S&P Global's Approach to ESG In Banks' Analysis

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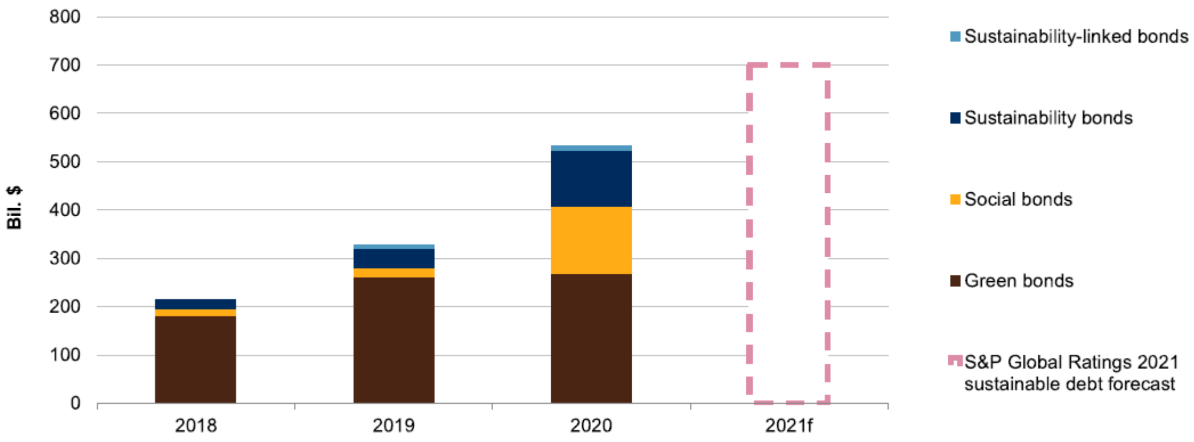
June 16, 2021

S&P Global
Ratings

Political And Regulatory Pressure, And An Increasing Investor Base, Continue Boosting Sustainable Finance's Growth

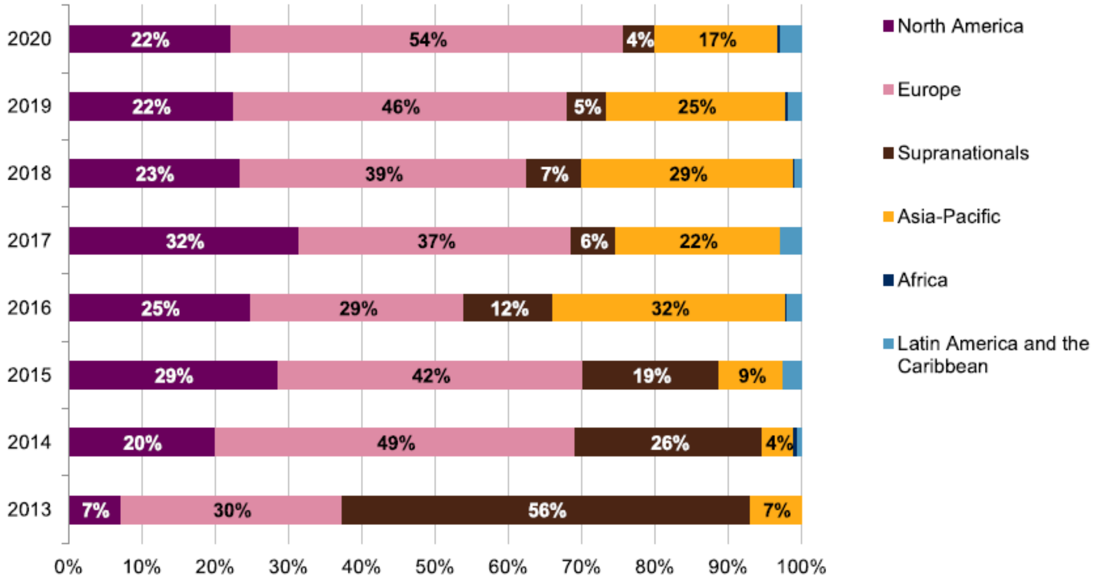
- Social bonds emerged as the fastest growing segment of the market in 2020, due to COVID-19 pandemic and growing concern about social inequities.
- Europe has been leading green-labeled issuance over the past three years. With its Recovery Plan, the EU could now create its own green safe asset.

