Fitch Ratings



# Manchester Unity Friendly Society

## Key Rating Drivers

**Moderately Weak Fundamentals**: Manchester Unity Friendly Society's (MUFS) rating reflects the insurer's 'Least Favourable' business profile, 'Moderately Weak' financial performance and earnings as well as 'Good' capitalisation and leverage. The rating incorporates support from its loyal membership base, low-risk insurance exposure and conservative investment portfolio.

**'Least Favourable' Business Profile**: We assess MUFS's business profile as 'Least Favourable' compared with that of other New Zealand life insurance companies due to its limited competitive positioning and diversification as well as its declining membership. Therefore, we score MUFS's business profile at 'b+' under our credit-factor scoring guidelines.

MUFS is a small player in the domestic life insurance sector, with a market share of less than 1%. Most of its life products have been closed to new business since 2012. MUFS offers low-cost funeral and medical insurance to members; to become a policyholder, an individual must also be a member. It also provides holiday accommodation and fraternal services to members.

**Declining Membership Base**: MUFS's membership declined to 12,223 in the financial year ended May 2019 (FYE19), from 12,642 in FYE18, as member deaths outpaced new joiners. The society's strategies do not include business development or selling objectives to maximise its membership base, with word of mouth as the main source of new business.

**Falling Premiums**: Fitch sees MUFS's financial performance and earnings as 'Moderately Weak' in light of falling premiums (FY19: 4%, FY18: 4%) due to the decreasing membership and also because most of its insurance products are closed to new business. MUFS is not a profit-maximising entity due to its mutual ownership. Net profit fell to NZD1.9 million in FY19 (FY18: NZD2.4 million) following a liability-adequacy test, which increased insurance contract liabilities by NZD2.0 million due to falling interest rates.

**Adequate Capitalisation**: MUFS's coverage of the regulatory capital requirement dropped to 129% at FYE19 (FYE18: 168%) largely due to falling interest rates. MUFS purchased long-dated bonds to reduce the sensitivity of its regulatory capital position to interest rate changes, and, as a result, expects the ratio to climb closer to its internal target of 150%. We think MUFS's small absolute capital base and limited access to new capital leave it vulnerable to unexpected operational risks and changes in the external operating environment.

**Manageable Exposure to Risky Assets**: MUFS's risky assets ratio remained well below Fitch's criteria guidelines for a 'BB' rated insurer despite increasing to 20% at FYE19 (FYE18: 0%). The rise was due to MUFS adding equities to boost investment income and offset its higher allocation to lower-yielding long-dated bonds in FY19. Unaffiliated equity investments accounted for 5% of invested assets at FYE19 (FYE18: 0%), while fixed-income securities and cash were 70% of total investments and real estate was 25% at FYE19.

**Asset-Liability Mismatch Reduced**: The mismatch in the duration of assets and liabilities - a risk faced by most life insurers – has fallen with the purchase of long-dated bonds. Insurance liabilities have a longer duration than fixed-income investments, although MUFS increased the duration of its fixed-income portfolio to 5.9 years by end-1HFY20 (FYE18: 2.3 years).

## Rating Sensitivities

**Business Profile and Capital**: We will downgrade MUFS's rating if there's a continued deterioration in the weak business profile, including a decrease in the number of lodges and significant reduction in the membership base or its regulatory capital ratio remains below 140% for an extended period.

A regulatory capital ratio above 170% on a sustained basis or a sustained improvement in the business profile could lead to an upgrade.

### Rating

**Manchester Unity Friendly Society**

| | |
|---|---|
| Insurer Financial Strength Rating | BB- |

### Outlook

**Manchester Unity Friendly Society**

| | |
|---|---|
| Insurer Financial Strength Rating | Stable |

### Financial Data

**Manchester Unity Friendly Society**

| | FY19 | FY18 |
|---|---|---|
| Gross premiums written (NZD 000) | 1,270 | 1,316 |
| Total assets (NZD 000) | 84,316 | 83,076 |
| Pretax return on assets (%) | 2.2 | 2.9 |
| Return on equity (%) | 7.1 | 9.8 |
| Regulatory solvency ratio (%) | 129 | 168 |

Source: Fitch Ratings, Fitch Solutions

### Applicable Criteria

Insurance Rating Criteria (March 2020)

### Related Research

Fitch Ratings: Growth to Slow as New Zealand Insurers Fix Conduct Issues (January 2019)

