

The integration of ESG factors into the credit rating process: status quo and perspectives

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S&P Global
Ratings

Credit Ratings and ESG Credit Factors (1)

- S&P Global Ratings incorporates environmental, social, and governance (ESG) credit factors into its credit analysis across all sectors if we believe the factors are material and relevant to our opinions of creditworthiness.
- The influence 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 ratings, rating outlooks, and ratings headroom. Their influence differs across industries.
- Strong ESG credentials do not necessarily indicate strong creditworthiness. Weak ESG credentials do not necessarily indicate weak creditworthiness.

Credit Ratings and ESG Credit Factors (2)

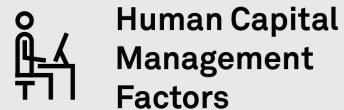
- The main challenges when trying to evaluate ESG credit factors can be insufficient disclosure generally and--where there is disclosure--inconsistent disclosure. New international disclosure practices, such as those recommend by the Task Force on Climate-related Financial Disclosures, could make evaluating ESG credit factors easier.
- Future public policy decisions may influence the materiality of ESG factors in credit ratings either by imposing requirements which make ESG factors more material, or by legislating to improve the quality of ESG related disclosures.
- Our long-term ratings and ESG credit factor analysis can incorporate qualitative and quantitative analysis and do not have a pre-determined time horizon.