Sustainable Debt Issuance Surpassed $500 Billion in 2020



Source: Environmental Finance, S&P Global Ratings

Europe Maintains The Largest Share of Green Bond Market

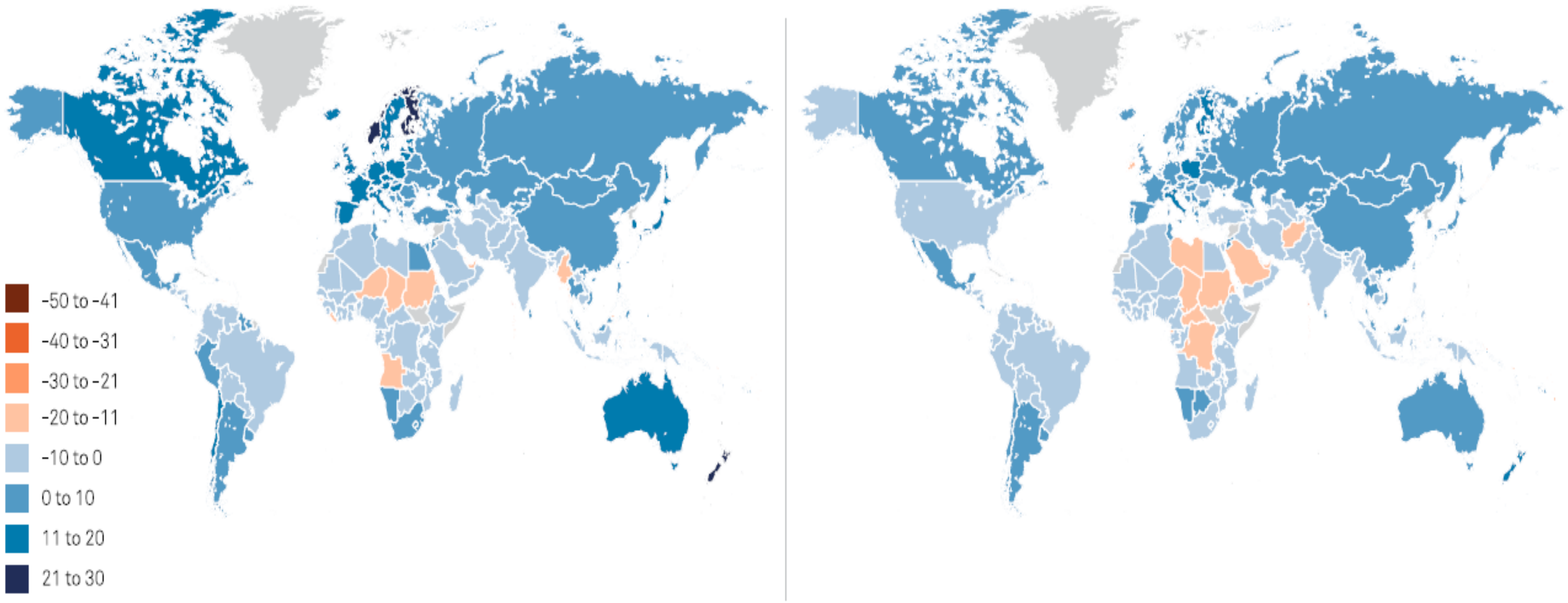


Source: Climate Bonds Initiative

E Factors Have Driven Relatively Less Rating Actions For Banks, But Are Set To Become Increasingly Relevant

World's Vulnerability To Climate Risk Is Increasing Rapidly

ND-GAIN Country Index, adjusted for GDP per capita in 1998 (left) vs. 2018 (right)