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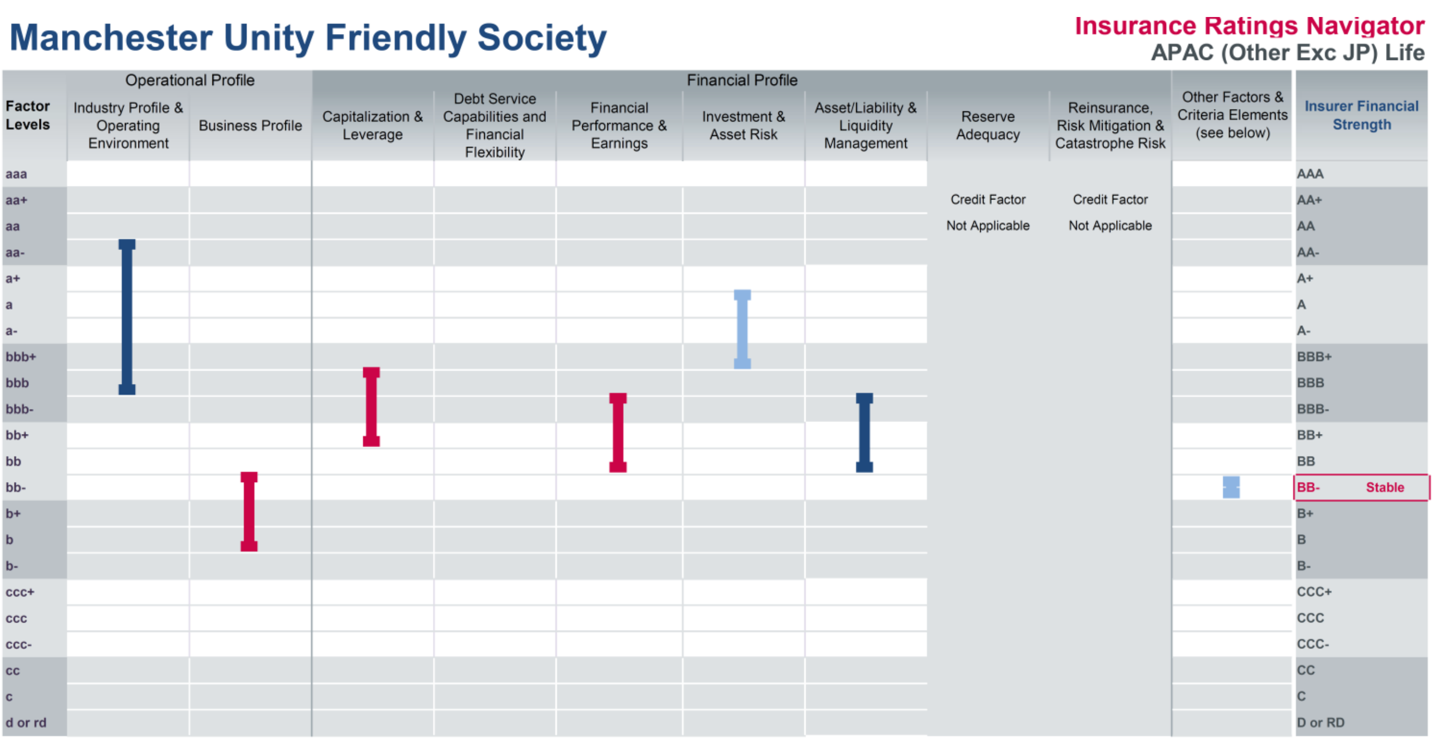
## Key Credit Factors – Scoring Summary




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

### Bar Chart Legend

Vertical Bars = Range of Rating Factor

Bar Colors = Relative Importance

- Higher Influence
- Moderate Influence
- Lower Influence

Bar Arrows = Rating Factor Outlook

⇧ Positive ⇩ Negative

⇳ Evolving ▭ Stable

## Business Profile

MUFS's 'Least Favourable' business profile is due to its limited competitive positioning and diversification, and falling membership, which in turn limits the insurer's earnings generation. Therefore, Fitch scores MUFS's business profile at 'b+' under our credit-factor scoring guidelines.

MUFS provides financial products, holiday accommodation and fraternal services for the benefit of its members. Its core financial product is insurance.