Examples of ESG Credit Factors

E Factors



S Factors

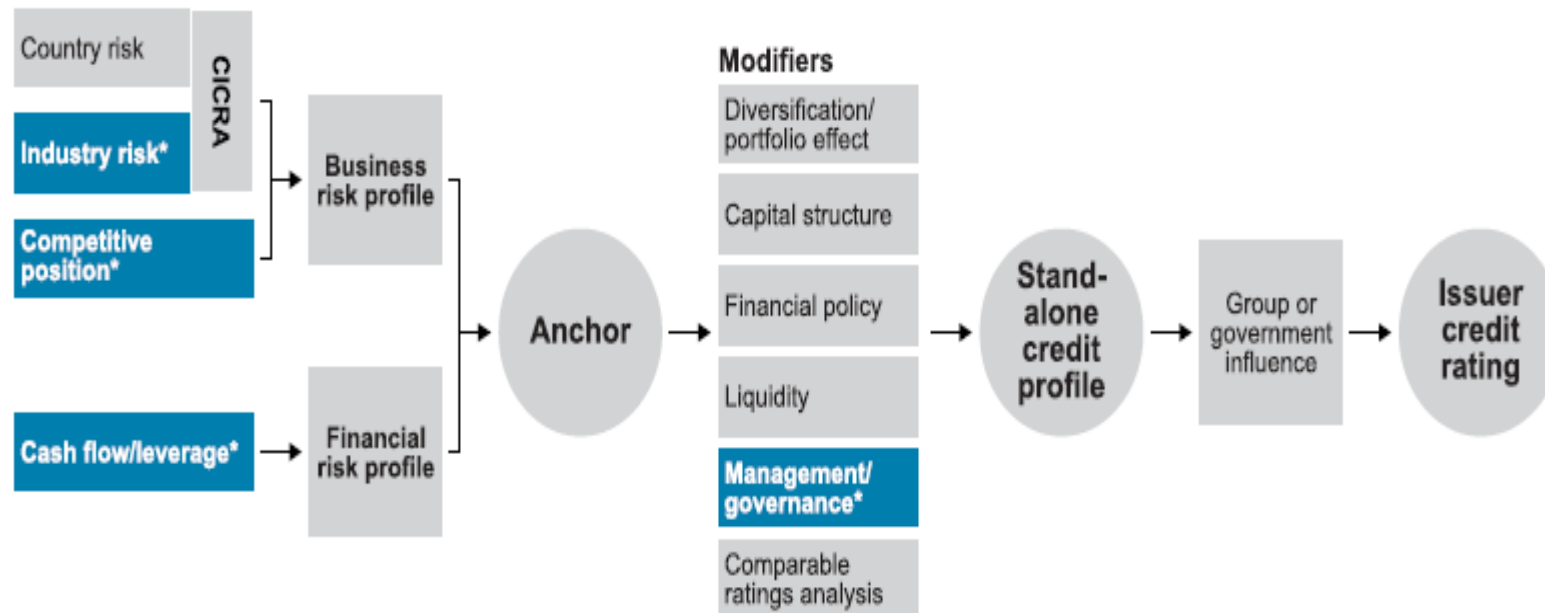


G Factors



ESG Credit Factors | Corporate Criteria Framework

Corporate Criteria Framework



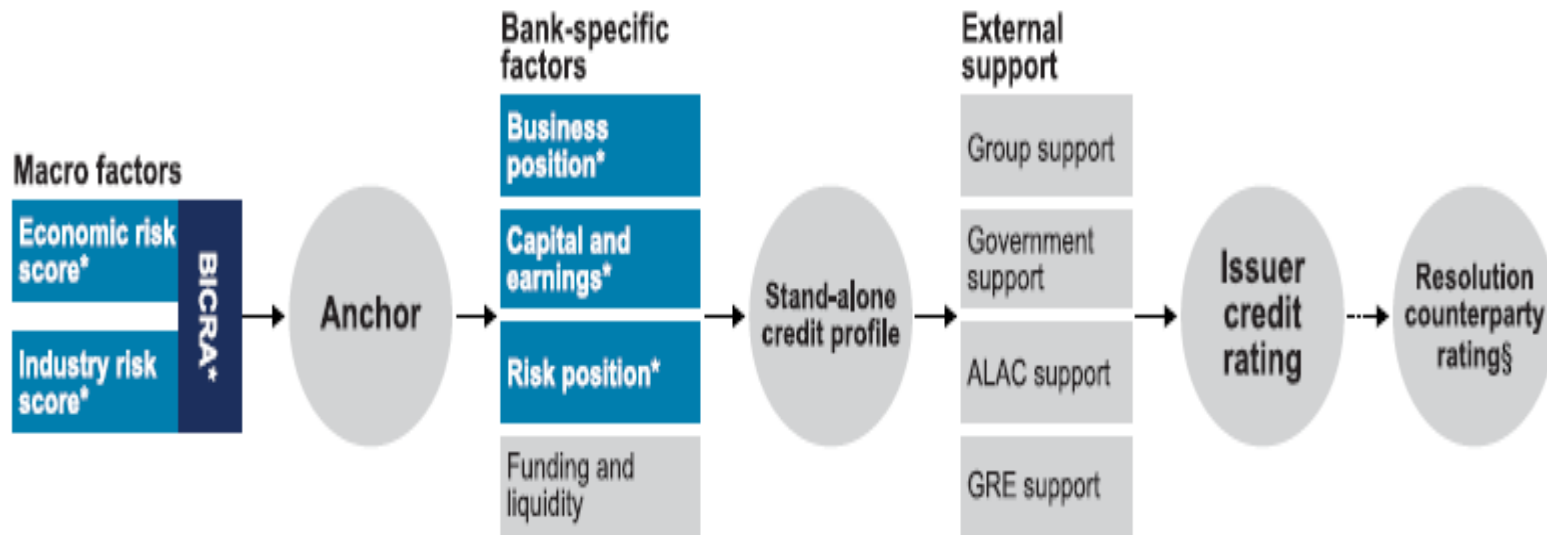
*Categories most likely to include consideration of environmental, social and governance credit factors.

CICRA—Corporate industry and country risk assessment.

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ESG Credit Factors | Bank Criteria Framework

