital and a $100 million early repayment of an outstanding surplus note to Radian Group.

Stockholders' equity of $3.9 billion at Dec. 31, 2022 was down from $4.3 billion at YE 2021. The decrease reflects net unrealized losses on investments of $577 million, driven by an increase in market interest rates during the year. Radian expects to hold its bonds to maturity and thus would not realize these losses. The stockholders' equity decline is also due to share repurchases of $400 million and dividends of $137 million, partially offset by net income of $743 million.

Positive Unassigned Surplus: Following capital actions completed in December 2022, Radian Guaranty attained positive unassigned surplus of $258 million at YE 2022 and can thus resume paying recurring ordinary dividends to Radian Group, without prior regulatory approval, beginning in 1Q23. Radian Guaranty expects to pay ordinary dividends to Radian Group in 2023 of $300 million–$400 million. Radian Guaranty had not paid an ordinary dividend to Radian Group since the financial crisis in 2007, due to having negative unassigned surplus.

Radian Guaranty is also expected 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 $903 million in cash and marketable securities at YE 2022. This level should be more than adequate to meet its cash needs, including for holding company expenses, interest on financial debt and stock repurchases.

Pandemic Reserve Releases: Radian Guaranty's statutory combined ratio dropped to a negative 0.6% in 2022 from 38.6% in 2021, reflecting 51.0 points of favorable reserve development in 2022, compared with 14.0 points in 2021, due to more favorable cure activity than originally estimated, primarily in the pandemic-exposed 2020 accident year. The sizable negative provision for losses in 2022 led to higher overall net income in 2022, although unrealized investment losses and the homegenius segment's increased operating losses partially offset the improved underwriting results.

Improved recent underwriting performance also reflects lower USMI default rates. The percentage of loans in default on primary mortgage insurance declined to 2.18% at Dec. 31, 2022 from 2.91% at Dec. 31, 2021 and 5.25% at Dec. 31, 2020. This level is very near the pre-pandemic 1.83% rate at March 31, 2020. Nevertheless, worsening economic conditions, including declining home prices and a potential for recession with higher unemployment rates, raised the prospect of higher new default rates.

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.
- Due to its monoline nature, any strongly positive event for the mortgage insurance industry.

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

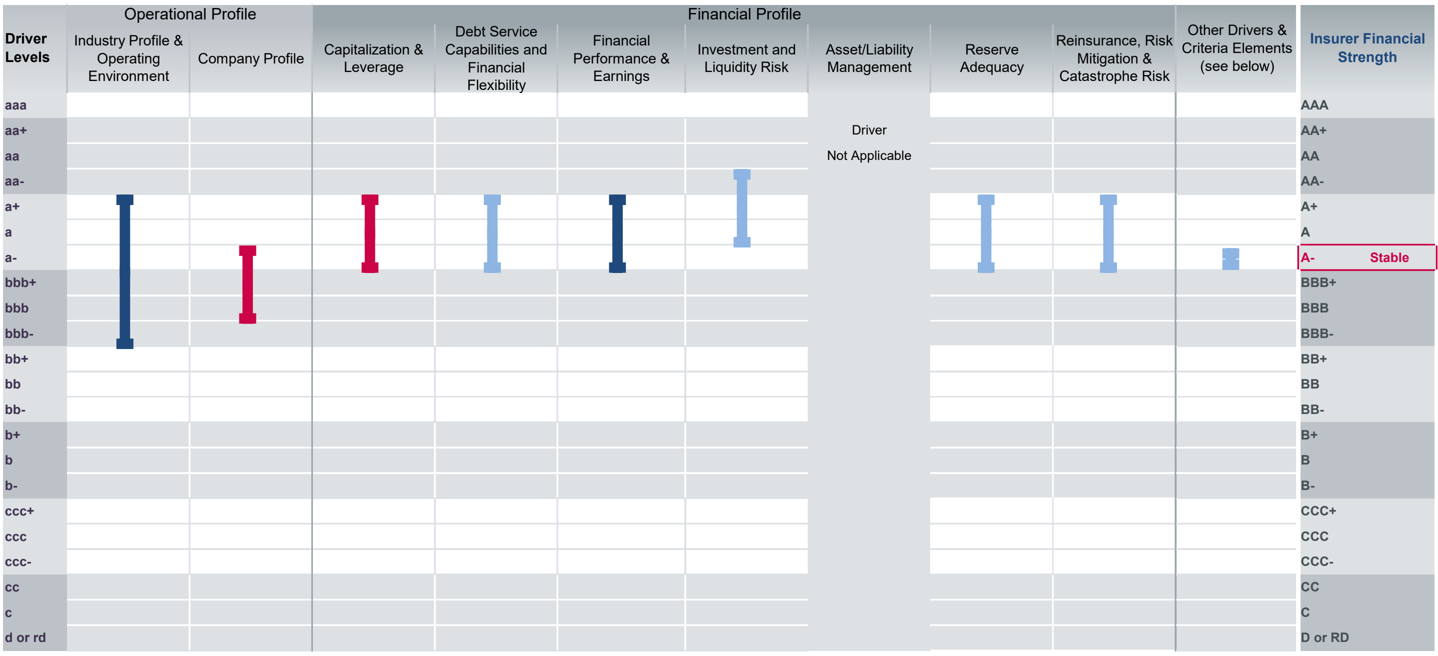
- A decline in company profile score to below 'bbb+'.
- A decline in the PMIERs coverage ratio to consistently below 130%, or an indication that holding company capital is not available to support the insurance entities.
- Deterioration in statutory coverage, especially if Radian Group's tax- and expense-sharing arrangement was revoked.
- Due to its monoline nature, any strongly negative event for the mortgage insurance industry.