### Small Market Size; Declining Membership

MUFS's market share, measured by premiums, is less than 1% of New Zealand's life insurance market. However, susceptibility to competition is significantly reduced due to the mutual design of its products. MUFS is the country's largest fraternal services provider, but it is not a profit-maximising entity and neither are its products, which therefore tend to provide good comparative value against other market offerings.

Its membership has been falling in recent years as member deaths outpaced the number of new members. MUFS's strategies do not include business development activities or selling objectives to expand its membership. Individuals must become members to hold a policy.

### Most Insurance Products Closed to New Business

A number of MUFS's plans provide short- and long-term investments, financial protection and death cover, which are closed to new business, and include endowment, whole-of-life and term-life policies. It can adjust bonus rates, appropriation rates and surrender values where payable.

The society underwrites three simple medical plans that provide low-cost cover to its members as well as simple funeral cover. Membership uptake of these products is still low.

### Very Limited Diversification

MUFS's product and distribution channel diversification is very limited. The only insurance products open for new business are medical and funeral insurance plans, and the society has no intention of increasing the range of its insurance products. MUFS is mostly dependent on existing members bringing in new members to support volume growth.

MUFS has an arrangement with AON New Zealand for a number of non-life personal line products. However, MUFS does not receive any commission on the non-life products but instead has negotiated discounts for its members.

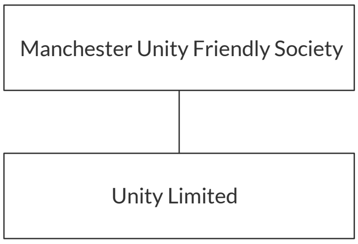
## Ownership

MUFS is a member-owned association and is classified and registered as a friendly society under the Friendly Society and Credit Unions Act 1982. Its assets are vested to trustees for the use and benefit of the society and its members.

MUFS's members belong to a network of 32 branches and each member, upon joining a branch, has one vote on any decisions that require a vote. Each branch then sends a delegate to vote on its behalf at MUFS's annual general meeting. The society's fully owned subsidiary, Unity Limited, is a dormant company.

MUFS has limited ability to raise capital as a mutual society and therefore requires retained earnings to support financial flexibility.

### Simplified Group Structure Diagram




Source: Fitch Ratings, Fitch Solutions, MUFS

## Capitalisation and Leverage

### Capital is Adequate for Rating Category

### Financial Highlights

| (%) | FY19 | FY18 | FY17 | FY16 | FY15 | Fitch's expectation |
|---|---|---|---|---|---|---|
| Financial leverage ratio | 0 | 0 | 0 | 0 | 0 | Regulatory solvency ratio to improve |
| Operating leverage (x) | 2 | 2 | 2 | 2 | 2 | |
| Asset leverage (x) | 2 | 2 | 2 | 2 | 2 | |
| Regulatory solvency ratio | 129 | 168 | 163 | 161 | 162 | |

Source: Fitch Ratings, Fitch Solutions, MUFS

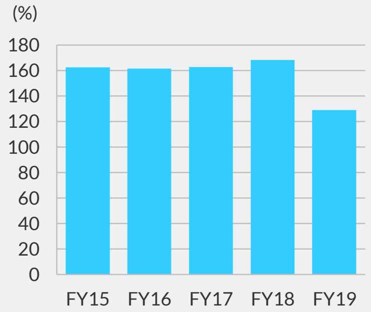
### Regulatory Capital Ratio Sensitive to Interest Rate Movements

MUFS's coverage of the Reserve Bank of New Zealand's (RBNZ) risk-based minimum solvency requirement dropped to 129% by FYE19 from 168% at FYE18 following the drop in the 10-year annualised swap rate. Falling interest rates have a negative effect on MUFS's solvency margin as there is a mismatch in the duration of MUFS's assets and liabilities, similar to most life insurers.

MUFS purchased long-dated bonds during 2019 to reduce the sensitivity of its regulatory capital position to interest rate changes and raise the ratio closer to the board's internal target of 150%. MUFS's capital management plan includes measures to strengthen the ratio when it falls below 150%, such as lengthening the duration of the bond portfolio or reducing risk in the investment portfolio.

A similar occurrence in 2012, when a falling discount rate and MUFS's asset-liability mismatch resulted in the regulatory solvency ratio falling to 120%, triggered a number of regulatory capital-strengthening actions.