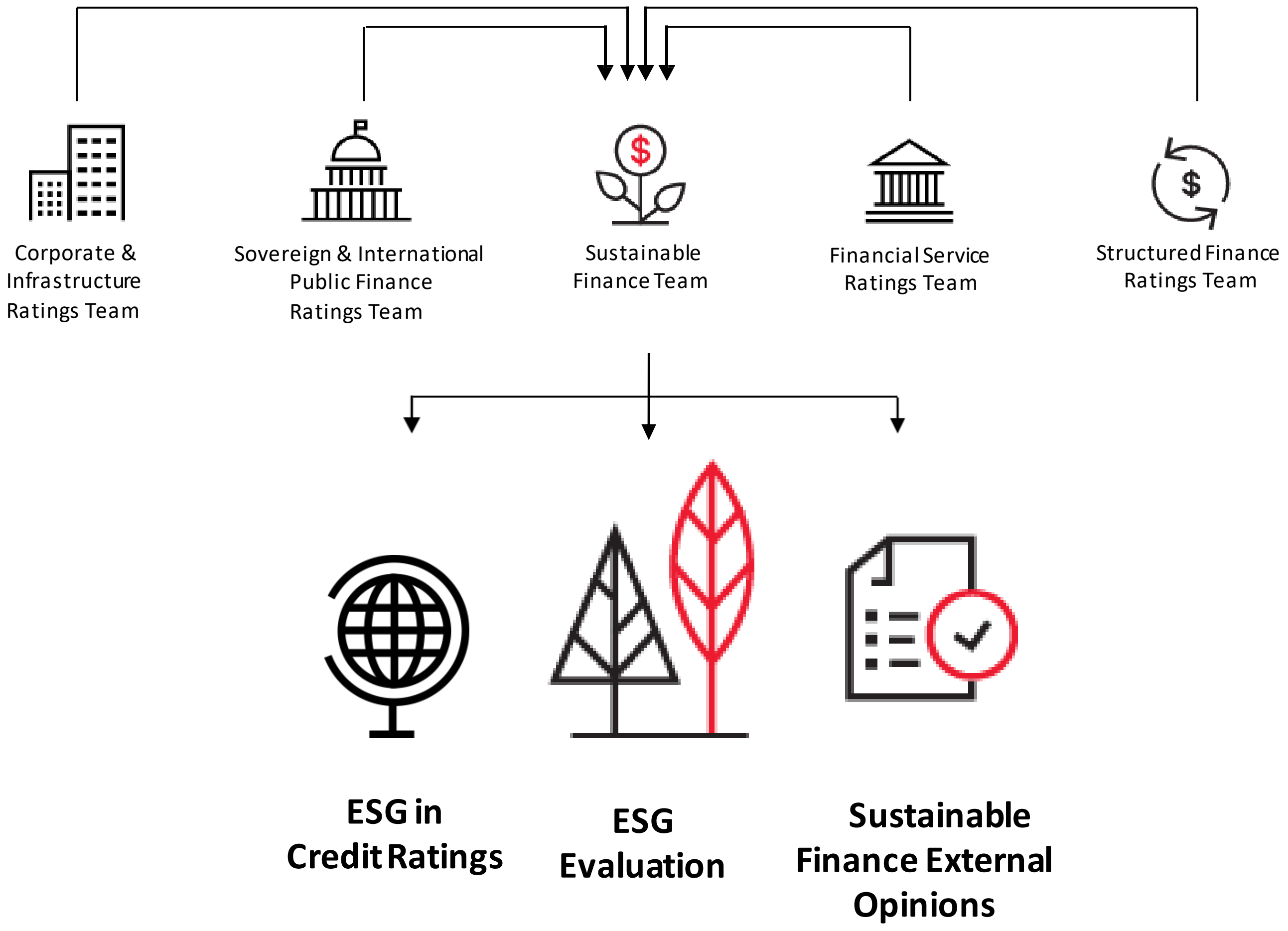


The ND-GAIN Country Index summarizes a country's vulnerability to climate change and other global challenges, given the level of GDP per capita. The higher score, the lower the vulnerability. Source: Notre Dame University Indiana – Global Adaptation Initiative.

- For Banks, G factors have driven the majority of rating actions, followed by S factors, with E factors being rare.
- The transition to a low-carbon economy and the increasing frequency of climate events will heighten the relevance of E factors in bank ratings analysis, however.
- Over April-August 2020, close to 1,950 of our global rating actions were ESG-related, with the bulk of them stemming from the COVID-19 pandemic.
- Financial services have experienced few direct ESG impacts, although COVID-19 triggered widespread negative outlook revisions.