Latest Developments

In December 2022, Radian Reinsurance Inc. completed the novation to an unrelated third-party reinsurer of its entire insured portfolio, which consisted solely of credit risk transfer transactions with the government-sponsored enterprises (GSEs; Fannie Mae and Freddie Mac), with Radian Reinsurance subsequently merged into Radian Guaranty. Following completion of the merger, the Pennsylvania Insurance Department approved a $282 million return of capital from Radian Guaranty to Radian Group, which was paid on Dec. 30, 2022. Radian Guaranty also repaid its $100 million surplus note due 2027 to Radian Group on Dec. 30, 2022.

In July 2022, Radian Group launched Radian Mortgage Capital, which acquires residential mortgage loans to distribute into the capital markets through private label securitizations or sell directly to mortgage investors, with the option to retain and manage structured components of the underlying credit risk.

Key Rating Drivers — Scoring Summary



Other Drivers & 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 Driver

Bar Colors = Relative Importance

- Higher Influence
- Moderate Influence
- Lower Influence

Bar Arrows = Driver Outlook

- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ☐ Stable

Company Profile

Moderate U.S. Mortgage Insurance Company Profile

Fitch ranks Radian Group's business profile at the high end of "moderate" compared with other U.S. mortgage insurers. This ranking aligns with Fitch's 'bbb+' credit factor score and is considered to have a higher influence on the rating. 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 16.8% USMI market share for 2022 based on NIW, the third largest in the industry. Fitch considers this level of market share to be moderate, but notes that only 4.4 percentage points of market share separate all six competitors. Radian Guaranty's statutory capital was $5.2 billion at Dec. 31, 2022, which is favorable and the second largest in the industry.

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 (one of the four surviving mortgage insurers that wrote business prior to the 2007–2009 recession), Radian Guaranty has 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 that had diminished significantly as most of the pre-2009 loans amortized, resulting in a reduced distinction between the "new" USMIs and the "legacy" USMIs. Radian Guaranty's 2008 and prior vintage years represent 3.5% of insurance in force, 3.4% RIF and 29.2% of loss reserves at Dec. 31, 2022.

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. Radian Guaranty's three largest states are Texas (9.4% of RIF), California (8.7% of RIF) and Florida (6.3% of RIF), 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 8% of primary NIW during 2022, compared with 14% in 2021, with the top 10 generating 34% of NIW in 2022 and 38% in 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 2022, homegenius revenue comprised 9% of total reportable segment GAAP revenue, down from 11% for 2021, and generated pretax operating losses of $88 million in 2022 and $27 million in 2021.

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. The board of directors consists of 11 members, of which all but one (CEO) are considered independent directors, as determined by the board of directors in accordance with the director independence standards under NASDAQ rules.

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 was formed in 1999 when predecessor companies Commonwealth Mortgage Assurance Company and Amerin Guaranty Corporation merged. Radian Group is publicly owned, which is neutral to the rating.