**Regulatory Solvency Ratio**



Source: Fitch Ratings, Fitch Solutions, MUFS

### Small Absolute Capital Base; Mutual Ownership Limits Access to Capital

Fitch sees MUFS's capitalisation, based on a technical assessment of its risk profile and coverage of the regulatory requirement, as 'Extremely Strong'. Nevertheless, the low absolute level of capital (total equity of NZD27 million at FYE19) and limited access to new capital leave MUFS susceptible to larger, more remote operational risks and changes in the external operating environment.

MUFS's mutual structure limits its ability to raise capital and therefore it uses retained earnings to support financial flexibility. MUFS has a large equity and asset base compared with the volume of insurance underwritten, and targets investment earnings to support member benefits.

### Low Operating Leverage and No Debt

MUFS's operating and asset leverage ratios remained unchanged at 2x in FY18. The society has very low leverage compared with Fitch's median criteria guidelines. The society has no debt and says it has no plans to raise any debt.

## Financial Performance and Earnings

### Declining Membership Puts Pressure on Underlying Earnings

### Financial Highlights

| (%) | FY19 | FY18 | FY17 | FY16 | FY15 | Fitch's expectation |
|---|---|---|---|---|---|---|
| Net income (NZD 000) | 1,870 | 2,424 | 1,475 | 2,262 | 901 | Premiums continue to drop alongside falling membership |
| Return on equity | 7.1 | 9.8 | 6.4 | 10.7 | 4.6 | |
| Pretax return on assets (excluding all gains and losses) | 0.4 | 0.8 | 1.2 | 2.6 | -0.1 | |
| Pretax return on assets (including all gains and losses) | 2.2 | 2.9 | 1.8 | 2.7 | 1.1 | |

Source: Fitch Ratings, Fitch Solutions, MUFS

### Earnings Volatility Due to Interest Rate Movements

MUFS's net income fell to NZD1.9 million in FY19 from NZD2.4 million in FY18. This was mainly due to lower interest rates increasing the present value of MUFS's funeral fund liability by NZD2 million following a liability adequacy test conducted by the external actuary. Return on equity and pretax return on assets (including all gains and losses) dropped to 7.1% and 2.2% in FY19 from 9.8% and 2.9% in FY18, respectively.

MUFS's investment earnings remained steady at NZD4.9 million in FY19 (FY18: NZD5.0 million), supported by rental and interest income as well as revaluation gains from its property portfolio. The society added exposure to unaffiliated equity investments to boost investment income and offset the lower yield in its fixed-income portfolio due to higher allocation to long-dated bonds during FY19.

### Falling Premium Volumes

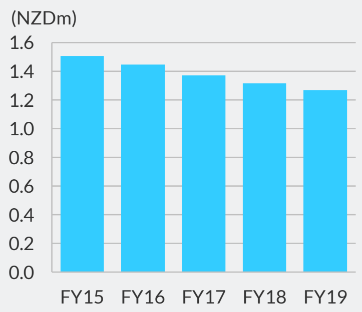
We believe premium volumes are likely to continue declining if MUFS does not turn around its membership numbers. The small, declining membership base and run-off of its insurance products have contributed to a decrease in premium volumes. MUFS's membership declined by 419 members in FY19, bringing the total down to 12,223. Premiums dropped 4% in both FY19 and FY18.

Strategically, the society has not actively targeted new members, but more recently has shown a desire to boost membership by increasing member value and promoting the benefits available to existing members. New members typically join through word of mouth and around a decade ago, the membership requirement to hold an insurance policy was dropped.

### Control Over Appropriations Supports Earnings

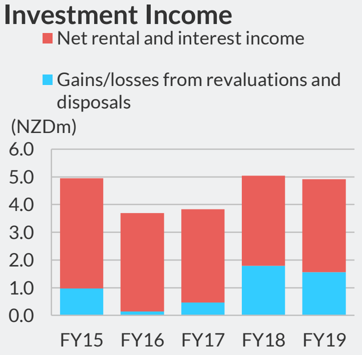
MUFS's large asset base and investment portfolio support earnings and the provision of member benefits. The board determines a share of net income to be distributed to members' benefit funds each year. Potential investment risks are mitigated as the participating nature of nearly all of the benefits and products means that investment losses/gains can be shared by way of adjusting the amount credited to members' benefit funds.

