# Nordic Credit Outlook

## Back On Track, For Now

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S&P Global Ratings

# Contents



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# Nordics | Credit Conditions & Trends

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# Key Takeaways: Nordic Credit Conditions

- A strong economic recovery in the Nordics, fueled by COVID-19 vaccinations and comprehensive fiscal and monetary support, helped the return to more normal levels of social and economic activity. Nordic rating actions shows credit recovery is well underway.
- Emerging COVID-19 variants are threatening progress. This, combined with global supply chain issues for key inputs such as semiconductors, highlights that the path to full recovery potentially remains fragile, and about 9% of Nordic ratings still carry a negative outlook or CreditWatch placement.
- Central banks employed unprecedented action to combat the pandemic, which have fueled rising asset valuations and, more recently, inflation worries. Rising inflation, tied to supply chain disruptions and soaring energy prices, could push central banks to tighten monetary policy, triggering market volatility and repricing risk. However, our base-case scenario for the Nordics is that inflation pressure is transitory (that is, reflation), at least as long as wage inflation is not triggered.
- The difference in impact on (and within) sectors most and least-affected by COVID-19 was dramatic. Vulnerable sectors also have a high share of weaker credits and may face further pressure if recovery stalls, or tight COVID-19 restrictions are reintroduced. More resilient sectors are already well beyond the recovery phase, however.
- This is not a "normal" recovery: Broader technology disruption has accelerated and COVID-19 effects may linger, ESG is also having a material impact. Expect to see both defensive and constructive M&A as companies try to position in a post-COVID world. Leverage reduction is likely to be slow and not top priority.
- We expect the European trailing-12-month speculative-grade corporate default rate to fall to a low 2.5% by September 2022, down from 3.3% in September 2021. Near-term indicators point to few defaults ahead, as lending conditions remain favorable and strong economic growth is expected through 2022.

# Key Takeaways: Most Sectors Stabilizing In The Nordics

**High vaccine penetration and resilient core industries have allowed Nordic output to return to pre-pandemic levels.** However, capacity/supply chain constraints or new COVID-19 variants could dent short-term prospects while surging energy prices might extend the near-term inflation spike. Our base-case scenario for the Nordic countries is that inflationary overshoot is transitory (reflation), but the recent surge could complicate policy rate normalization.

**Nordic banks, even after generous payouts, should remain well capitalized.** Pandemic-related policies to shore up capital have led to sizable buffers that are ripe for dividend payouts and share repurchases, as regulatory requirements begin to normalize. We expect Nordic banks will hold strong capital buffers compared with those of European peers, even after they complete capital disbursements.

**Most nonfinancial corporates have returned to or near pre-COVID-19 levels**. However, negative effects from the spike in inflation might threaten operating profits. While we see these factors as transient, their impact could be more pronounced for corporates that lack cost pass-through clauses in contracts or pricing power.

**Nordic insurers are largely unaffected by the pandemic.** The sector is mostly back to continued strong capitalization, solid underwriting profits, and lower-for-longer interest rates.

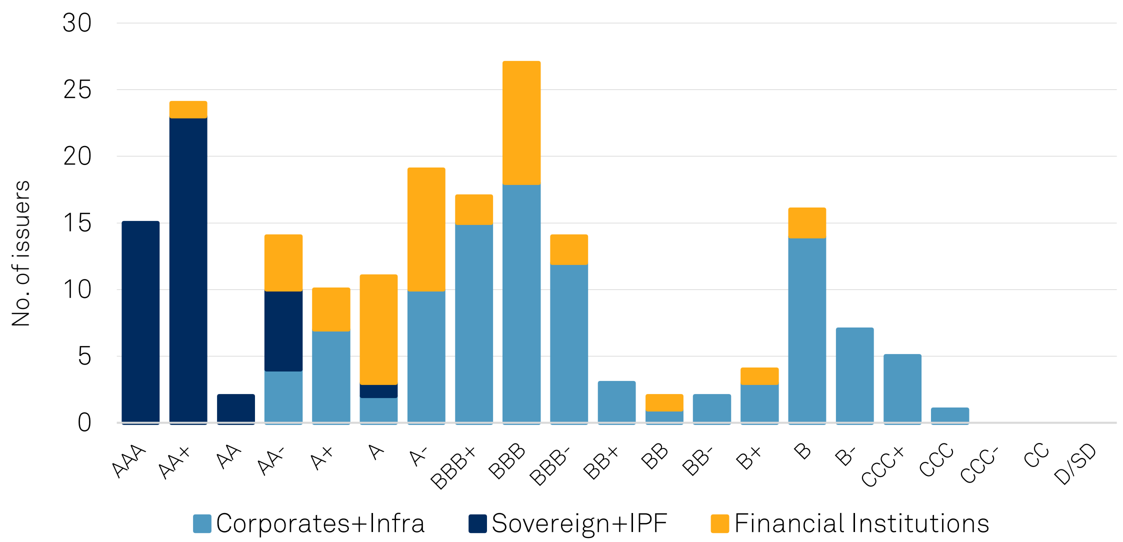
**Unprecedented central government support continues to uphold financial performance for Nordic LRGs.** Specifically, the direct government funds and extended support schemes for unemployment have upheld taxable income. Although we expect support to gradually be phased out, performance will remain strong thanks to solid economic recovery and tax growth.

**Credit quality could come under threat as we reach an inflection point for monetary policy.** Key risks include inflation pressures and supply chain frictions, rising COVID-19 case rates due to mutations leading to new restrictions, elevated debt, and the transition to a low-carbon energy.

# Nordic Rating Distribution | Investment-Grade Bias

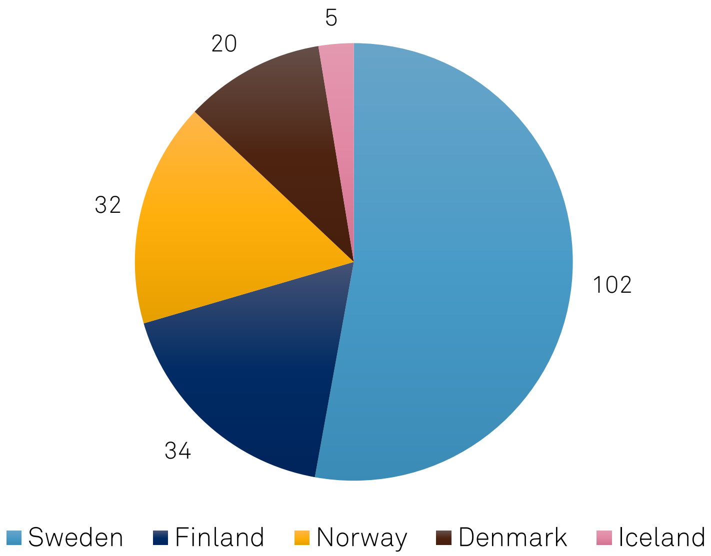
- Ratings in the Nordics are skewed toward investment-grade, largely because of a relevant share of international public finance, sovereign, and financial services (banks and insurance companies) ratings that are mainly high-investment-grade.
- Corporate and infrastructure ratings are relatively evenly distributed, with some concentration in the 'BBB' and 'B' categories.
- Over 50% of ratings are on entities domiciled in Sweden, followed by Finland (18%), Norway (17%), Denmark (10%), and Iceland (3%).

## Nordic Rating Distribution




*Data as of Dec. 3, 2021. Source: S&P Global Ratings .*

## A Majority Of Ratings Are Domiciled In Sweden




*Data as of Dec. 3, 2021. Source: S&P Global Ratings.*

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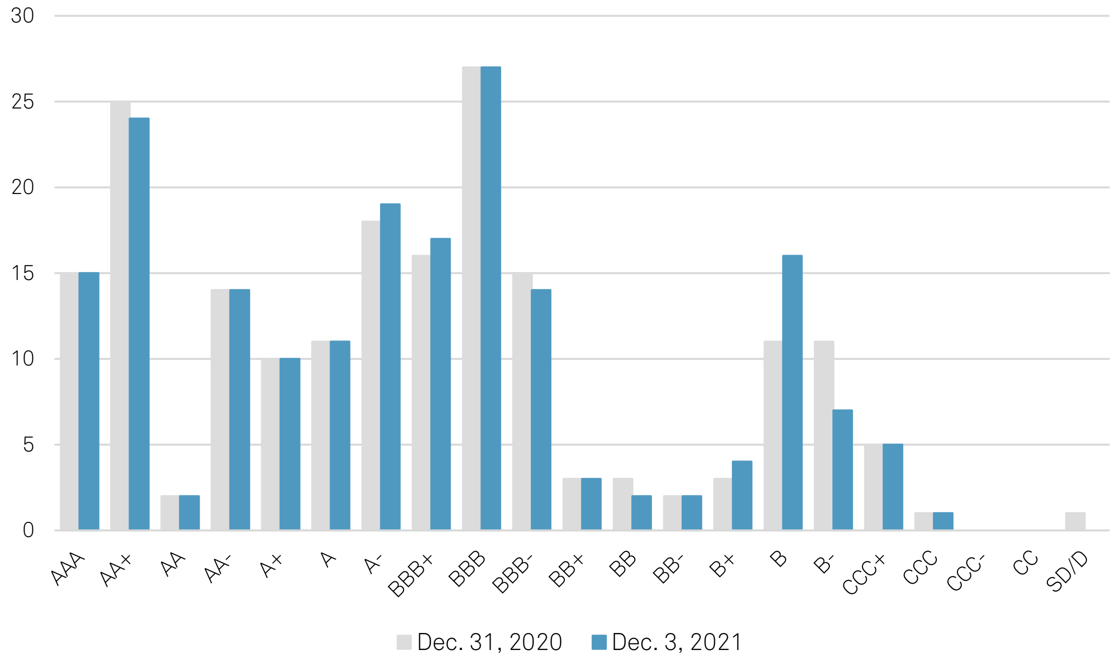
# Credit Quality | Stabilization In 2021

