

# HCC Insurance Holdings, Inc.

## And Insurance Subsidiaries

### Key Rating Drivers

**Ownership Limits Ratings:** HCC Insurance Holdings, Inc. (TMHCC) was acquired by Tokio Marine Holdings, Inc. (TMHD) in October 2015 for \$7.3 billion. The core operating subsidiaries of TMHD were recently affirmed with a 'AA-' Insurer Financial Strength (IFS) rating with a Stable Outlook, and are two notches above the Japan local-currency sovereign rating of 'A' with a Negative Outlook. The standalone assessment of TMHCC is a 'AA' IFS rating.

**Consistently Favorable Underwriting Results:** TMHCC is a diversified specialty underwriter that maintains a strong market position in a number of narrowly defined, less correlated insurance lines. The company targets a long-term average combined ratio of 88% with its current mix of business. From fiscal 2015 to 2019, the combined ratio averaged 88%.

**Very Strong Underwriting Culture:** TMHCC compensates both underwriters and executive officers on the company's long-term profitability, encouraging a focus on both short-term and long-term profitability. The compensation strategy and underwriter accountability facilitates the company's generation of consistently solid underwriting results throughout market cycles.

**Leader in Specialty Markets:** TMHCC operates in lines of business where underwriting skill and analytics can create superior returns long term, and limits activity in segments that compete solely on price. Above-average, long-term performance is also a function of underwriting discipline and a willingness to shrink the premium base as market forces dictate. Additionally, TMHCC is a leader in several niche markets, which gives the company a competitive advantage over peers.

**Very Strong Capitalization:** Fitch views TMHCC's property/casualty (P/C) insurance subsidiaries capitalization as very strong based on operating leverage of 0.7x and an RBC ratio of 239% as of Dec. 31, 2019. TMHCC's financial leverage ratio remained moderate at 16% as of YE 2019 and has very high fixed-charge coverage due to low interest rates on debt.

**Adequate Loss Reserves:** TMHCC has a history of favorable reserve experience and the company's overall reserve position developed favorably in 2019. Fitch believes the company's process for setting reserves is robust and is prudent in setting initial reserve levels.

### Rating Sensitivities

The ratings remain sensitive to any material change in Fitch's rating case assumptions regarding the coronavirus pandemic. Periodic updates to our assumptions are possible given the rapid pace of change in response to the pandemic, and the pace with which new information is available on the outbreak.

**Downgrade Sensitivities:** A material adverse change in Fitch's rating case assumptions with respect to the coronavirus impact, a downgrade of TMHD's operating company Issuer Default Rating (IDR), or a two-notch or more downgrade in TMHCC's standalone assessment. Fitch believes it is unlikely that any potential future downgrade of the TMHCC ratings would be to levels lower than those of the parent.

**Upgrade Sensitivities:** Fitch views a rating upgrade as unlikely, but an upgrade of TMHD's ratings could result in an upgrade to TMHCC's ratings. Any upgrade would also be prefaced by Fitch's ability to reliably forecast the impact of the coronavirus pandemic on the financial profile of both the non-life industry and the company.

### Ratings

HCC Insurance Holdings, Inc.  
IDR A-

Operating Companies  
Insurer Financial Strength AA-

### Outlook

Stable

### Financial Data

HCC Insurance Holdings, Inc.		
(\$ Mil.)	2018	2019
Net Income	400	376
Total Capital	5,285	5,903
ROE (%)	9.4	8.0
Combined Ratio (%)	89.4	89.8

Note: GAAP.  
Source: Fitch Ratings; HCC Insurance Holdings, Inc.

### Applicable Criteria

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

### Related Research

[HCC Insurance Holdings, Inc. - Ratings Navigator \(August 2020\)](#)

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## Key Credit Factors – Scoring Summary

Factor Levels	Operational Profile					Financial Profile			Asset/Liability Management	Reserve Adequacy	Reinsurance, Risk Mitigation & Catastrophe Risk	Other Factors & Criteria Elements (see below)	Insurer Financial Strength
	Industry Profile & Operating Environment	Business Profile	Capitalization & Leverage	Debt Service Capabilities and Financial Flexibility	Financial Performance & Earnings	Investment and Liquidity Risk							
aaa													AAA
aa+													AA+
aa													AA
aa-													AA-
a+													A+
a													A
a-													A-
bbb+													BBB+
bbb													BBB
bbb-													BBB-
bb+													BB+
bb													BB
bb-													BB-
b+													B+
b													B
b-													B-
ccc+													CCC+
ccc													CCC
ccc-													CCC-
cc													CC
c													C
d or rd													D or RD