### Premium Income



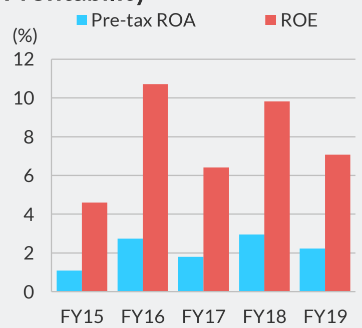

Source: Fitch Ratings, Fitch Solutions, MUFS

### Investment Income




Source: Fitch Ratings, Fitch Solutions, MUFS

### Profitability




Source: Fitch Ratings, Fitch Solutions, MUFS

## Investment and Asset Risk

**Low Investment Risks**

### Financial Highlights

| (%) | FY19 | FY18 | FY17 | FY16 | FY15 | Fitch's expectation |
|---|---|---|---|---|---|---|
| Risky assets ratio | 20 | 0 | 2 | 2 | 46 | Risky assets ratio unlikely to rise further |
| Below-investment-grade bonds to capital | 5 | 0 | 2 | 2 | 24 | |

Source: Fitch Ratings, Fitch Solutions, MUFS

### Highly Rated Fixed-Income Securities Dominate Investments

The society had 70% of its investments in cash (including term deposits) and fixed-income investments at FYE19 (FYE18: 75%). Fixed-income securities comprised 56% of total investments, and were mainly bank, corporate, local authority and state-owned-entity senior debt.

The strong credit quality of MUFS's cash and fixed-income portfolios is due to its conservative investment policy. Cash investments are restricted to at least 'A+' rated banks and fixed-income security investments are limited to mainly investment-grade issuers. The society can invest in subordinated and sub-investment-grade instruments, but most securities are highly rated senior issues. In the fixed-income portfolio, 57% of the total bonds were rated 'AA-' or higher at FYE19.

MUFS executed two trades in 2019 to purchase government bonds maturing in 2033. This increased the duration of the fixed-income portfolio to 5.9 years at end-1HFY20 (FYE19: 4.1 years, FYE18: 2.3 years), and will reduce MUFS's asset-liability mismatch and the resulting sensitivity of the regulatory capital position to falling interest rates.

### Modest Rise in Risky Asset Ratio

MUFS's risky assets ratio increased to 20% at FYE19 from 0% at FYE18 as the insurer added exposure to unaffiliated equity investments, as well as a small amount of unrated corporate senior debt. However, the ratio was significantly below Fitch's criteria guideline of 160% to 224% for 'BB' rated insurers. MUFS's statement of investment policy and objectives allows total equity investments to make up 0% to 17% of all investments, with a maximum allowable exposure to a single equity issuer restricted to NZD0.4 million.

Management does not expect to make further changes to its asset mix in the near term and says it is determined to continue its conservative investment strategy and to keep the majority of its investment portfolio in liquid assets (minimum of 50% of the portfolio at any one time).

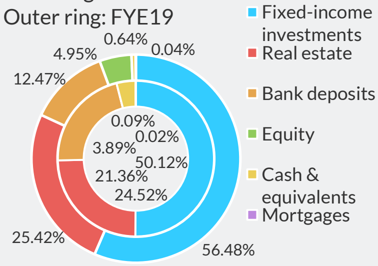
### Sizeable Property Exposure

MUFS's property investments stood at NZD21.3 million at FYE19, accounting for around 25% of invested assets (FYE18: 25%). This included various commercial and leasehold properties (NZD16.5 million) and holiday homes (NZD4.8 million).

The risks in the commercial buildings appear reasonably modest, with all properties being single level, tenanted and not requiring any earthquake strengthening. Risks are low on the remaining property investments, with the society receiving ground rent on its leaseholds. It has no exposure to buildings on these properties. The holiday homes are run to cover costs and provide subsidised holiday accommodation for members.