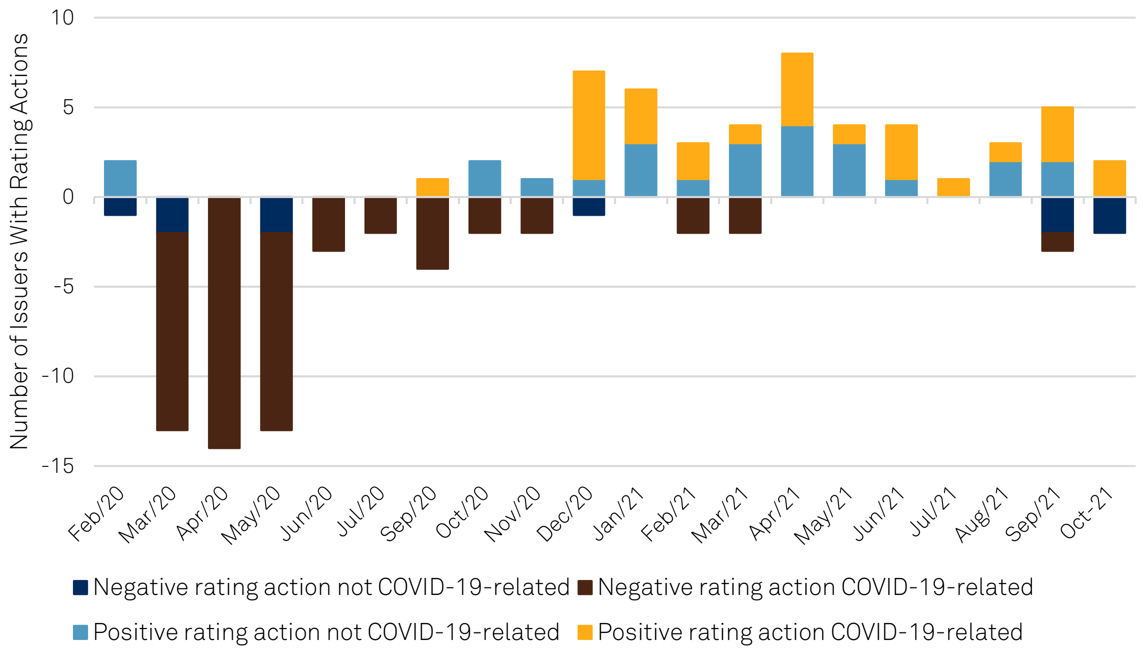
- Business conditions have improved markedly in most sectors, supported by a strong recovery and loosening restrictions.
- As a result, credit quality steadily improved in 2021 and Nordic ratings are virtually back to pre-pandemic levels, barring some sectors with a high exposure.
- New ratings, largely in corporate ratings, are mainly in the 'B' category, reflecting private equity ownership.

### Nordic Ratings Largely Investment Grade Because Of A High Share Of International Public Finance And Financial Services Entities




*Source: S&P Global Ratings.*

### Nordic Rating Activity Are Decidedly More Positive In 2021 As Credit Conditions Improve

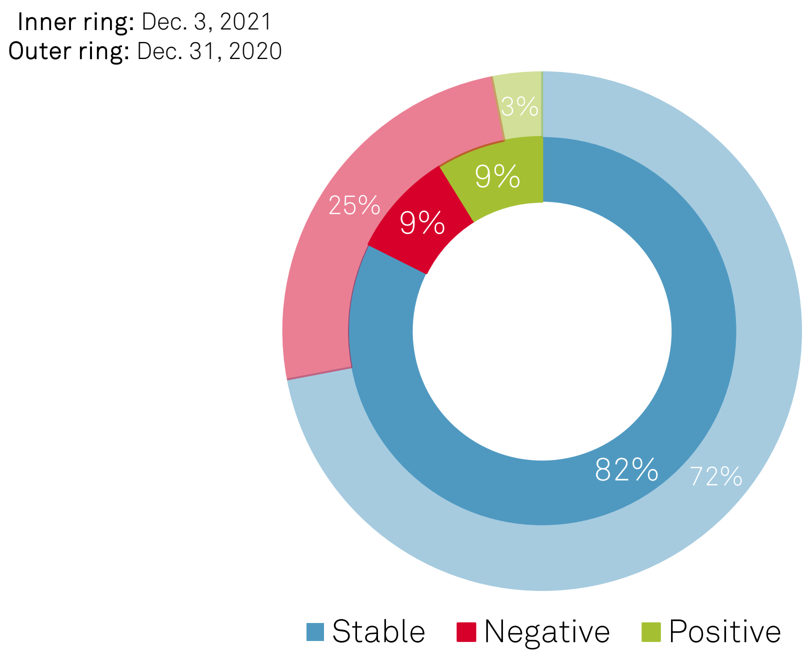



*Source: S&P Global Ratings. Data from Feb. 3 to Oct. 31, 2021*

# Nordic Credit Outlook | Recovery in Full Steam

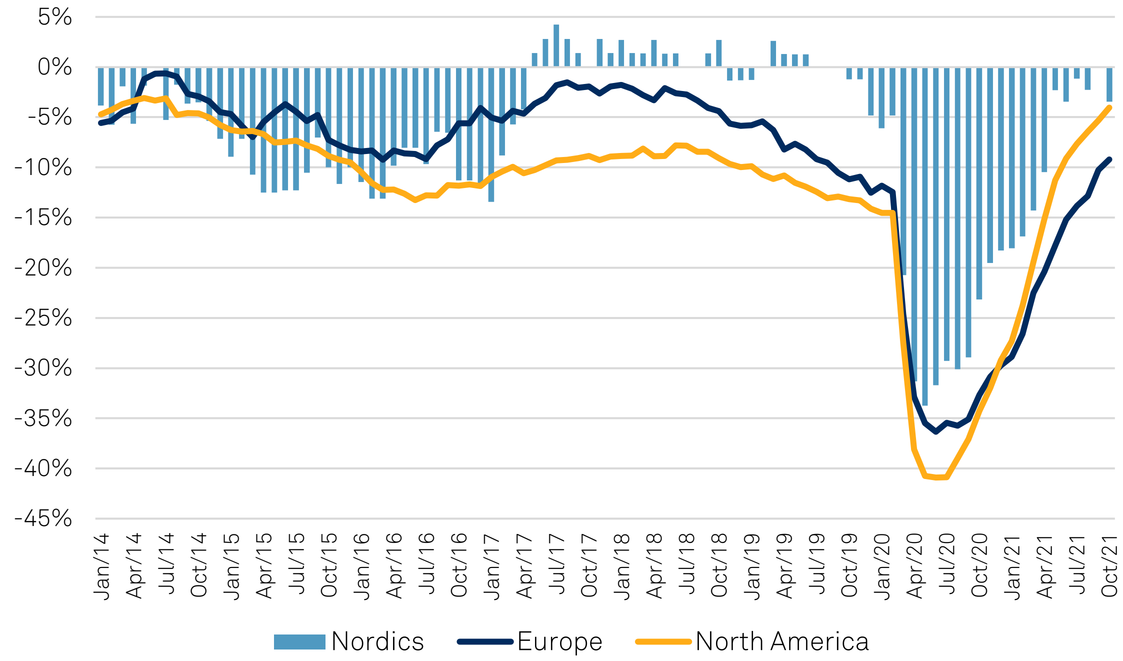
- Vaccination progress has enabled governments to ease or remove COVID-19 restrictions that, together with accommodative financing conditions and monetary/fiscal policies, have fueled a strong recovery, and outlooks for Nordic corporates have turned decidedly more positive compared with 2020.
- The outlook distribution for rated Nordic entities is now decidedly more biased toward stable outlooks that it was a year ago.