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

Bar Chart Legend	
Vertical Bars = Range of Rating Factor	
Bar Colors = Relative Importance	
<span style="color: red;">■</span>	Higher Influence
<span style="color: blue;">■</span>	Moderate Influence
<span style="color: lightblue;">■</span>	Lower Influence
Bar Arrows = Rating Factor Outlook	
↑	Positive
↓	Negative
↕	Evolving
□	Stable

## Latest Developments

- Fitch reviewed TMHCC’s ratings in regards to the coronavirus pandemic and its rating case assumptions and it affirmed the ratings with a Stable Outlook. Fitch also reviewed TMHCC’s parent under this methodology and also affirmed those ratings with a Stable Outlook.
- In June 2020, TMHCC completed the acquisition of specialist renewable energy underwriter, GCube Underwriting Limited, for an undisclosed amount.

## Industry Profile and Operating Environment (IPOE)

Click [here](#) for a link to a report that summarizes the main factors driving the above IPOE score.

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## Business Profile

### Favorable Profile

TMHCC is a stock company that is 100% owned by TMHD, which is based in Japan and has a business profile score of 'aa+' by Fitch. TMHD has actively acquired several other U.S.-based insurers over time, including: Delphi Financial Group (2012) and Philadelphia Insurance Companies (2008). Approximately 40% of TMHD's operations at YE 2019 are from outside of Japan. TMHCC's operations are managed separately from other TMHD U.S. operations, but there are various levels of collaboration and shared services among subsidiaries.

TMHCC's primary product offerings include agriculture, aviation, property, energy, marine, directors and officers liability, professional liability, surety, credit and other specialty risks that are lowly correlated. Additionally, the company is a market leader in medical stop-loss coverage. The company divides its operations into three key segments: North America Property & Casualty, Accident & Health, and International.

### Favorable Competitive Positioning

Competitive positioning is comprised of two subfactors: general and operating scale. Together these factors aggregate into a favorable position. TMHCC has a leading business franchise within the sector and strong competitive advantages that are partly derived from its franchise. As of YE 2019, the company reported net written premiums of \$3.6 billion and shareholder's equity of \$5.0 billion.

### Favorable Risk Profile

TMHCC's risk appetite is lower than the sector as a whole and focuses on stable and established lines of business. In particular, the company's expertise as a specialty writer is to obtain adequate rate for the risk that is underwritten. By direct premiums, the largest P/C line of business underwritten is crop insurance.

## Ownership is Negative to the Rating

TMHCC is a specialty insurance group formed in 1974, based in Houston and acquired by TMHD in October 2015 for \$7.3 billion. Fitch's standalone rating of TMHCC is one notch higher than current ratings as ownership reduces the ratings by one notch.

## Capitalization and Leverage

### Very Strong Capitalization

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

Fitch evaluates capital on both a nonrisk-adjusted basis, such as operating and net leverage, and a risk-adjusted basis, such as RBC and Fitch's Prism capital model, to gain a more comprehensive view of capital. From a nonrisk-adjusted perspective, TMHCC's metrics are slightly favorable relative to the rating category and peer-rated companies.

Life RBC continues to grow from the decline in 2017 due to the acquisition of American International Group, Inc.'s (AIG) medical stop-loss operations. Since the P/C company owns the life company, the P/C company's decline in RBC was related to ownership of the life subsidiary. Fitch expects RBC growth to be more modest going forward.

Fitch believes TMHCC's financial leverage will approximate the 20% range over the near to intermediate term. TMHCC retired all existing public debt in 2015. The company's current debt structure consists of two debt facilities: a bank term loan and borrowings under a revolving credit facility. The bank term loan was extended in 2020, and Fitch believes that the revolving credit facility may be extended.