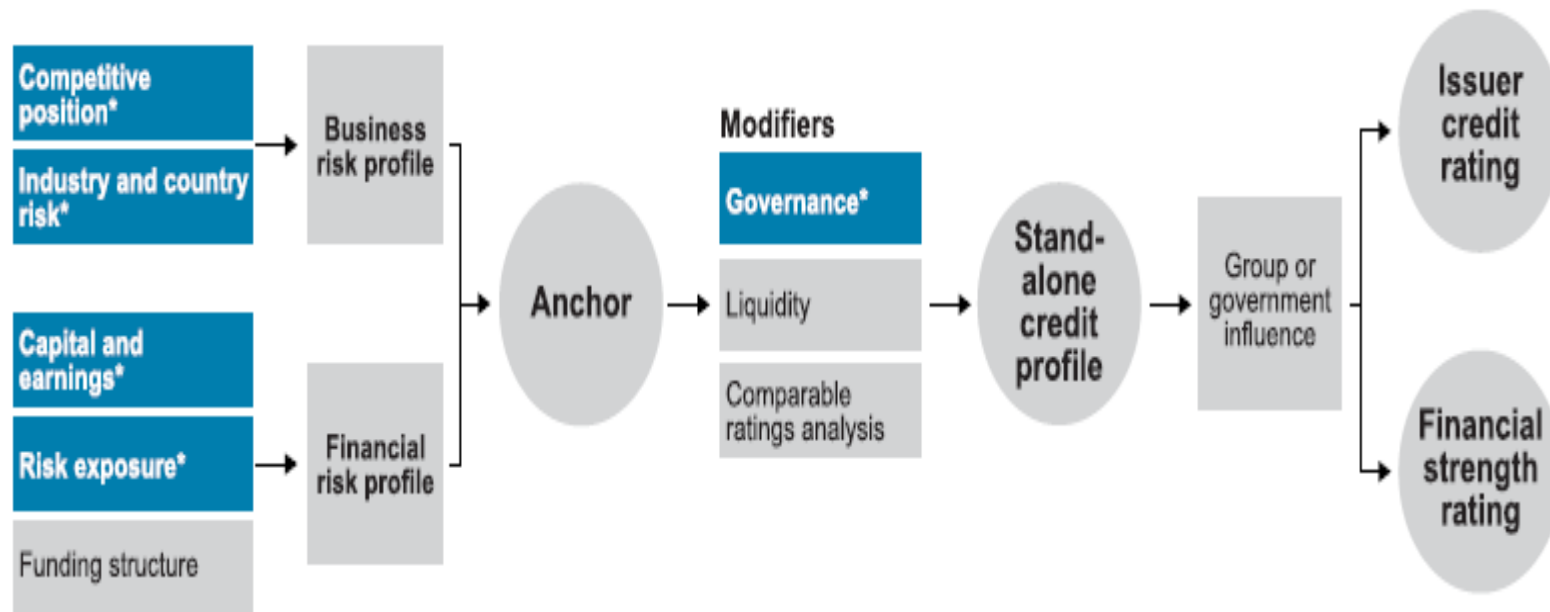
Bank Criteria Framework



*Categories most likely to include consideration of environmental, social and governance credit factors. §Subject to jurisdictional assessment and expected resolution strategy. BICRA--Banking industry and country risk assessment. ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