**Nordic Outlook Bias Stabilized in 2021**




*Source: S&P Global Ratings.*

**Credit Recovery In The Nordics Quicker Than Other Regions**




*Source: S&P Global Ratings.*

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# Nordics | Top Risks

| | Top Nordic Risks | Risk Level |
|---|---|---|
| | Disorderly reflation, supply-chain pressures, and skilled-labor shortages driving stronger-for-longer inflation that leads to market volatility | High |
| | Inflated asset values that increases risk of investor risk-repricing or large valuation swings if central banks ease off the accelerator | Elevated |
| | The pandemic persists, and new vaccine-escaping variants drive renewed infections that trigger new restrictions and depress economic activity | Elevated |
| | Surging energy prices, depressing household purchasing power and erode margins for energy intensive companies | Elevated |
| | **Structural Risks** | |
| | The transition to a lower carbon economy poses challenges and risks in a post-COVID-19 world | Elevated |
| | Business models and digital networks are exposed to disruption and cyber risk | Elevated |

*Source: S&P Global Ratings.*

# Macroeconomic Forecast

Things are heating up across the Nordics

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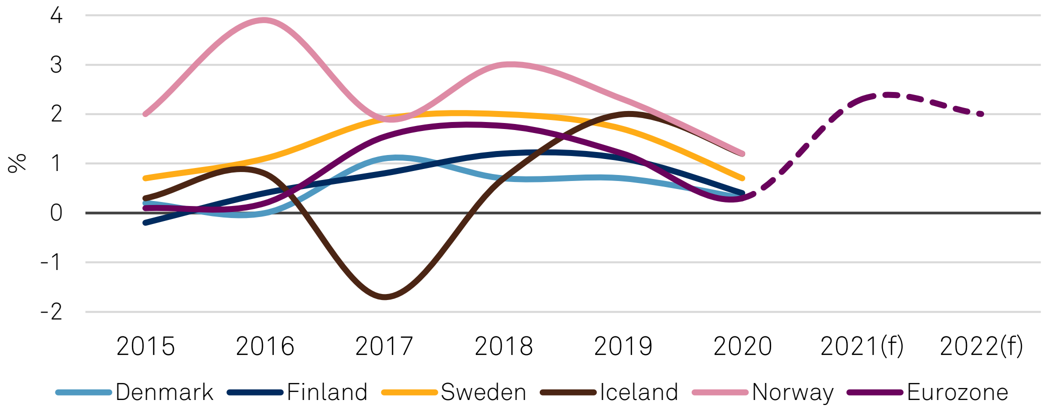
# Nordics | Economic Recovery Faster Than Expected

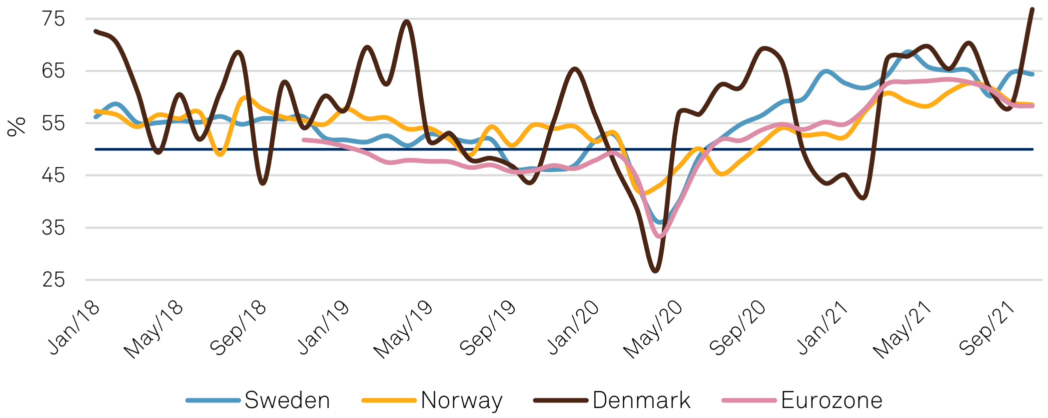
- The Nordic economies have responded better to the fiscal and monetary stimulus than we originally thought.
- Yet the strong rebound, which is positive per se, has also led to raw material shortages and soaring energy prices, and we expect producers will start passing rising costs to end customers.
- Inflation risk persists, although we see a longer and stronger temporary rise, not yet a wage-price spiral. We expect higher energy and electricity prices will have a more direct impact on consumer prices, although inflation will likely ease next year as wage growth remains subdued and other base effects fade.
- The main risks for the economy relate to supply-demand imbalances in key sectors that could last longer than expected, uncertainty about new COVID-19 variants, and financing conditions as central banks start thinking about tapering bond purchases.

### Inflation In The Nordics Has Remained Relatively Low But Is On The Rise




*Source: Harmonised Indices of Consumer Prices (HICP) produced by Eurostat.*

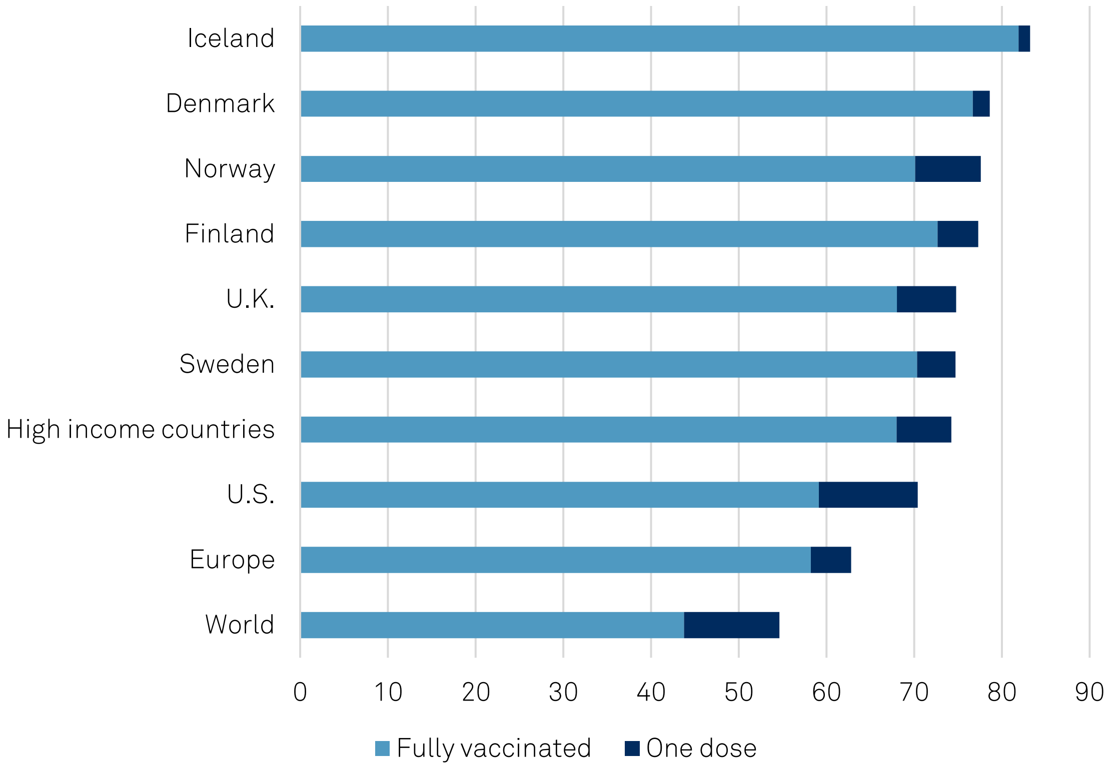
### PMI Index Shows Strong Recovery In Sentiment




*Source: Bloomberg.*

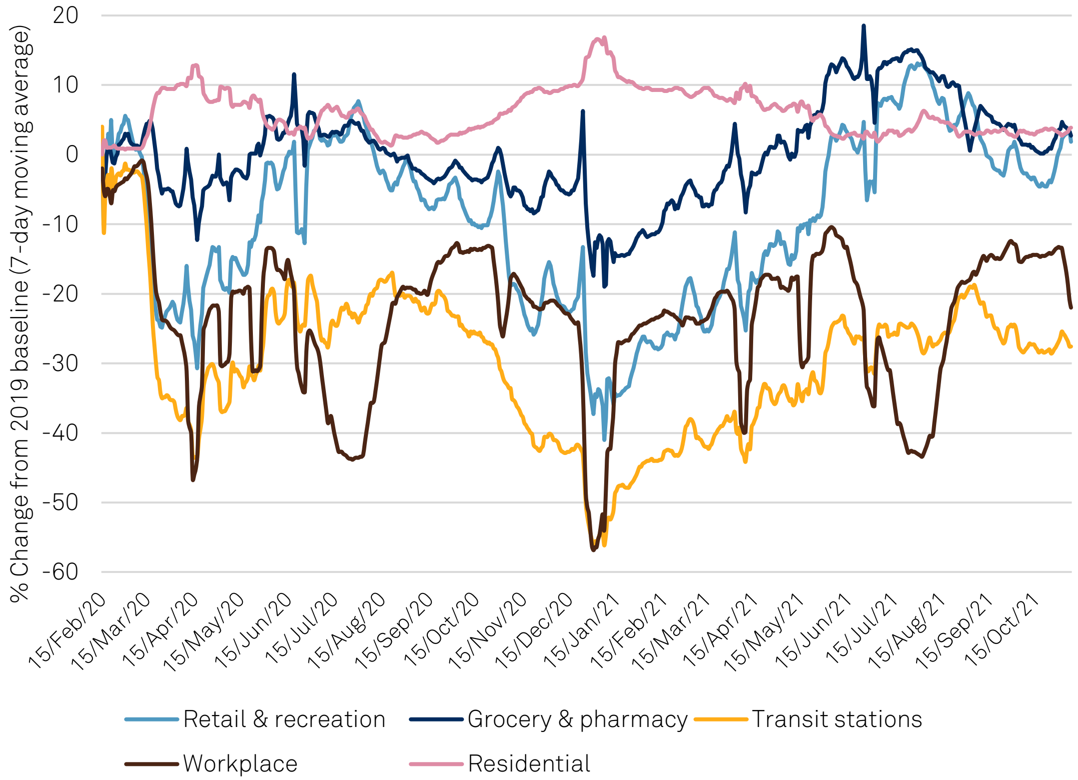
# Nordics | Vaccination Roll-Out Enabled Easing Of Restrictions