### Fitch Expectations

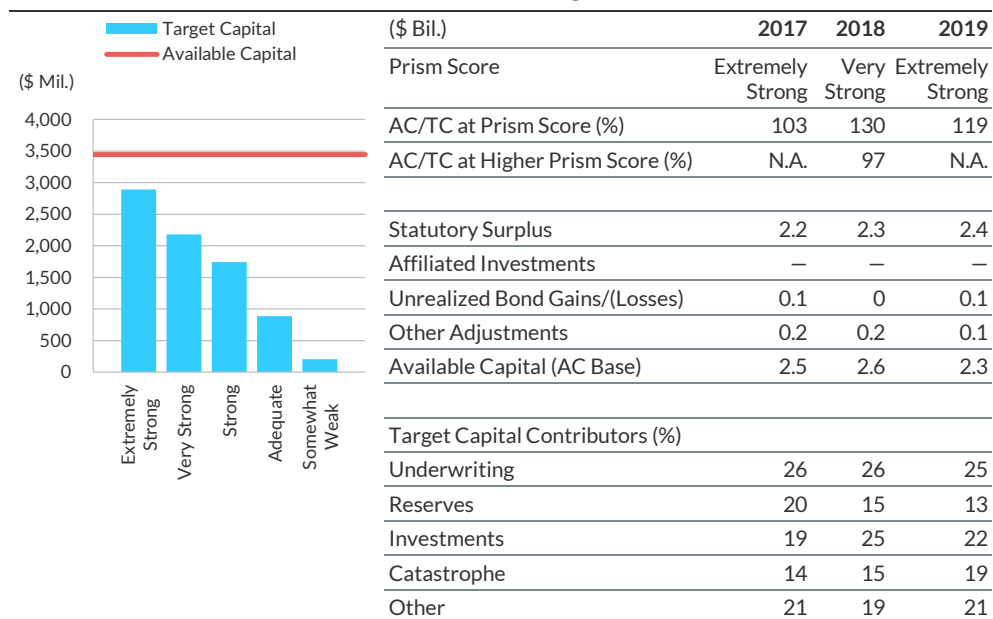
- Fitch expects TMHCC's capitalization to remain solid, with operating and net leverage near current levels. Financial leverage is expected to remain at or below 20%.

### Financial Highlights

	2018	2019
Total Capital (\$ Mil.)	5,285	5,903
Financial Leverage Ratio (%)	17	16
Net Premiums Written/Equity (x)	0.8	0.7
Net Leverage (x)	1.9	1.8
P/C RBC Ratio (%)	221	239
Life RBC Ratio (%)	166	212

P/C – Property/casualty. Note: RBC ratio is calculated at company action level for lead operating subsidiary and is based on statutory accounting. Financial leverage ratio excludes FAS 115. GAAP accounting principles. Source: Fitch Ratings; HCC Insurance Holdings, Inc.

### 2019 Prism Score – HCC Insurance Holdings Group



AC – Available capital. TC – Target capital. N.A. – Not applicable. Note: Red line is AC base; shaded area represents the high and low of AC due primarily to value of affiliated life subsidiary and unrealized bond gains/(losses). Source: Fitch Ratings, S&P Global Market Intelligence.

## Debt Service Capabilities and Financial Flexibility

### Very Strong Financial Flexibility and Debt-Servicing Capabilities

Fitch views TMHCC's financial flexibility and debt service capabilities to be very strong and supportive of the current rating category. Overall, this factor has a lower influence in determining the company's ratings.

Due to the company's strong profitability, moderate financial leverage and low interest expense, fixed-charge coverage is anticipated to remain near current levels over the near to intermediate term. The interest rate on the company's term loan is now fixed instead of floating. This was changed when the company refinanced it in 2020 extending the duration to March 2027.

For purposes of the statutory fixed-charge coverage ratio, Fitch used the maximum dividend the U.S. subsidiaries could send to the holding company without regulatory approval, which was \$234 million in 2020. Fitch notes that the company has additional liquidity sources outside of the U.S. but the bulk of revenues and profits are derived within the U.S.

### Fitch Expectations

- Fitch anticipates that coverage ratios will be in high-single-digit range over the near term.
- Fitch does not anticipate a significant increase in financial leverage, but anticipates interest expense to be relatively consistent yoy.

## Financial Performance and Earnings

### Very Strong Profitability

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

TMHCC's underwriting performance is a hallmark of the rating. TMHCC's underwriting expertise in specialty lines has led to consistently strong operating results, evidenced by very strong yoy combined ratios with minimal deviations.

The company's management and underwriters are compensated, in part, on delivering very strong bottom line results over top-line growth. In fact, the company actively reduces writings in lines of business that are too competitive to sustain a strong underwriting margin at the expense of maintaining market share or top-line growth.

Approximately, 14% of TMHCC's net written premiums are related to crop insurance. Due to the weather, 2019 was a difficult year for crop insurance, but TMHCC, through a tangible demonstration of its risk analysis, was still able to produce profitable results on a consolidated basis.

### Fitch Expectations

- TMHCC is expected to have a calendar-year combined ratio in the low -to mid-90% range for full-year 2020.
- Fitch expects that coronavirus pandemic will negatively affect loss ratios in 2020 but the company will continue to produce an underwriting profit.