ESG Credit Factors | Insurance Criteria Framework

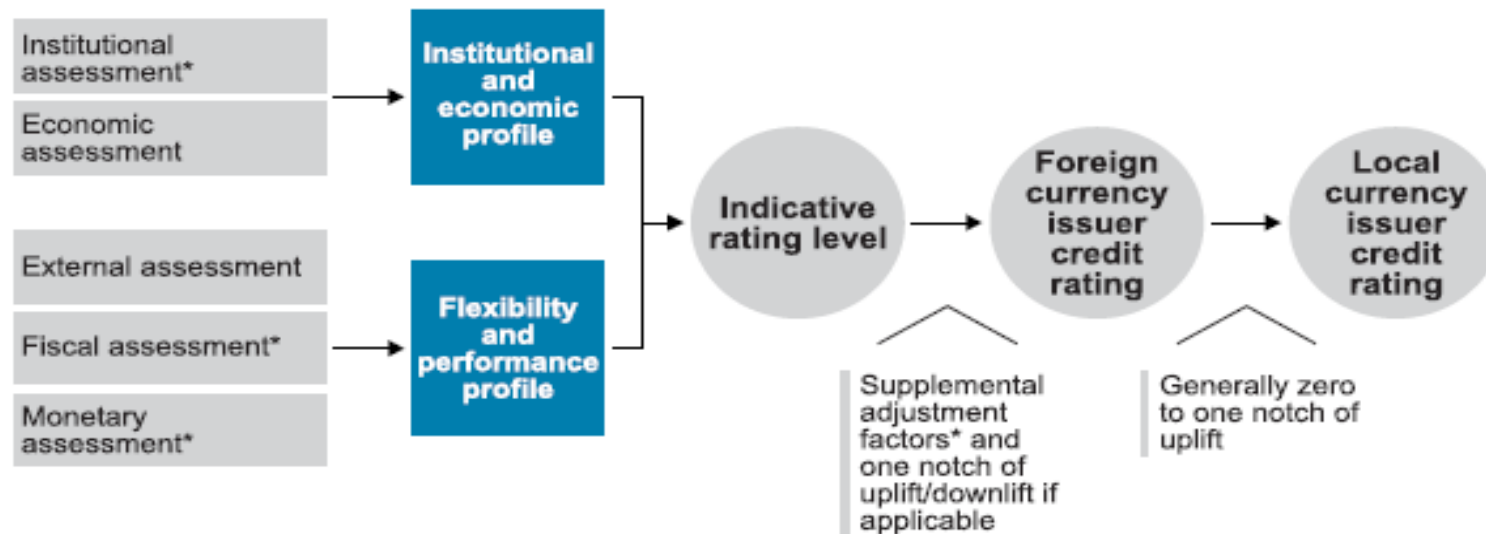
Insurance Criteria Framework



*Categories most likely to include consideration of environmental, social and governance credit factors.
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ESG Credit Factors | Sovereign Criteria Framework

Sovereign Criteria Framework



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Environmental Credit Factors and Credit Ratings (1)



Greenhouse Gas Emission Factors

Drax Power Ltd. (May 15, 2009)



Rating lowered
BB+ (from BBB-)



Criteria categories
Business risk profile
Financial risk profile

The downgrade reflected higher business risk and **CO2 emission costs from coal-based generation.**



Pollution Factors

Duke Energy Corp. (May 20, 2019)



Outlook revised downward
A-/Negative
(from Stable)



Criteria category
Cash flow/leverage

Significant elevated coal ash risks including **longer-term risks due to its coal exposure.**



Other Environmental Factors

Thames Water Utilities (July 24, 2017)



Senior rating lowered
BBB+ (from A-)



Criteria categories
Business risk profile
Financial risk profile

Regulatory costs linked to factors including water leakage hit when there was no financial headroom.



Environmental Benefits

Consol Energy Inc. (Feb. 1, 2017)



Rating raised
B+ (from B)



Criteria category
Competitive position

Business risk assessment raised, reflecting factors including **reduced exposure to coal liabilities.**

Environmental Credit Factors and Credit Ratings (2)



Natural Conditions Factors

Aberdeen Roads (Finance) PLC (Feb. 14, 2017)



Senior secured debt rating lowered
BBB+ (from A-)



Criteria category
Construction phase stand-alone credit profile

Adverse weather has hindered construction progress.

PG&E Corp. (Nov. 6, 2018)



Rating lowered
BBB- (from BBB)



Criteria category
Comparable ratings analysis modifier

Increased wildfire risks.

Talos Energy LLC (Jan. 26, 2016)



Rating lowered
CCC+ (from B-)



Criteria category
Liquidity

The company has less than adequate liquidity. Weather disruption is a risk that could defer production.

Society of Lloyd's (Oct. 12, 2017)



Outlook revised downward
A+/Negative (from Stable)



Criteria category
Capital and earnings

Hurricane losses made it more challenging to restore capitalization consistent with the rating.

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.

Rockport, Tex (General Obligation) (Dec. 6, 2017)



Rating lowered
A+ (from AA-)



Criteria category
Economy and management

Uncertainty regarding its budgetary performance and flexibility following Hurricane Harvey.

Turks and Caicos Islands (June 20, 2018)



Outlook revised downward
BBB+/Stable (from Positive)



Criteria category
Economic assessment

Hurricanes Irma and Maria caused damage worth about 55% of GDP.