### The Nordics Have Fully Vaccinated More Than 70% Of Its Population, Well Ahead Of Most Other Regions




*Data as of Dec. 2, 2021. Sources: Ourworldindata.org, S&P Global Economics.*

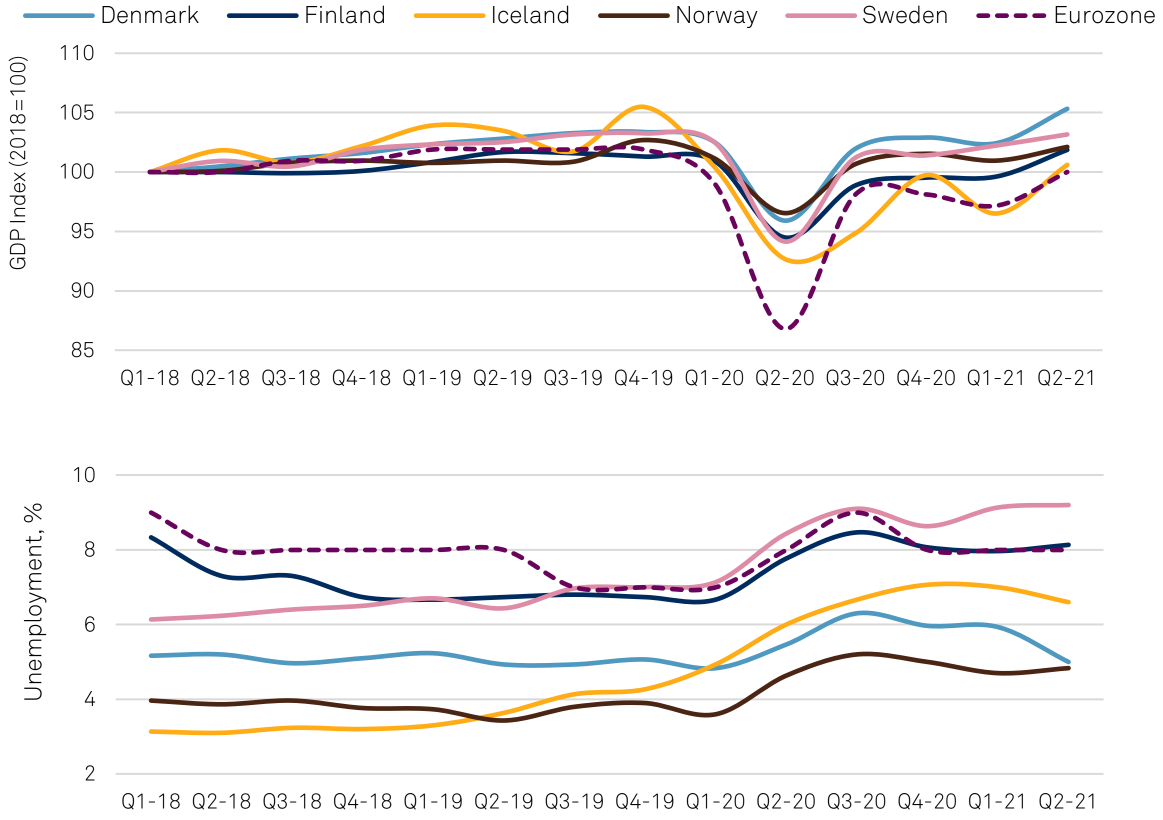
### Mobility Is On The Rise As Restrictions Ease




*Data as of Nov. 10, 2021. Note: Mobility trend is for Sweden. Sources: Google Community Report, S&P Global Economics.*

# Nordic Economies | Nordic GDP Have Already Returned To Pre-crisis Levels

**Quarterly Nordic GDP and Unemployment**

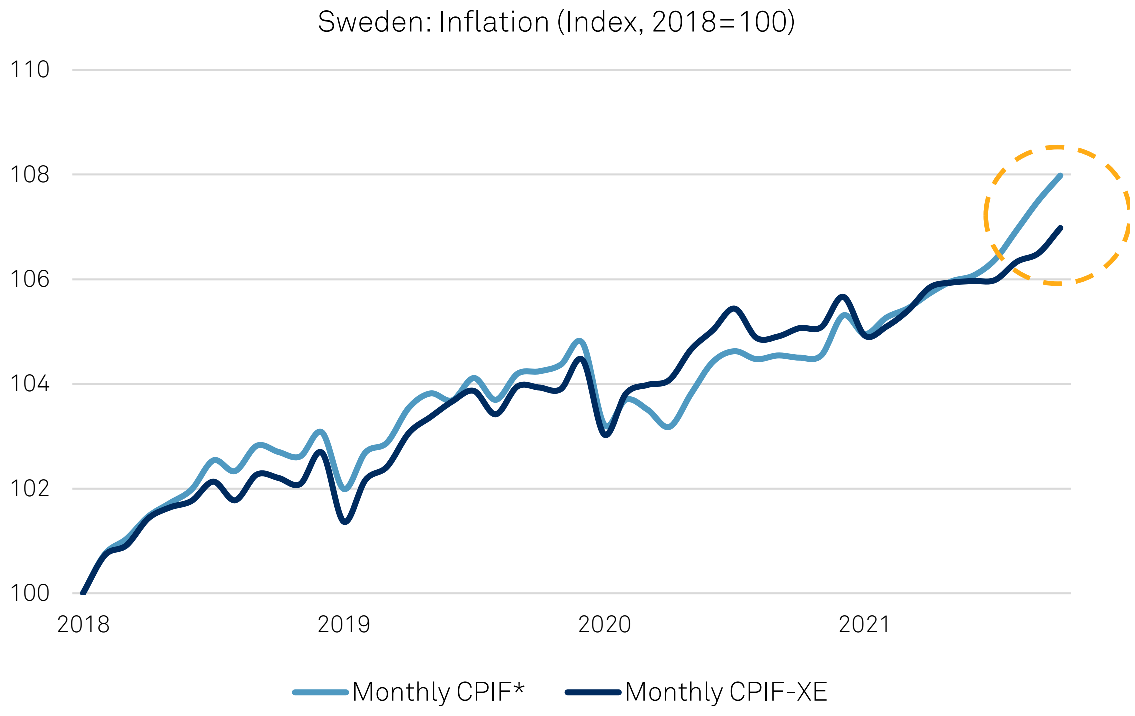



*Source: S&P Global Ratings, OECD*

- High vaccine penetration and resilient industry have allowed Nordic output to return to pre-pandemic levels in 2021.
- We expect no loss in productive capacity and foresee growth trends to catch up with pre-pandemic trajectories in 2021-2023.
- Household spending of excess savings still constitutes the main positive factor in our baseline.
- The strength of the recovery has caused friction, however, including material and labor shortages.
- With inventory levels historically low, the shortage of materials and equipment, instead of weak demand, is now the primary factor limiting industrial production--primarily in the capital goods and consumer durables sectors.
- Labor shortages are increasingly apparent, in particular in the construction sector, similar to before the pandemic.

# Nordic Economies | Inflationary Overshoot Is Likely Transitory, But A Near-Term Surge Could Complicate Policy Rate Normalization

### Surging Energy Prices Boost Headline Inflation




*Source: Statistics Sweden. S&P Global Ratings. CPIF: Consumer price index with a fixed interest rate. CPIF-XE: Consumer price index with a fixed interest rate, excluding energy.*

- We have revised our 2021 inflation expectation upward, primarily on components we deem largely transitory, such as surging energy prices and price effects of disrupted supply chains that produce shortages of input materials.
- In an environment of tightening labor markets, wage agreements are likely to be more generous, which, combination with persistently high energy prices, could complicate monetary policy normalization.
- A sustained rise in energy prices could lead financial markets to expect central banks to hike rates earlier than expected.
- We expect to see Nordic central banks to acknowledge the transitory nature of inflation factors and proceed cautiously with the speed of their policy rate normalization.
- Still, we expect rate hikes to be increasingly contemplated. For example, in Norway, where Norges Bank already hiked rates in September and with the recent surge in oil prices adding scope to the hawkish tone of the central bank statements.