Capitalization and Leverage

Strong Capitalization and Moderate Financial Leverage

Radian Group's capital position provides a strong cushion against the operational and financial risks the company faces and is of higher influence to the Insurer Financial Strength (IFS) rating. Radian Guaranty is well capitalized based on regulatory risk-to-capital metrics. 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 10.7:1 at YE 2022, 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 GSEs. Radian Guaranty's PMIERs coverage declined to 145% at YE 2022 ('a+' benchmark) from 162% at YE 2021 ('aa' benchmark), and is the lowest among peers. The decline reflects $500 million in cash and marketable securities paid to Radian Group in February 2022 that was approved by the Pennsylvania Insurance Department as an extraordinary distribution in the form of a return of paid-in capital. In December 2022, Radian Guaranty also paid a $282 million return of capital and a $100 million early repayment of an outstanding surplus note to Radian Group.

Radian Group also maintains material liquidity at the holding company level. This liquidity could be used to support 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 (which is covered by the expense sharing agreement), and stock repurchase programs. In January 2023, Radian Group authorized a share repurchase program for up to $300 million of its common stock, as the company's previous $400 million share repurchase program was fully utilized in October 2022.

To date, Radian completed six mortgage insurance-linked notes (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 total financing and commitments (TFC) ratio. Radian Group's TFC ratio was 0.8x at YE 2022 and 0.9x at YE 2021, and 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 24.4% at YE 2022, down from 25.4% at YE 2021 and 25.9% at YE 2020, all of which are in line with Fitch's 'a+' IFS credit factor score.

Financial Highlights

(%, as of Dec. 31)	2021	2022
Financial Leverage	25.4	24.4
Risk to Capital (x)	11.1	10.7
PMIERs Coverage	162	145

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 and PMIERs coverage ratio should be maintained at strong to very strong levels as management is committed to maintaining capitalization and leverage above the current rating level.

Debt Service Capabilities and Financial Flexibility

Return of Ordinary Dividend Capacity; Good Financial Flexibility

Radian Group reports a GAAP fixed-charge coverage better than the rating level. 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.

Following capital actions completed in December 2022, Radian Guaranty attained positive unassigned surplus of $258 million at YE 2022 and can thus resume paying recurring ordinary dividends to Radian Group, without prior regulatory approval, beginning in 1Q23. Radian Guaranty expects to pay total ordinary dividends to Radian Group during 2023 of $300 million–$400 million. Radian Guaranty had not paid an ordinary dividend to Radian Group since the financial crisis in 2007, due to having negative unassigned surplus. Radian Guaranty is also expected to begin releasing contingency reserves into surplus in 2024, which should improve its unassigned surplus position.

At YE 2022, the company held $903 million in cash and marketable securities at the holding company, up from $605 million at YE 2021, following the February/December extraordinary return of capital to Radian Group. This level is 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.

There is modest laddering to Radian Group's debt. At YE 2022, 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 2022. Radian Guaranty also has access to additional liquidity through its membership in the Federal Home Loan Bank of Pittsburgh.

Financial Highlights

(x, as of Dec. 31)	2021	2022
Fixed-Charge Coverage	9.9	13.2
Statutory Coverage	1.0	1.0

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

Financial Performance and Earnings

Performance Improves Driven by Pandemic Reserve Releases

Radian Guaranty's statutory combined ratio dropped to a negative 0.6% in 2022 (GAAP negative 8.8%) from 38.6% in 2021 (GAAP 27.2%), reflecting 51.0 points of favorable reserve development in 2022 (GAAP 50.9 points) compared with 14.0 points in 2021 (GAAP 13.6 points), due to more favorable cure activity than originally estimated. The sizable negative provision for losses in 2022 led to higher overall net income and favorable returns in 2022 (18.2% GAAP ROAE), although unrealized investment losses from trading and equity securities that flow through the income statement and increased operating losses in the homegenius segment partially offset the improved underwriting results.

Improved recent underwriting performance also reflects lower USMI default rates. The percentage of loans in default on primary mortgage insurance declined to 2.18% at Dec. 31, 2022 from 2.91% at Dec. 31, 2021 and 5.25% at Dec. 31, 2020. This level is very near the pre-pandemic 1.83% rate at March 31, 2020. Nevertheless, worsening economic conditions, including declining home prices and a potential for recession with higher unemployment rates, have raised the prospect of higher new default rates.

Radian Guaranty posted a statutory combined ratio of 74% in 2020 (GAAP 65.2%) due to increased incurred losses from the pandemic as unemployment rose and borrowers took advantage of forbearance programs. The combined ratio fluctuated in the 39%–56% range over the five years of 2015–2019.