### Invested Assets

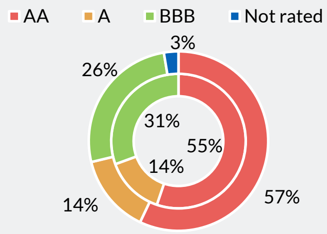
Inner ring: FYE18
Outer ring: FYE19




Source: Fitch Ratings, Fitch Solutions, MUFS

### Credit Quality of Fixed-Income Portfolio

Inner ring: FYE18
Outer ring: FYE19




Source: Fitch Ratings, Fitch Solutions, MUFS

## Asset/Liability and Liquidity Management

**Sound Liquidity Position**

### Financial Highlights

| (%) | FY19 | FY18 | FY17 | FY16 | FY15 | Fitch's expectation |
|---|---|---|---|---|---|---|
| Liquid assets ratio | 147 | 149 | 145 | 146 | 122 | Sufficient liquidity to be maintained |
| Cash and cash equivalents to policyholder liabilities | 26 | 50 | 55 | 24 | 44 | |

Source: Fitch Ratings, Fitch Solutions, MUFS

### Asset-Liability Mismatch Narrows

The mismatch in the duration of asset and liabilities has been reduced following the purchase of the long-dated bonds in FY19. MUFS increased the duration of its fixed-income portfolio to 4.1 years at FYE19 and to 5.9 years at end-1HFY20 from 2.3 years at FYE18.

### Strong Liquidity

MUFS's liquidity ratios have been very strong for the past five years, reflecting its conservative investment approach and large investment portfolio compared with the size of the society's policyholder liabilities. Its liquid assets ratio of 147% at FYE19 compares well against our median criteria ratio guidelines.

### Low Voluntary Discontinuance

MUFS's policyholder liabilities, due to their design, discourage early redemption and are mainly payable on death. Voluntary discontinuance rates over the past five years have averaged a low 1.1% and 0.5%, respectively, for the increasing assurance benefit fund and the funeral fund.

## Reinsurance, Risk Mitigation and Catastrophe Risk

### Absence of Reinsurance

MUFS does not use and has never used reinsurance for its insurance business. MUFS says there is little concentration risk, with members being spread geographically. In addition, policy sums insured are low, and the cost from a potential pandemic event is adequately provided for in the valuation liability as the majority of the insurance exposure consists of a portfolio of mature whole-of-life or endowment policies with amounts payable on death.

## Appendix A: Industry Profile and Operating Environment

This section discusses New Zealand's life and non-life sectors.

### Regulatory Oversight

Fitch regards New Zealand's regulatory environment as developed and transparent, with regular enforcement. Insurers are governed by the Insurance (Prudential Supervision) Act 2010 and are regulated by the RBNZ. The regulatory capital regime follows a solvency approach. Licensing requirements include "fit and proper" persons and documented risk-management requirements, as well as disclosure of credit ratings. RBNZ consistently reviews insurers' capital adequacy and management processes and steps in to take action when required to maintain confidence in the sector.

### Technical Sophistication of Insurance Market; Diversity and Breadth

The domestic market is sophisticated and characterised by a reasonably broad range of products in both the life and non-life segments for corporates and individuals. New Zealand's insurance market is small, but benefits from the presence of large international insurers, which in turn contribute to the effective pooling and diversification of risk. Demand for non-life insurance is supported by the country's exposure to natural hazards. The use of life insurance as a retirement-savings product is lower compared with other markets, but the country's high household debt provides significant long-term growth potential for life insurance products.

### Competitive Profile

The competitive landscape is generally rational, with some challenging periods. New Zealand's life and non-life markets are dominated by subsidiaries of large international insurers. The top-five insurers in both segments make up over half of total premiums, despite the presence of a large number of companies. Tighter capital requirements for banks in Australia have prompted Australian banks to sell their New Zealand insurance operations, which have been bought by large multinational insurers. The sector has been slow to adopt digital distribution channels and high acquisition costs, driven by dependence on agents to bring in new business, weigh on the sector's profitability.

### Financial Market Development

Fitch regards New Zealand's debt and equity markets as established and relatively deep and liquid. The equity market is small due partly to the presence of foreign entities that are funded by their parents. The government and banks regularly issue debt to meet funding and liquidity needs. However, the depth of debt markets may pose some challenges for insurers due to the lack of long-duration bonds. The government introduced the Financial Markets Conduct Act in 2013 to promote and facilitate market development. New Zealand's banking system also exhibits stability and active compliance with the Basel III framework.

### Country Risk

Fitch rates the local-currency sovereign obligations of New Zealand at 'AA+' with a Stable Outlook. Therefore, the mid-point of the six-notch industry profile and operating environment score is derived based on the score's range as suggested by the performance of the above factors.