# Nordic Banks

Comfortably weathering COVID-19 with sound profitability and limited credit losses

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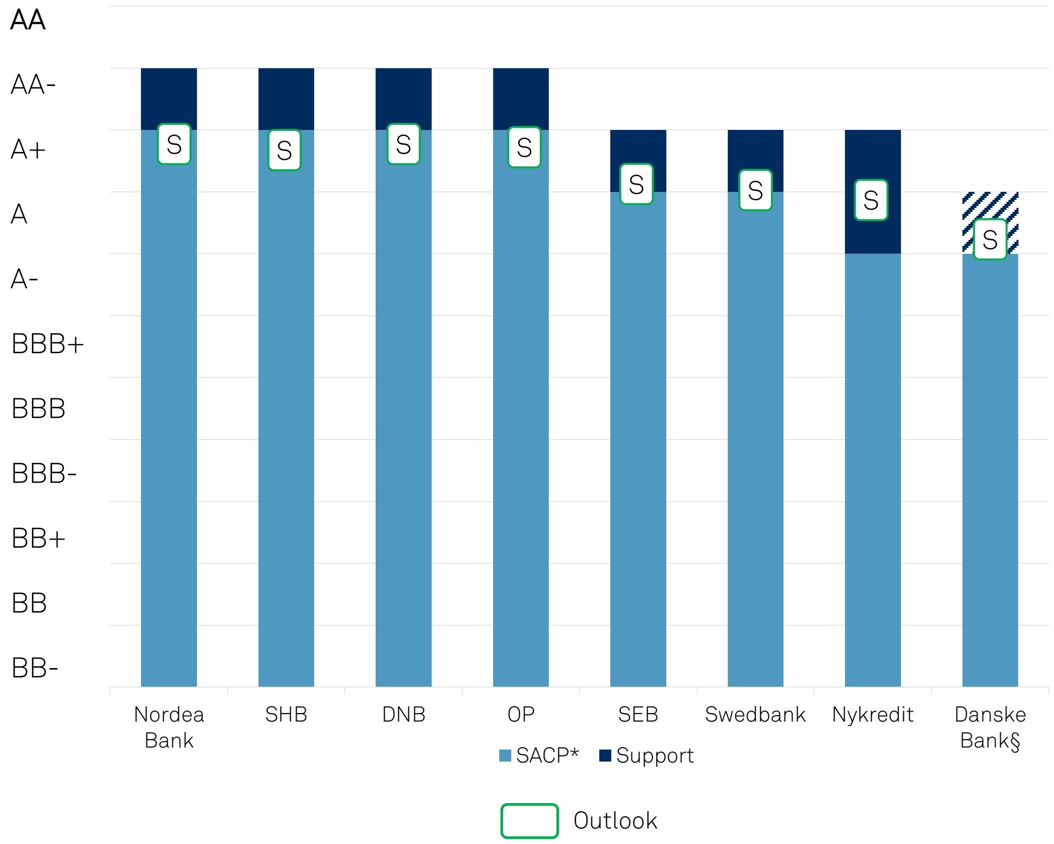
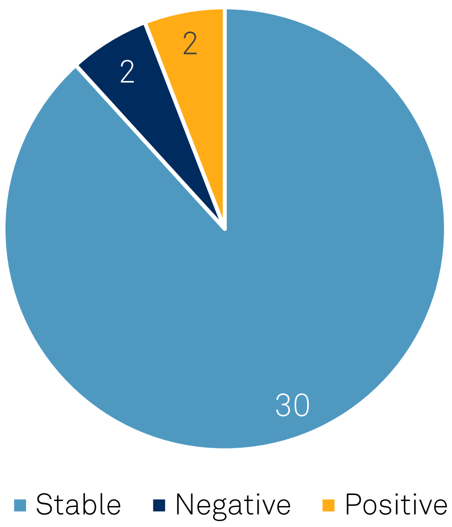
# Nordic Banks | With Conditions Set To Improve, Nordic Bank Outlooks Are Largely Stable

### Rating Overview For Major Nordic Banks




### Around 90% Of Outlooks On Nordic Banks Are Stable



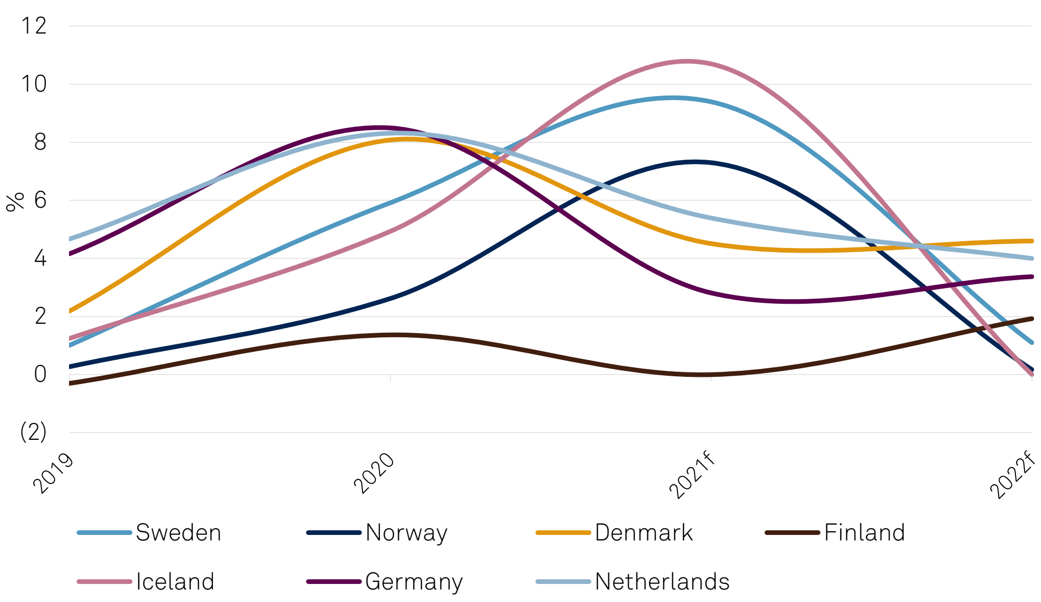

- Economic backdrop has improved as restrictions eased.
- Nordic banks are well-positioned to deliver strong earnings following the pandemic's negative effects, which increased the cost of risk and weighed on profits in 2020.

*Source: S&P Global Ratings. Ratings as per Dec. 6, 2021. *SACP-- Stand-alone credit profile. §Danske's two notches of support offset by a negative adjustment notch. S: Stable outlook*

# Nordic Banks | COVID-19 Support Measures And Restrictions Have Supported House Prices In The Nordics

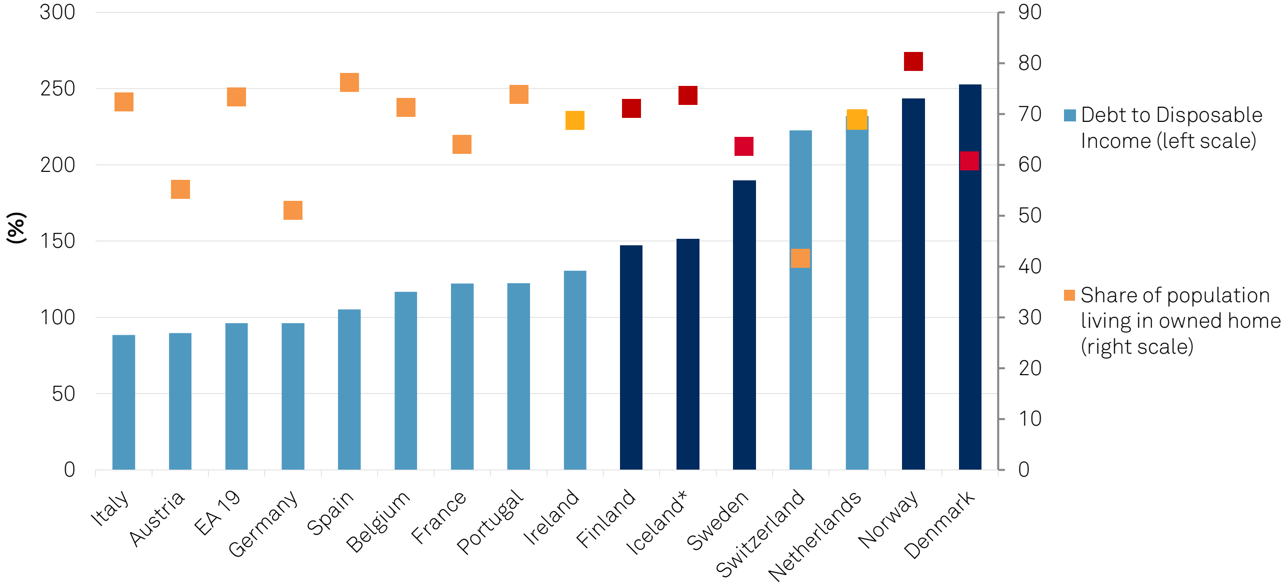
– Nordic housing markets have performed well after the pandemic-related mobility restrictions were enacted in 2020-2021.
– Increased savings rates, fiscal and monetary support measures, and stay-at-home consumption patterns have meant demand for housing--specifically, houses (both primary and secondary)--has boosted housing prices.
– Reinstatement of amortization requirements and countercyclical capital buffers are anticipated to dampen the pace of house price growth over the medium term.