S&P Global Ratings: Our Sustainable Finance Credentials

Embedded into the organizational structure



ESG In The Credit Ratings

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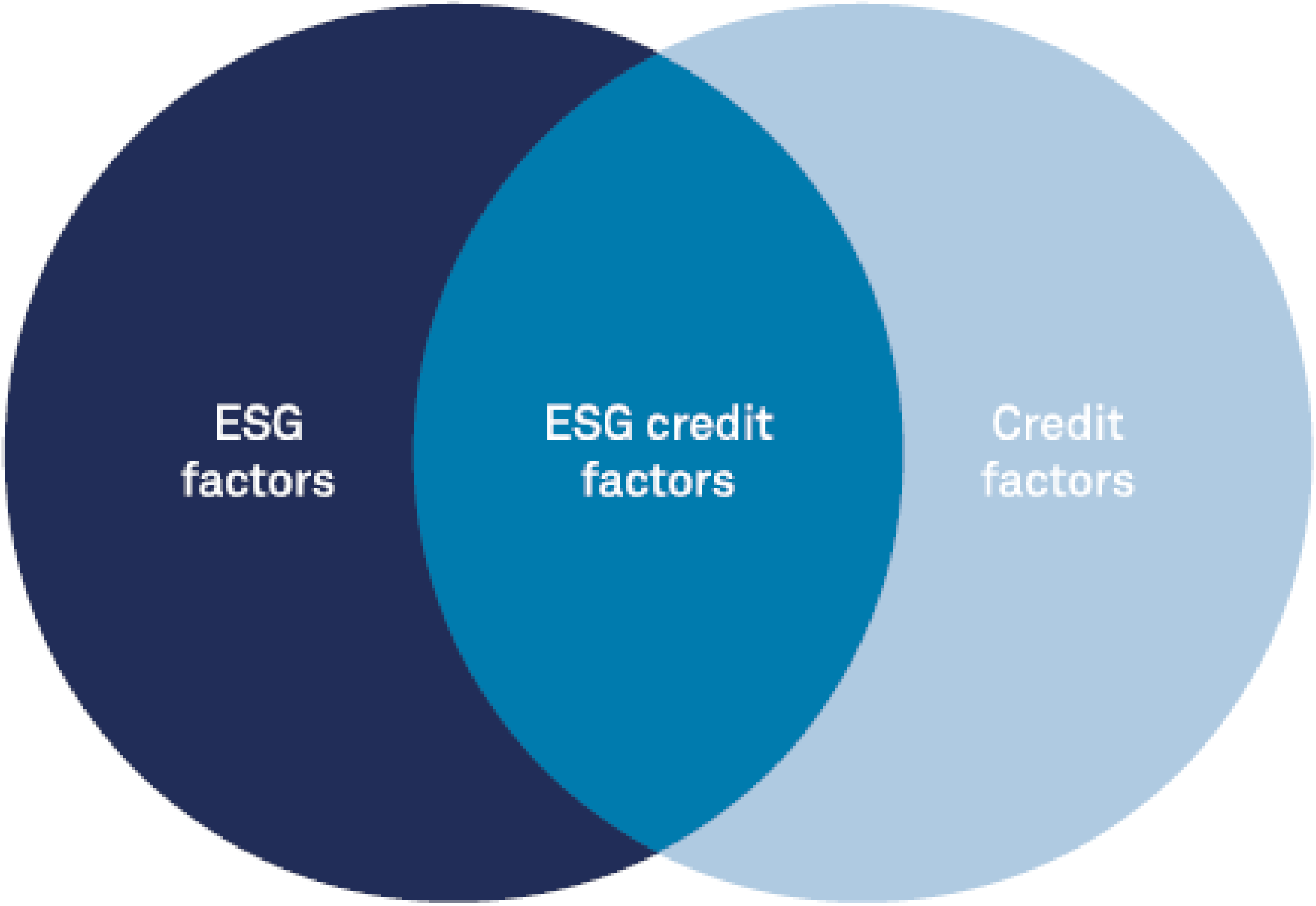
Credit Ratings Captures Only A Limited Part Of The ESG Perspective

The Intersection Of ESG And Credit



ESG Is Already Embedded Into Our Credit Ratings

- We incorporate ESG credit factors into our credit analysis if we believe they are **material** and **relevant** to our opinions of creditworthiness.

- The impact of ESG credit factors depends on our opinion of **how much they affect the capacity and willingness of an obligor to meet its financial commitments.**

- ESG credit factors can influence **changes in ratings, rating outlooks**, and ratings headroom.