### Financial Highlights

	2018	2019
Interest Expense (\$ Mil.)	28	29
GAAP Fixed-Charge Coverage (x)	19.2	16.5
Statutory Fixed-Charge Coverage (x)	7.4	7.7

Note: GAAP.  
Source: Fitch Ratings; HCC Insurance Holdings, Inc.

### TMHCC Debt Outstanding

(\$ Mil., as of Dec 31, 2019)	
Bank Term Loan	475
Revolving Credit Facility	455

Source: Fitch Ratings; HCC Insurance Holdings, Inc.

### Financial Highlights

(\$ Mil.)	2018	2019
Premiums Earned	3,404	3,518
Pretax Operating Income	503	456
Net Income	400	376
ROE (%)	9.4	8.0
Combined Ratio (%)	89.4	89.8
Operating Ratio (%)	82.3	82.6

Note: GAAP accounting principles. Operating income excludes investment gains/(losses).  
Source: Fitch Ratings; HCC Insurance Holdings, Inc.

## Investment and Liquidity

### High-Quality Investment Portfolio

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

TMHCC maintains high-quality, fixed-income securities with a 'AA-' average credit rating and a modest 2% allocation to below-investment-grade bonds. The duration of its fixed-income portfolio is 5.0 years. Fitch believes that TMHCC's liquidity remains adequate to pay claims.

TMHD purchased Delphi Financial Group, Inc. in 2012 for approximately \$2.7 billion. Delphi has unique investment management expertise, particularly in longer duration assets. Delphi's investment management organization oversees a portion of TMHCC's risk asset portfolios. TMHCC's investment strategy of allocating approximately 15% of assets into risk assets is unlikely to change from this shift in management, but the composition of these assets will differ over time.

### Fitch Expectations

- Fitch expects risky asset ratio to approximate current levels.
- Fitch expects investment leverage to remain relatively consistent yoy.

## Reserve Adequacy

### Reserve Position Is Strong

TMHCC's reserve adequacy is strong and supportive of the current rating category. Overall reserve adequacy has a moderate influence in determining the company's ratings.

TMHCC demonstrates conservatism when estimating reserves, and continues to take prompt and sufficient measures when claims diverge from initial estimates. In 2019, the company reported \$9 million of net favorable reserve development. Favorably, the company also has low reserve leverage, which leads to limited capital exposure. In the past 10 calendar years, reserves developed favorably nine times, with the exception of 2011, which had modest adverse development.

TMHCC historically reports modest reserve volatility, as longer tail professional liability and casualty lines are offset by shorter tail accident and health and surety lines. The company's weighted average duration of all claims was approximately 2.0 years in 2019 and has approximated this level for several years.

TMHCC consistently reports consolidated net reserves above its actuarial point estimate, but within the actuarial range.

### Fitch Expectations

- Fitch expects TMHCC's reserving philosophy to remain conservative.
- Calendar-year reserve development is expected to be neutral to favorable over the near term.
- Fitch does not anticipate any material changes in reserve leverage.

### Financial Highlights

	2018	2019
Total Invested Assets (\$ Mil.)	7,345	8,087
Invested Assets/Common Equity (x)	1.7	1.6
Risky Assets/Equity (%)	5	5
Investment Yield (%)	3.3	3.3

Note: GAAP.  
Source: Fitch Ratings; HCC Insurance Holdings, Inc.

### Financial Highlights

(\$ Mil.)	2018	2019
Loss and LAE Reserves	2,867	2,978
PAY Reserve Development	(8)	(9)
PAY Reserve Development/NPE (x)	(0.2)	(0.3)
PAY Reserve Development/BOY Common Equity (x)	(0.2)	(0.2)
Net Reserves/Common Equity	0.6	0.6

LAE – Loss adjustment expense. PAY – Prior accident year. NPE – Net premiums earned. BOY – Beginning of year. Note: GAAP accounting principles.  
Source: Fitch Ratings; HCC Insurance Holdings, Inc.

## Reinsurance, Risk Mitigation and Catastrophe Management

### Reasonable Reinsurance Protection Limits Large Losses

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

TMHCC continues to purchase significant reinsurance to protect against catastrophe losses. The company also uses a fair amount of proportional reinsurance to more effectively manage risk in new lines of business.

Fitch views TMHCC’s risk management process as effective and notes the company has a history of favorable long-term underwriting performance. The company also built an economic capital model, which allows it to better assess risks associated with capital management decisions.