## Annual Change in Key Index For National Residential House Prices (Real; %)




*Source: S&P Global Ratings. f– Forecast. Data as of Nov. 1, 2021.*

## Nordic Households' Share of Home Ownership Is Among The Highest In Europe




*Source: OECD and European Statistics on Income and Living Conditions (EU-SILC). Data as of Dec. 31, 2019. *Debt-to-income data from 2020, Homeownership data from 2018.* 

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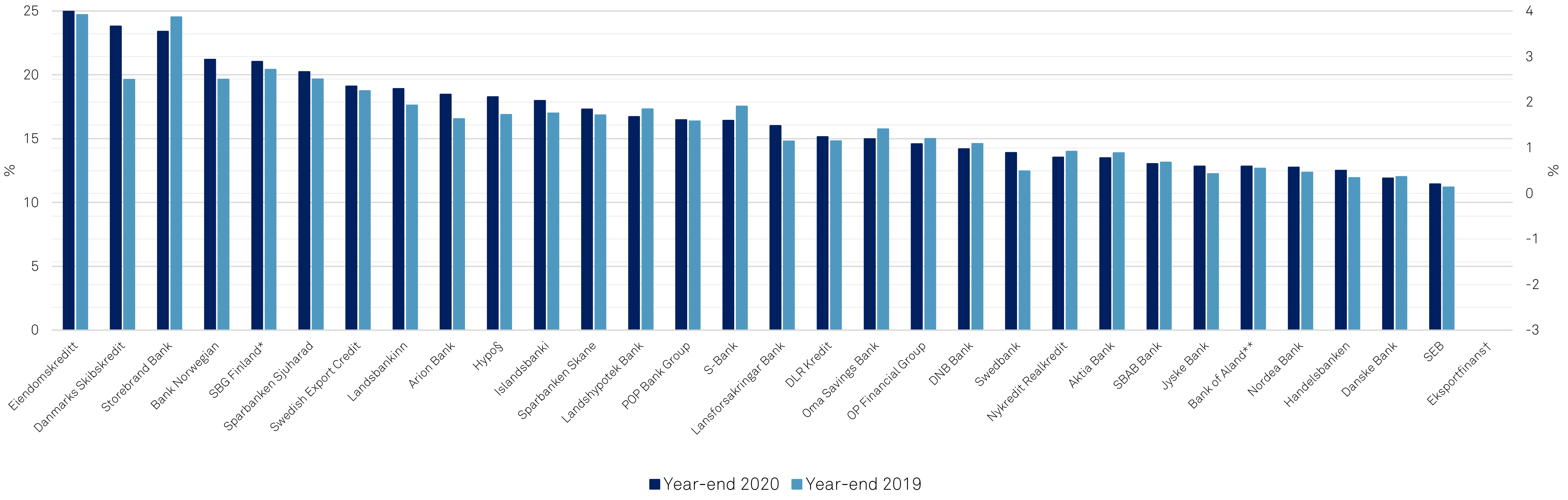
# Nordic Banks | Well-Capitalized And Should Persist Even After Payouts

- Weighted-average RAC for the Nordic banks was 13.1% as of year-end for 2020, which compares well to the top 50 European bank average RAC of 10.4%; as a result, all Nordic banks rank strong or very strong under our bank criteria.
- Dividend restrictions in 2019 and 2020 have led to sizable buffers, which are now gradually being released. However, we believe capital will continue to be a rating strength for the region's banks.




*Savings Banks Group Finland. §The Mortgage Society of Finland. †Eksportfinans had a RAC ratio of 126.2% at year-end 2020 and 110.2% at year-end 2019. Bank of Aland's pro-forma RAC as of year-end 2020 is about13.8% if incorporating the excluded T2 instrument. RAC--Risk-adjusted capital.

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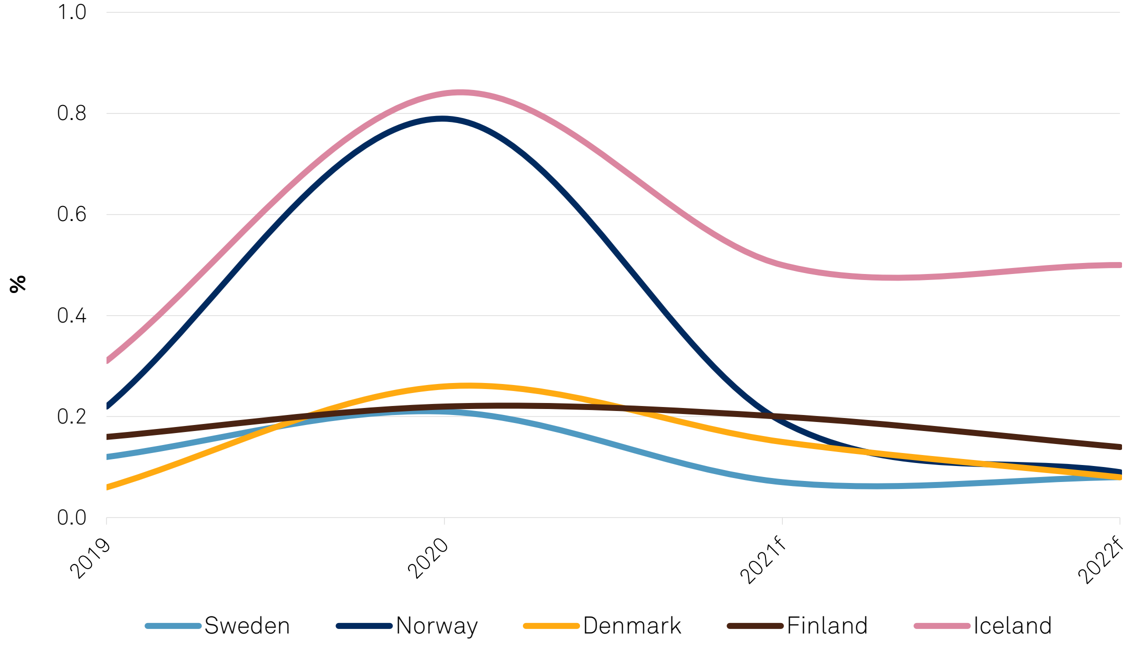
# Nordic Banks | Banks Posted Some Increases, Although Limited, In Credit Losses And Cost Of Risk

- Many of the losses booked in 2020 relate to oil/offshore exposure (Norway), in addition to COVID-19-related overlays to ensure coverage for marked asset quality deterioration from vulnerable sectors.
- Conservatism has persisted to ensure overlays are not prematurely released, but we generally believe asset quality is consistent with low underlying credit losses.

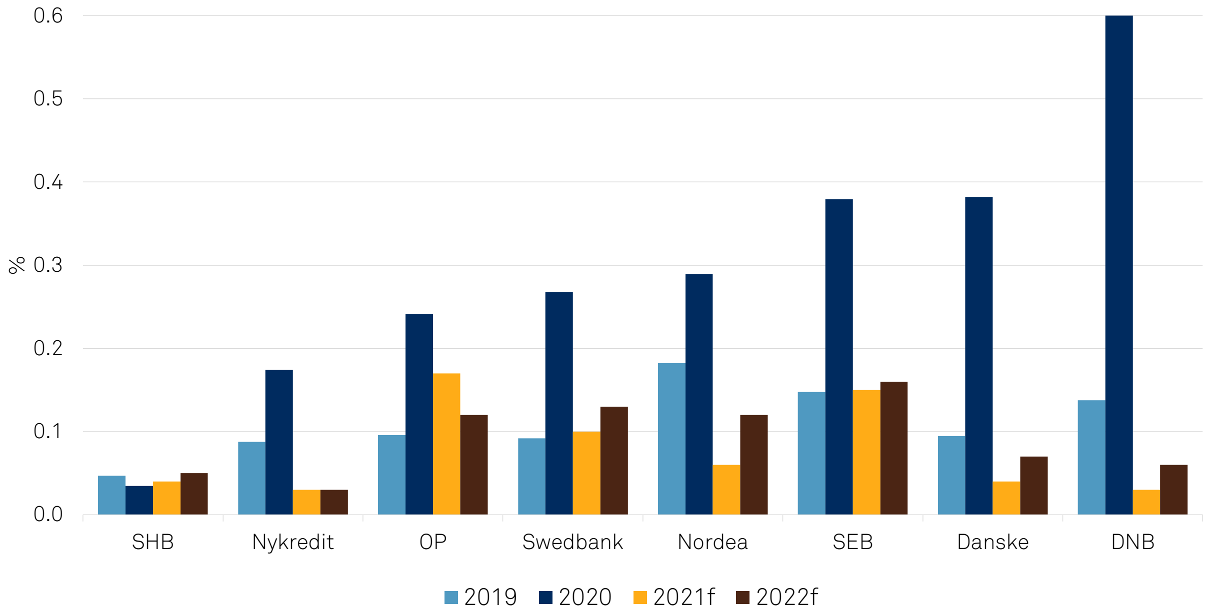
### Evolution Of Credit Losses In The Nordics

Credit losses as a % of total loans




*Source: S&P Global Ratings. Data as of Nov 1. 2021. f—Forecast.*

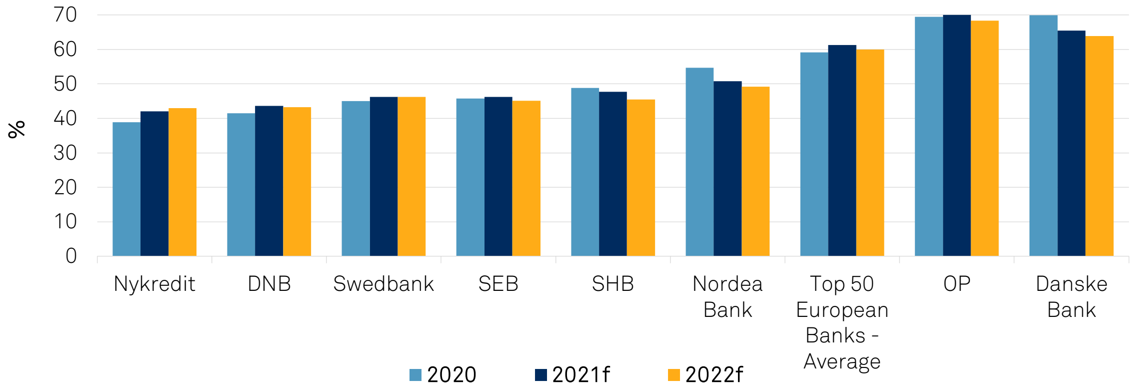
### Cost Of Risk Expected To Diminish In 2022