- Strong ESG credentials do not necessarily indicate strong creditworthiness. Weak ESG credentials do not necessarily indicate weak creditworthiness.

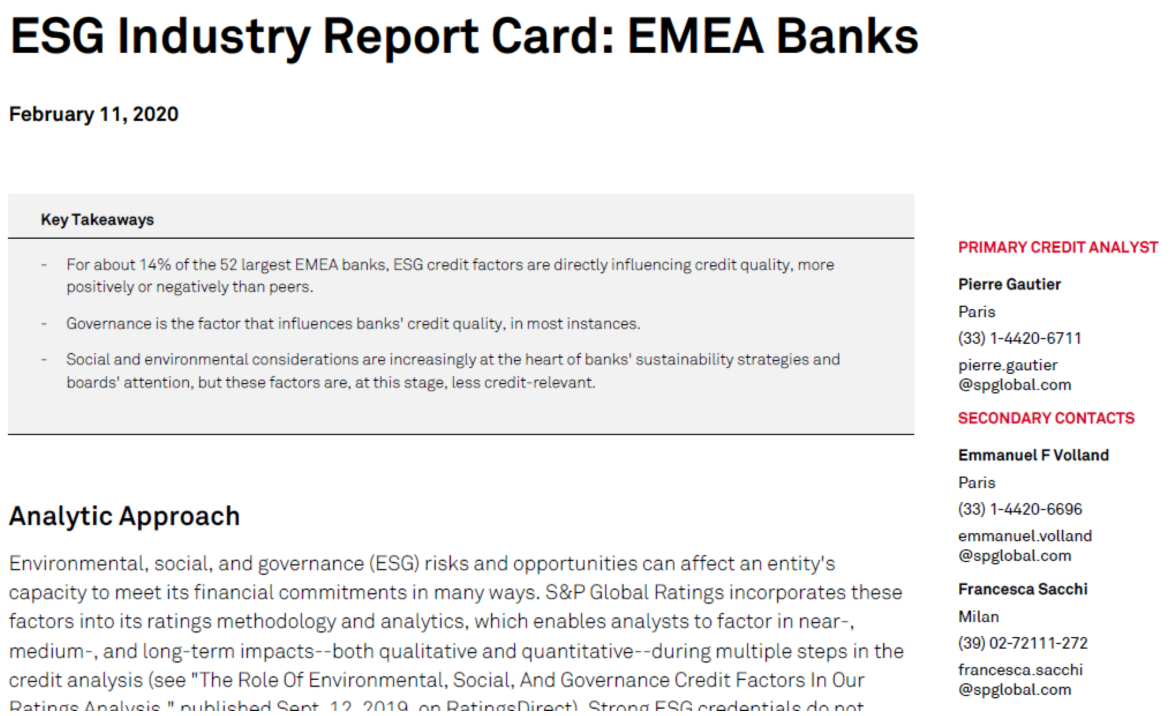
- Our long-term ratings and ESG credit factor analysis can incorporate **qualitative and quantitative analysis.**

S&P Global's Efforts to **Increase Transparency** Around ESG

- Analyzing ESG factors have **already** been **part of our credit analysis**.

- Our **ESG Industry Report Cards, published February 2020,** provide insights across corporates, infrastructure, banks, insurance, and supranationals sectors, as well as project finance.

- These reports cover close to **70 subsectors and more than 1,250 individual entities**. We intend to update these ESG insights throughout the year in individual entity analyses, as we expect companies to increasingly focus on ESG in their communication and strategy updates.



ESG Industry Report Card: EMEA Banks

February 11, 2020

Key Takeaways

- For about 14% of the 52 largest EMEA banks, ESG credit factors are directly influencing credit quality, more positively or negatively than peers.
- Governance is the factor that influences banks' credit quality, in most instances.
- Social and environmental considerations are increasingly at the heart of banks' sustainability strategies and boards' attention, but these factors are, at this stage, less credit-relevant.