### Fitch Expectations

- Fitch expects no major changes to TMHCC’s reinsurance and risk mitigation over the ratings horizon.
- Fitch expects that retention ratio to stay in the 70% range over the near term.
- Fitch expects no major change to reinsurance recoverables over the rating horizon.

### Financial Highlights

	2018	2019
Reinsurance Recoverables (RR, \$ Mil.)	1,485	1,797
RR/Shareholders' Equity (%)	34	36
Retention Ratio (%)	78	74

Note: GAAP  
Source: Fitch Ratings; HCC Insurance Holdings, Inc. filings

## Appendix A: Peer Analysis

### TMHCC Compares Favorably with Peers

Fitch views TMHCC's closest peers to be specialty writers, such as American Financial Group, Inc.; Markel Corporation; RLI Corporation; and W. R. Berkley Corporation. Additionally, TMHCC faces competition from Lloyd's of London, as well as large multi-line insurers, such as American International Group, Inc.; XL Capital Ltd.; Chubb Limited; and Travelers Property Casualty Corp. In its accident and health segment, TMHCC also faces competition from UnitedHealth Group, Inc. and Symetra Financial Corp. Fitch views TMHCC's competitive positioning in specialty markets as strong.

As demonstrated in the table below, overall performance for the peer group was solid over the past five years, with double-digit ROEs, excluding Markel Corporation, and average combined ratios well below 100%. TMHCC's underwriting performance over the past five years was at the top this peer group. The volatility of TMHCC's results remains moderate relative to peers. When measured by ROE, TMHCC's operating performance is in line with peers.

### Peer Comparison

	IFS Rating	YE 2019		Five-Year Average (%)		ROE
		Equity (\$ Mil.)	NPW/ Equity (x)	CR	Standard Deviation of CR	
HCC Insurance Holdings, Inc.	AA-	4,974	0.7	88.4	2	9
American Financial Group, Inc.	NR	4,972	1.0	94.4	0	10
Markel Corporation	A+	9,100	0.5	95.7	6	4
RLI Corporation	NR	807	1.0	89.9	6	13
W. R. Berkley Corporation	A+	5,480	1.2	94.8	1	12

IFS – Insurer Financial Strength. NPW – Net premiums written. CR – P/C combined ratio. NR ☐ Not rated. Note: U.S. GAAP. All five-year periods are through 2019.  
Source: Fitch Ratings, S&P Global Market Intelligence.



## Appendix B: Other Ratings Considerations

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

### Group IFS Rating Approach

Fitch considers TMHCC's insurance subsidiaries (listed in the table to the right) as Core operations. HCC Life Insurance Co. is owned by Houston Casualty Co. and writes predominately medical stop-loss business. These entities share common management, resources and branding. Only normal regulatory barriers exist to dividend movement between entities and the parent.

### 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 operating company and holding company IDRs, with no adjustments made for unusual leverage, coverage or diversification of cash flow.

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

### Short-Term Ratings

Not applicable.

### Hybrid – Equity/Debt Treatment

No hybrid debt exists at TMHCC currently.

### Corporate Governance and Management

Corporate governance and management are adequate and neutral to the rating.

### Transfer and Convertibility Risk (Country Ceiling)

None.

### Criteria Variations

None.

### Complete Ratings List for Core Subsidiaries

Houston Casualty Co.  
Avemco Insurance Co.  
U.S. Specialty Insurance Co.  
American Contractors Indemnity Co.  
United States Surety Co.  
HCC Life Insurance Co.  
Insurer Financial Strength AA-

## Appendix C: Environmental, Social and Governance Considerations

Credit-Relevant ESG Derivation		Overall ESG Scale			
HCC Insurance Holdings, Inc. has 7 ESG potential rating drivers		key driver	0	issues	5
<ul style="list-style-type: none"> <li>HCC Insurance Holdings, Inc. has exposure to underwriting/reserving exposed to environmental and natural catastrophe risks; impact of catastrophes on own operations or asset quality; credit concentrations but this has very low impact on the rating.</li> <li>HCC Insurance Holdings, Inc. has exposure to compliance risk; treating customers fairly; pricing transparency; privacy/data security; legal/regulatory fines; exposure to insured and own cyber risk but this has very low impact on the rating.</li> <li>HCC Insurance Holdings, 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.</li> <li>Governance is minimally relevant to the rating and is not currently a driver.</li> </ul>		driver	0	issues	4
		potential driver	7	issues	3
		not a rating driver	2	issues	2
			5	issues	1

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

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

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 Environmental, Social and Governance (ESG) credit relevance is a score of '3' – ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

For more information on our ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

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