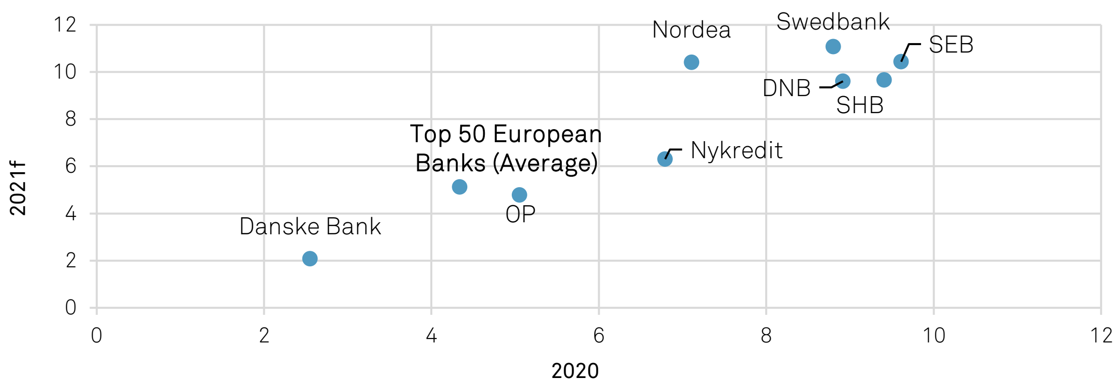

*Source: S&P Global Ratings. f – Forecast. Cost of risk measured by loan-loss provision over average customer loans. Data as of Nov 1, 2021.*

# Nordic Banks | Major Nordic Banks' Profitability Supported By Digitalization

## Nordic Techies Characterized By Low Cost-To-Income Ratios

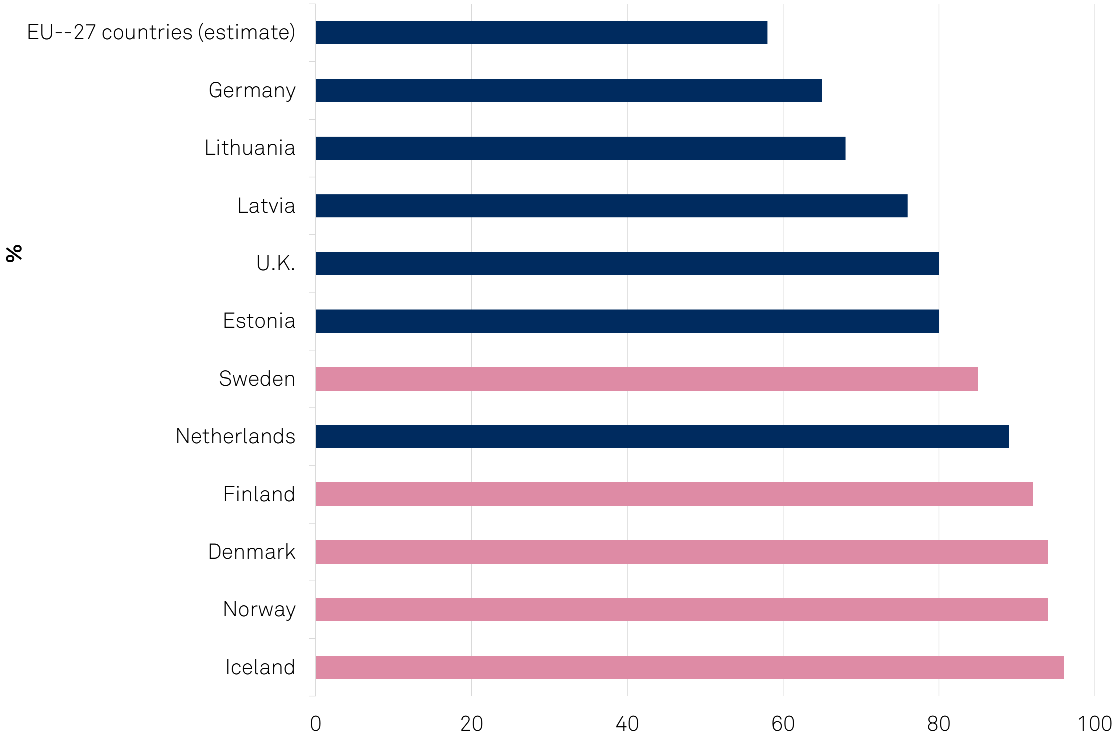



## Major Nordic Banks Return On Average Common Equity (%)




## Nordic Banks' Digital Transformation Supported By Customer Preferences

**E-Banking Use**
Percentage of individuals




*Source: Chart 1 and 2: S&P Global Ratings. f–forecast. Data as of Nov 1, 2021. Chart 3: Eurostat: E-banking and E-Commerce; data as of May 25, 2021.*

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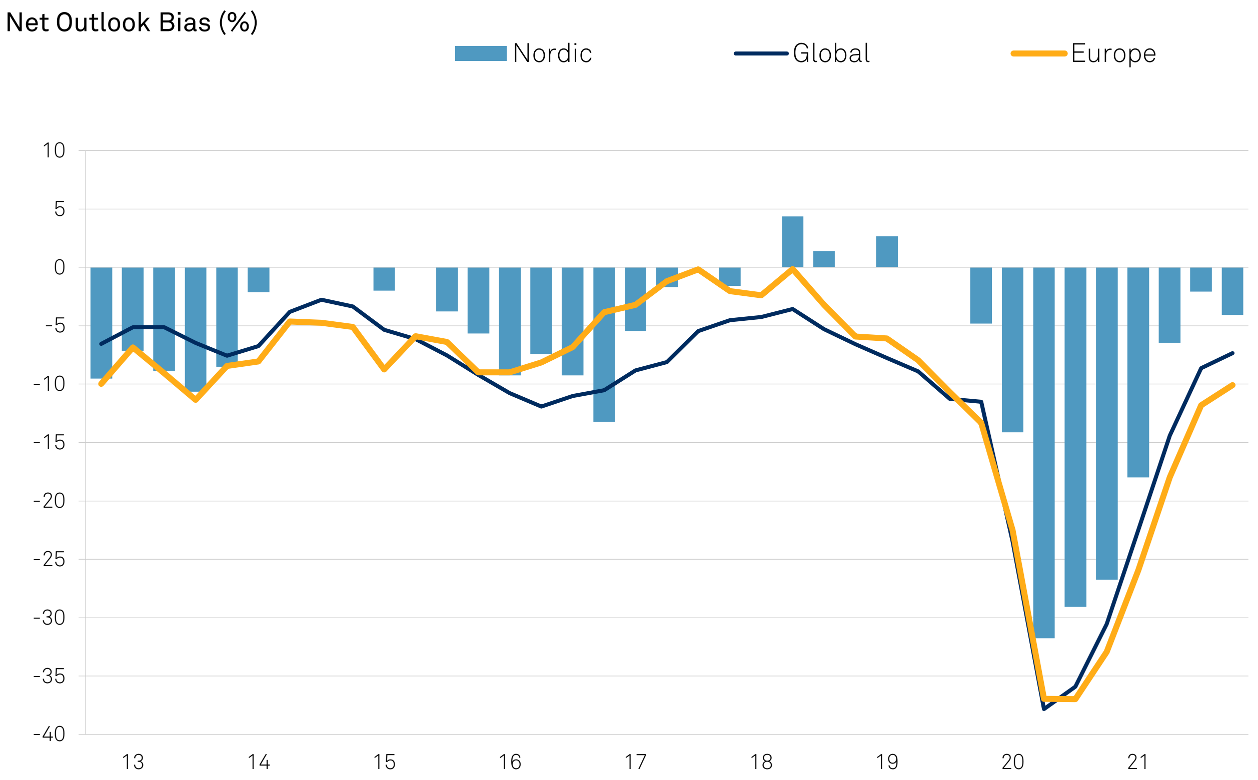
# Corporates & Utilities