Analytic Approach

Environmental, social, and governance (ESG) risks and opportunities can affect an entity's capacity to meet its financial commitments in many ways. S&P Global Ratings incorporates these factors into its ratings methodology and analytics, which enables analysts to factor in near-, medium-, and long-term impacts--both qualitative and quantitative--during multiple steps in the credit analysis (see "The Role Of Environmental, Social, And Governance Credit Factors In Our Ratings Analysis," published Sept. 12, 2019, on RatingsDirect). Strong ESG credentials do not

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S&P Global's ESG Credit Indicators

Credit Impact					ESG Factor
E-1	E-2	E-3	**E-4**	E-5	**Climate Risk**
S-1	**S-2**	S-3	S-4	S-5	**--**
G-1	G-2	**G-3**	G-4	G-5	**Transparency**
Positive	Neutral	Moderately negative	Negative	Strongly negative	

ESG Credit Indicators:

✔ **DO** explain the **influence of ESG factors on our credit rating analysis;**

✘ are **NOT a measure of entities' ESG performance.**

ESG Factors Potentially Affecting Our Credit Ratings

Environmental factors

- Climate transition risks
- Physical risks
- Natural capital
- Waste and pollution
- Other environmental factors

Social factors

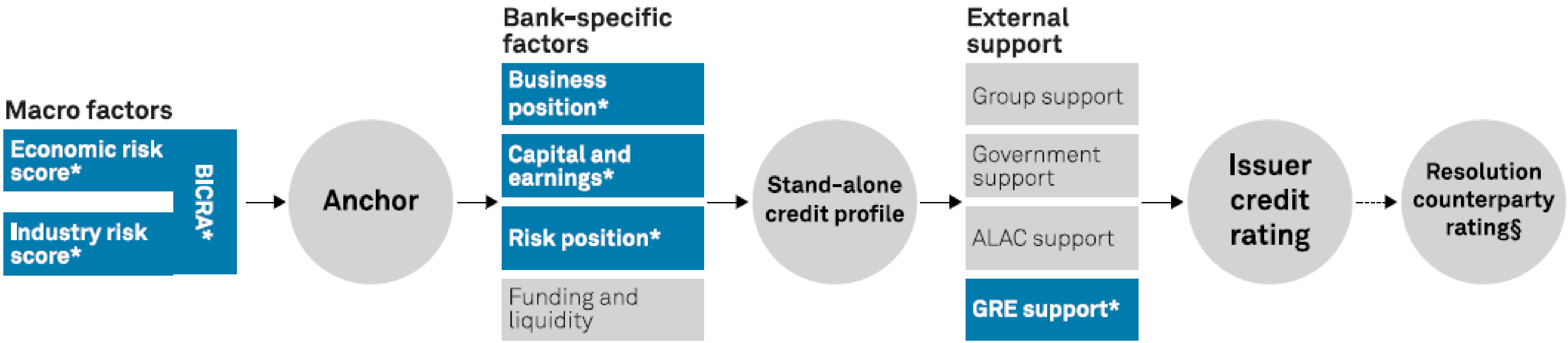
- Health and safety
- Social capital
- Human capital
- Other social factors

Governance factors

- Governance structure
- Risk management, culture, and oversight
- Transparency and reporting
- Other governance factors

ESG Credit Factors Into Our Bank Criteria Framework

Bank Criteria Framework



*Categories most likely to include consideration of environmental, social, and governance credit factors. §Subject to juristicional assessment and expected resolution strategy. BICRA--Banking industry and country risk assessment. ALAC--Additional loss-absorbing capacity. GRE--Government-related entity

Environmental Credit Factors: An Example

Natural Conditions Factors

Banco Agropecuario S.A (Sept. 5, 2017)

Outlook revised downward
BBB-/Negative
(from Stable)

Criteria category
Business position

Amid challenging climate conditions, weakening asset quality is putting pressure on business stability.

Peru-based Banco Agropecuario S.A Outlook Revised To Negative; BBB- Ratings Affirmed and Withdrawn at Issuer's Request

- Agrobanco's nonperforming loans (NPLs) spiked to about 9% in the first half of 2017 mainly due to **drought conditions** in late 2016 **and El Niño effect** in the first quarter of 2017, affecting mostly its discontinued portfolio of loans to medium-size and large agricultural commodity producers.
- Furthermore, the bank's **NPLs breached its contractual covenants limits in unsecured credit lines**, for which the banks was granted a six-month waiver in order to tackle current gaps.
- The negative outlook reflected the **rapid asset quality deterioration** that was **pressuring Agrobanco's liquidity and business stability** prospects.