Social Credit Factors and Credit Ratings (1)



Human Capital Management Factors

Clark County School District, Nev (GO) (May 29, 2018)



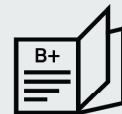
Rating lowered
A+ (from AA-)



Criteria category
Budgetary performance and flexibility

We think that the district's **labor agreements are unsustainable and will continue to pressure operational performance.**

Goodyear Tire & Rubber Co. (Oct. 16, 2006)



Ratings placed on CreditWatch
Negative



Criteria categories
Business risk profile
Financial risk profile

Due to potential for business disruptions and earnings **pressures from ongoing labor dispute.**



Consumer-Related Factors

Del Monte Foods Inc. (March 16, 2017)



Ratings lowered ↓
CCC+ (from B-)



Criteria categories
Competitive position
Cash flow/leverage

Underperformance largely driven by **shifting consumer preferences toward fresh produce.**

Mulhacen Pte. Ltd. (July 19, 2019)



Outlook revised downward ↓
B+/Negative (from B+/Stable)



Criteria categories
Capital and earnings
Risk position

Increasing claims from customers over alleged usurious interest rates

AMP Life Ltd. (Aug. 30, 2018)



Rating lowered
A+ (from AA-)



Criteria category
Competitive position

Misconduct creating risks due to brand damage and potential for material fines.

Social Credit Factors and Credit Ratings (2)



Safety Management Factors

Consolidated Edison Co. of New York Inc.
(Nov. 23, 2015)



Outlook revised downward ↓
A-/Negative
(from Stable)



Criteria category
Competitive position

Alleged safety violations could increase regulatory risk, potentially weakening business risk.



Social Benefits

Carnival Corp. (Oct. 13, 2016)



Rating raised ↑
A- (from BBB+)



Criteria categories
Competitive position
Cash flow/leverage

Carnival has implemented safety measures which ... should limit cash flow volatility.

Governance Credit Factors and Credit Ratings (1)



Risk Management And Internal Controls

Danske Bank (Sept. 25, 2018)



Outlook revised downwards ↓
Negative
(from Positive)



Criteria category
Risk position

Failures to prevent money laundering....

Volkswagen AG (Oct. 12, 2015)



Rating lowered ↓
A-/Watch Neg
(from A/Watch Neg)



Criteria category
Management and
governance

VW has demonstrated material **deficiencies in its management and governance and risk management.**



Transparency

Public Finance Authority, Wis. (revenue bonds)
(June 18, 2018)



Rating suspended



Criteria category
Budgetary
performance and
flexibility

Failed to post audited financial 2017 information in violation of its continuing disclosure agreement and SEC Rule 15c2-12

Mingfa Group (April 6, 2016)



Rating lowered ↓
CCC+/Watch Neg
(from B/Negative)



Criteria category
Management and
governance
Liquidity

Financial reporting transparency, weak controls, less independent board and management, and heightened liquidity risks.

Wethaq Takaful Insurance (June 12, 2018)



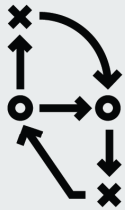
Rating lowered ↓
B/Watch Neg
(from B+/Watch Neg)



Criteria category
Capital and earnings

Audit indicates **financial reporting deficiencies and increased liquidity and capital adequacy risks.**

Governance Credit Factors and Credit Ratings (2)



Strategy, Execution And Monitoring

Deutsche Bank. (June 1, 2018)



Rating lowered ↓
BBB+/Stable
(from A-)



Criteria category
Peer adjustment

Rating lowered on deeper restructuring and so **elevated strategy execution risks.**

City of Vancouver (Feb. 7, 2017)



Rating raised ↑
AAA/Stable
(from AA+)



Criteria category
Financial management

The City has transformed its management practices, enhancing its ability to meet its long-term objectives.

International Investment Bank. (March 7, 2019)



Rating raised ↑
A- (from BBB)



Criteria category
Governance and management

The bank strengthened its governance through changes to its voting system and a clear expansion strategy.

Indonesia (May 19, 2017)



Rating raised ↑
BBB-/Stable
(from BB+/Positive)



Criteria categories
Fiscal assessment
Debt burden

Exhibited effective policymaking to promote sustainable public finances and balanced growth



Other Governance Factors

Greece (July 20, 2018)



Outlook revised upwards ↑
B+/Positive
(from Stable)



Criteria category
Institutional and economic profile

Greater policy stability should support the economy and banks, while enabling the government to service its commercial debt.

Conclusion

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