# Appendix B: Peer Analysis

## Mutual Design of Products Lowers Profitability

New Zealand's insurance sector is dominated by the subsidiaries of major international insurance groups. A comparison of selected major New Zealand insurers and smaller insurers owned by financial institutions shows that the latter's operating models are characterised by satisfactory distribution channels and robust earnings. These attributes have supported higher returns on equity than that of the major insurers.

MUFS's earnings performance is towards the bottom of that of peers, but as a mutual company without shareholders, profit is distributed to members through product pricing, features and other member benefits rather than through the distribution of earnings through dividends.

## Peer Comparison

| (NZDm) | IFS Rating | Financial year end | Gross premiums written | Assets[a,b] | Shareholder equity[a] | Solvency ratio[a] (%) | Pretax return on assets (%) | Return on equity (%) |
|---|---|---|---|---|---|---|---|---|
| AIA New Zealand Limited | AA/Stable | 30 June 2018 | 738 | 2,325 | 295 | 240 | 7 | 14 |
| Asteron Life Limited | Not rated | 30 June 2019 | 245 | 677 | 438 | 112 | 8 | 10 |
| Southsure Assurance Limited | BBB+/Stable | 30 March 2019 | 13 | 23 | 10 | 119 | 18 | 34 |
| MARAC Insurance Limited | BB+/ Stable | 30 June 2019 | 5 | 13 | 6 | 111 | 15 | 25 |
| First Insurance Limited | BB+/Stable | 30 June 2019 | 2 | 7 | 6 | 123 | 2 | 1 |
| Manchester Unity Friendly Society | BB-/Stable | 31 May 2019 | 1 | 84 | 27 | 129 | 2 | 7 |

[a] At end-2018 for AIA
[b] Net of reinsurance assets
Source: Fitch Ratings, Fitch Solutions, companies

## Appendix C: Other Rating Considerations

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

### Group IFS Rating Approach

Not applicable.

### Notching

Fitch assesses New Zealand's regulatory environment as 'Effective' and classified as following a ring-fencing approach for notching purposes.

### 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 Issuer Default Rating (IDR) |
| **Operating Company Debt** |
| Not applicable |
| **Holding Company IDR** |
| Not applicable |
| **Holding Company Debt** |
| Not applicable |
| **Hybrids** |
| Not applicable |

Source: Fitch Ratings

### Short-Term Ratings

Not applicable.

### Hybrid – Equity/Debt Treatment

Not applicable.

### Corporate Governance and Management

We expect corporate governance and management to be adequate and neutral to the rating. MUFS's board consists of five members who are subject to prudential "fit and proper" standards.

### Transfer and Convertibility Risk (Country Ceiling)

None.

### Criteria Variations

None.

# Appendix D: Environmental, Social and Governance Considerations

FitchRatings — Manchester Unity Friendly Society — **Insurance Ratings Navigator** APAC (Other Exc JP) Life

## Credit-Relevant ESG Derivation

Manchester Unity Friendly Society has 6 ESG potential rating drivers

- Manchester Unity Friendly Society 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.
- Manchester Unity Friendly Society 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 & Asset Risk | 1 |

### Social (S)

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

### Governance (G)

| General Issues | G Score | Sector-Specific Issues | Reference | G Scale |
|---|---|---|---|---|
| Management Strategy | 3 | Operational implementation of strategy | Corporate Governance & Management; Business Profile | 5 |
| Governance Structure | 3 | Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions | Corporate Governance & Management | 4 |
| Group Structure | 3 | Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership | Corporate Governance & Management; Ownership | 3 |
| Financial Transparency | 3 | Quality and timing of financial reporting and auditing processes | Corporate Governance & Management | 2 |
| | | | | 1 |

**How to Read This Page**
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

**The Environmental (E), Social (S) and Governance (G) tables** break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

**The Credit-Relevant ESG Derivation table** shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

**Classification** of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board(SASB).

**Sector references** in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

**CREDIT-RELEVANT ESG SCALE**

**How relevant are E, S and G issues to the overall credit rating?**

| | |
|---|---|
| 5 | Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator. |
| 4 | Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator. |
| 3 | Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator. |
| 2 | Irrelevant to the entity rating but relevant to the sector. |
| 1 | Irrelevant to the entity rating and irrelevant to the sector. |

# ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3. ESG issues are credit neutral or have only a minimal credit impact on MUFS, either due to their nature or the way in which they are being managed by the company.

For more information on our 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.