A natural catastrophe and harsh climate conditions caused a deterioration in the bank's asset quality and resulted in significant financial losses for 3 consecutives quarters.

Weakening asset quality and significant strategic changes were putting pressure on the bank's business position and liquidity profile.

Social Credit Factors: An Example

Mulhacen Pte. Outlook Revised To Negative On WiZink's Exposure To Increasing Litigation Risk And Uncertain Prospects

- WiZink faces **increasing claims from Spanish customers on alleged usury rates charged by the bank** on its revolving credit cards. We expect the number of claims to increase, particularly in the **context of mounting consumer protectionism in Spain.**

- The bank also experienced the **resignation of its CEO** in March 2019, which we were not expecting, as well as the weakening credit quality of its most recent credit card vintages following an easing of underwriting standards in 2017.

- The negative outlook on Mulhacen reflects the possibility of a downgrade over the next 12-18 months if we see a deterioration in the group's creditworthiness. Specifically, this could happen if **legal claims on alleged usury rates charged by WiZink increase significantly, straining profits and business prospects** and, as a result, the expected dividend distribution.

Increasing claims from customers could put pressure on the bank's business prospects, including profitability.

In addition, the resignation of the CEO created some uncertainties on the bank's future business model and strategy, in our view.

There could be negative implications on the bank's business and financial risk profiles.

Governance Credit Factors: An Example

Danske Bank Outlook Revised To Negative, Hybrids Downgraded, On Further Disclosure On Money Laundering Issues In Estonia

- On Sept. 19, 2018, Danske Bank disclosed additional information on **failures in client onboarding and the prevention of money laundering and corrupt practices** at its Estonian branch in 2007-2015.

- In light of the **control and governance deficiencies** highlighted in the investigation, we considered Danske Bank's risk position to be moderate rather than adequate, and therefore revised our assessment of the stand-alone credit profile downward to 'a-'.

- As a result, we revised our outlook on Danske Bank to negative from positive, affirmed our 'A/A-1' ratings, and lowered our issue ratings on the bank's subordinated debt by one notch.

- The negative outlook reflects **ongoing regulatory investigations** into Danske Bank's Estonian branch and the **ensuing damage to the bank's reputation**.

Control and governance deficiencies caused alleged suspecious transactions at its Estonian branch, and resulted in a weaker risk position.

We therefore lowered the bank's stand-alone credit profile and hence the hybrids' ratings.

It remains uncertain whether there could be any other consequence on the bank's business and financial risk profiles.