Financial Highlights

($ Mil., as of Dec. 31)	2021	2022
Consolidated GAAP Net Income	601	743
Statutory Income	763	1,092
Statutory Combined Ratio (%)	38.6	-0.6
Return on Statutory Capital (%)	17.1	21.4

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

Fitch's Expectations

- Calendar-year underwriting performance will moderate in 2023, reflecting a large portion of borrowers reaching peak loss emergence years and less opportunity for reserve releases.

Investment and Asset Risk

Low-Risk Investment Portfolio and Strong Liquidity; RMBS Exposure

Radian Guaranty takes little risk in its asset portfolio, with 95% of the fixed-income investment portfolio rated investment grade and a weighted average duration of 4.4 years at Dec. 31, 2022. The largest asset classes are corporate bonds and residential mortgage-backed securities (RMBS) at 47% and 16%, respectively, of the total GAAP fixed maturities portfolio. Radian Guaranty is one of several USMIs that invest in 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 'bb+' benchmark.

The reported liquidity ratio at YE 2022 is consistent with the 'bb+' benchmark. However, reported liabilities include the $4.4 billion contingency reserve. Liquidity relative to only loss and loss adjustment expense reserves would be consistent with the 'aaa' benchmark.

Financial Highlights

(%, as of Dec. 31)	2021	2022
Risky Assets to Surplus	27	13
RMBS to Surplus	55	115
Liquid Assets to Liabilities	88	85

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

Reserve Adequacy

Strong Reserve Adequacy, but Can Be Volatile

Radian reported substantial favorable loss reserve development in 2022 of $488 million on a statutory basis ($499 million GAAP basis). These reserve releases primarily reflect more favorable cure activity in the pandemic-exposed 2020 accident year than what was originally estimated due to favorable outcomes resulting from mortgage forbearance programs as well as positive trends in home price appreciation. This follows favorable statutory reserve development of $139 million in 2021 ($141 million GAAP) and $35 million in 2020 ($35 million GAAP). Development in 2022 and 2021 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.

Financial Highlights

(%, as of Dec. 31)	2021	2022
Loss Reserve Development to Surplus	-16.2	-43.5

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

Fitch's Expectations

- Reserve releases will decline significantly in 2023, with reduced remaining pandemic reserves. 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

Since suffering crippling losses in the 2007–2009 recession, Radian Guaranty and all other USMIs have employed quota-share reinsurance with third-party reinsurers and excess of loss reinsurance through MILNs as cost-effective ways to manage capital, distribute risk and achieve compliance under the PMIERs risk-based capital model. As of Dec. 31, 2022, 70% of Radian Guaranty's primary mortgage insurance RIF is subject to some form of risk distribution. The effectiveness of this risk mitigation strategy in materially reducing mortgage insurance losses will become apparent in a tail risk event where the loss environment turns significantly negative.

In 2022, Radian Guaranty entered into a quota-share arrangement with reinsurers for both recurring policies and single-premium policies originated between Jan. 1, 2022 and June 30, 2023. This follows quota-share agreements for single-premium business in 2020, 2018 and 2016. Radian Guaranty also has an older quota-share program dating back to 2012.

Starting in 2018, Radian Guaranty began to reinsure a portion of its mortgage insurance exposure through a series of insurance-linked security transactions (Eagle Re). To date, there have been six Eagle Re transactions, providing total initial coverage amounts of $2.9 billion, with $1.9 billion of remaining coverage through five MILNs at YE 2022 (Eagle Re 2020-2 was terminated in September 2022). The Eagle Re structures are fully collateralized with U.S. Treasury money market funds. The Eagle Re MILNs will provide offsetting loss benefits if delinquencies result in actual paid losses above the attachment points. The first two Eagle Re structures stopped amortizing due to a delinquency trigger event caused by the pandemic.

Financial Highlights

(%, as of Dec. 31)	2021	2022
Reinsurance Recoverables to Policyholders' Surplus	22	20
Net Written Premium to Gross Written Premium	95	99

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

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 *Insurance Rating 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, 2022)	
2023	0
2024	450
2025	525
2026	0
2027	450
Total	**1,425**

Source: Fitch Ratings, Radian Group Inc.

Transfer and Convertibility Risk (Country Ceiling)

None.

Criteria Variations

None.

Appendix D: Environmental, Social and Governance Considerations

FitchRatings **Radian Group Inc.** **Insurance Navigator** **Mortgage Insurance**

Credit-Relevant ESG Derivation

Radian Group Inc. has 6 ESG potential rating drivers

- Radian Group 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 Group 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 Considerations

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.

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