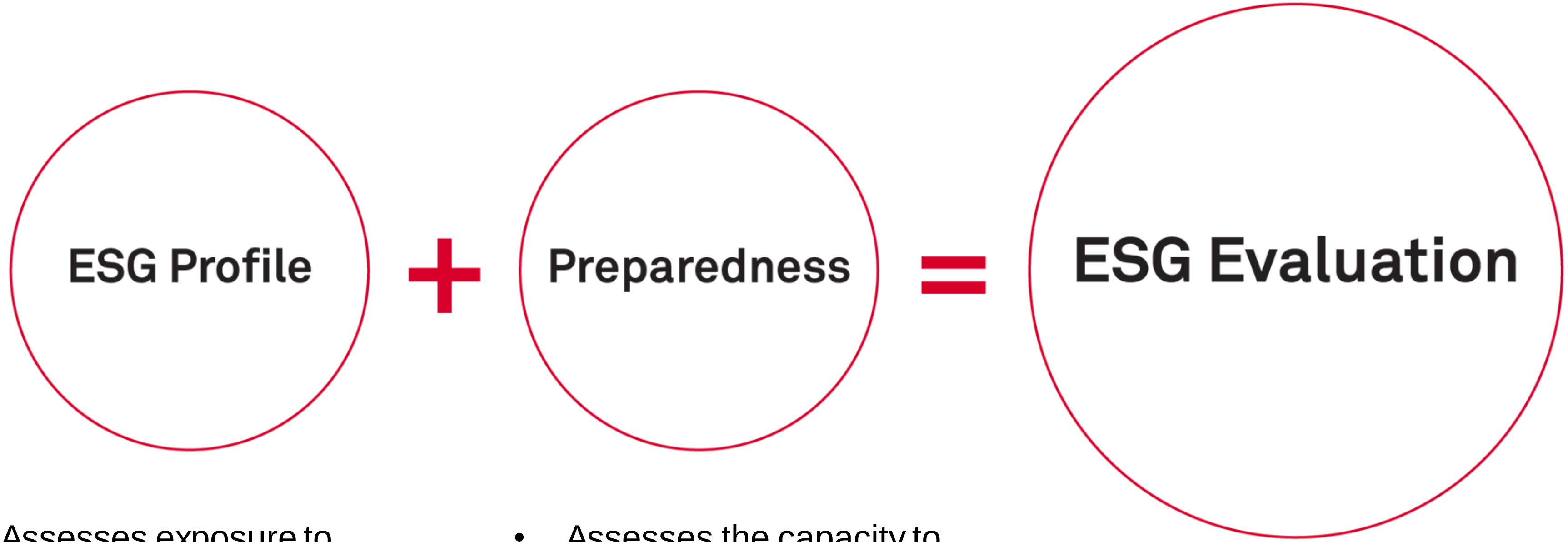
ESG Evaluation

S&P Global Ratings

Setting The Scene | What Is An ESG Evaluation

- Not a credit rating
- Cross-sector, relative analysis of an entity’s sustainability, i.e. its capacity to operate successfully in the future
- Score out of 100 derived from quantitative performance indicators, qualitative analysis, and interactions with the entity
- Joint-work between the Ratings Sector team and the Sustainable Finance team
- Available on a confidential or public basis

Key Components: ESG Profile & Preparedness



- Assesses exposure to observable ESG risks & opportunities
- Considers governance structure in mitigating risks & capitalizing on opportunities
- Is informed by quantitative and qualitative information

- Assesses the capacity to anticipate and adapt to a variety of long-term plausible disruptions
- Disruptions not limited to environmental or social scenarios
- Is informed by our meeting with a board member

From The ESG Story To The ESG Scoring: ING case (1/2)

High sector exposure = low starting point

The company scores ‘Strong’ where it goes above industry standards, ‘Good’ when it meets industry standards

Overall the company is going beyond industry average

Environmental Profile		Social Profile		Governance Profile	
Sector/Region Score	35/50	Sector/Region Score	37/50	Sector/Region Score	32/35
Greenhouse gas emissions	Strong	Workforce and diversity	Strong	Structure and oversight	Good
Waste and pollution	Strong	Safety management	Good	Code and values	Good
Water use	Strong	Customer engagement	Strong	Transparency and reporting	Strong
Land use and biodiversity	Good	Communities	Good	Financial and operational risks	None
General factors (optional)	None	General factors (optional)	None	General factors (optional)	5
Entity-Specific Score	38/50	Entity-Specific Score	37/50	Entity-Specific Score	47/65
E-Profile (30%)	73/100	S-Profile (30%)	74/100	G-Profile (40%)	79/100

ESG Profile (including any adjustments) **76/100**

Source: ING Groep N.V. ESG Evaluation, S&P Global Ratings

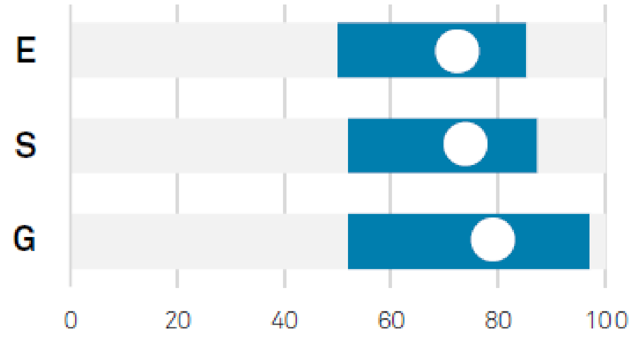
S&P Global Ratings

From The ESG Story To The ESG Scoring: ING case (2/2)

Positive uplift of 7 points on the final ESG Evaluation score

ESG Profile Score

76/100



Company-specific attainable and actual scores

Preparedness Opinion (Scoring Impact)

Strong (+ 7)

ESG Evaluation

83/100

A higher score indicates better sustainability

Source: ING Groep N.V. ESG Evaluation, S&P Global Ratings

Thank you

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