So far, so good

# Nordic Corporates | Stronger And Faster Recovery Than Global Peers

### Nordic Nonfinancial Corporate Net Outlook Bias Improving



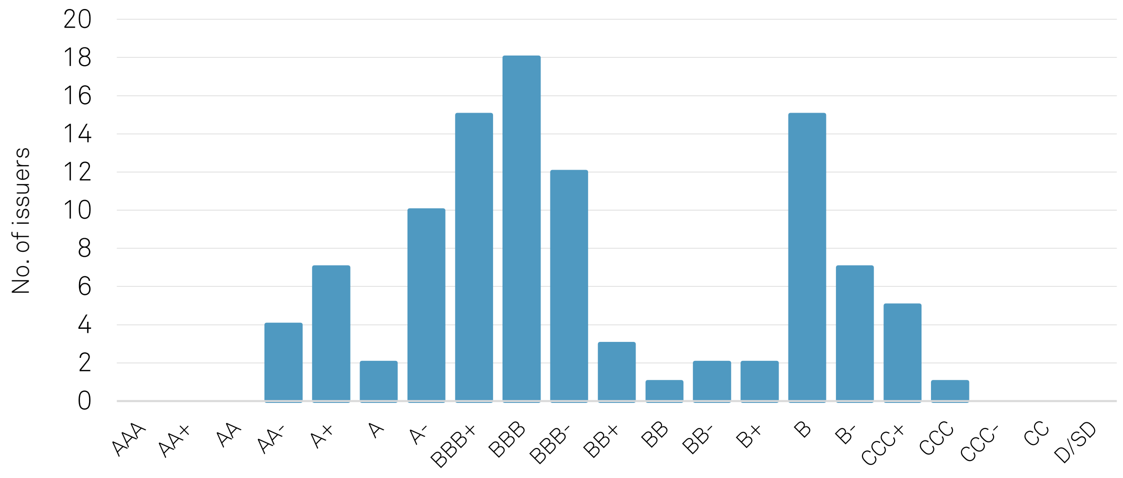

*Source: S&P Global Ratings. Ratings data as of end-October 2021.*

- Nordic nonfinancial corporates experienced largely the same outlook trends as the rest of the world, with a heavy negative bias at the beginning of the pandemic, but the trend has clearly reversed and returned to pre-pandemic levels.
- This is not the case for sectors that we do not expect to recover until 2023 or beyond--due to the prolonged effects of restrictions applied in response to the pandemic--including commercial aerospace, transportation, leisure, and entertainment.
- Most negative outlooks/CreditWatch negative placements relate to M&A (such as Balder and Assa Abloy), lingering COVID-19 effects (ISS, SAS, Avinor), or liquidity (SAS, PGS)

# Nordic Corporates | Credit Pressure Has Eased

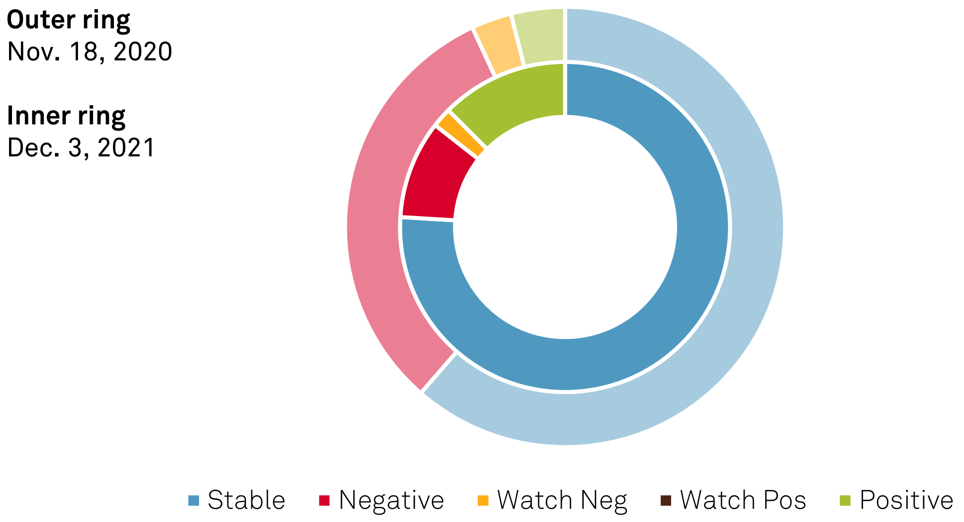
- Credit pressure has diminished significantly, with fewer negative outlooks and a growing share of positive bias in ratings.
- Heavily COVID-affected sectors, like airlines, still suffering and we downgraded the Scandinavian airline SAS to ‘CCC’ in April 2021 on liquidity risk. SAS has already defaulted once because of pandemic-induced losses. We had lowered our rating on the company to ‘SD’ (selective default) Oct. 28, 2020, as it completed a distressed debt restructuring.
- We are seeing an increasing number of ‘B’ rated issuers because of a higher number of private equity-owned issuers.

### Nordic Corporate And Infrastructure Rating Distribution




*Data as of Dec. 3, 2021. Source: S&P Global Ratings .*

### Nordic Outlook And CreditWatch Distribution Has Stabilized




*Source: S&P Global Ratings.*

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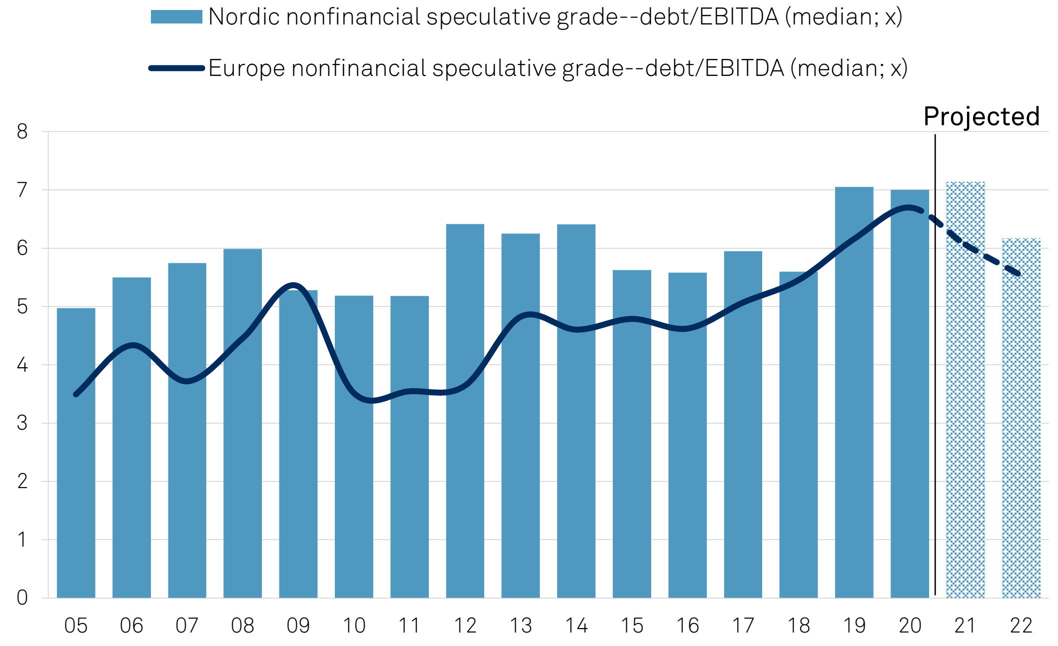
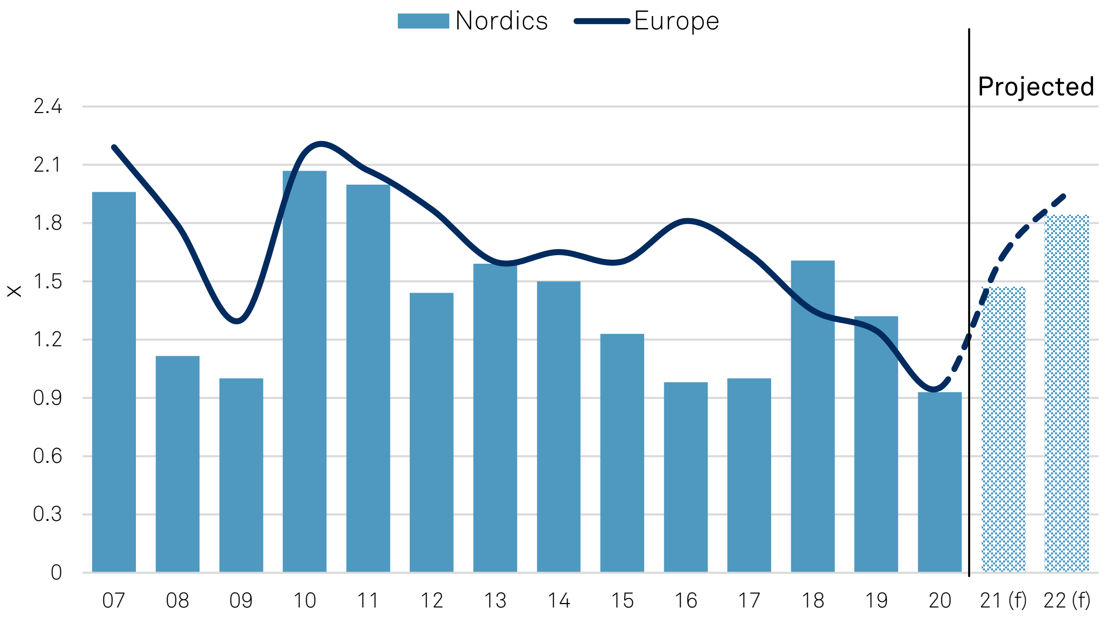
# Nordic Corporates | Conditions Are Improving For Nordic Speculative-Grade Issuers

- Cash flow leverage metrics weakened materially in the pandemic as many speculative-grade issuers experienced challenging economic and industry conditions that weakened credit metrics, especially for entities with already-vulnerable businesses or financial positions.
- As conditions improve, we expect overall EBITDA levels to rise materially, improving credit metrics gradually.
- We expect low interest rates to remain, despite some temporary inflation pressure, and will continue to support interest rate coverage.

### Nordic And European Nonfinancial Corporates Speculative Grade; Median Debt-To-EBITDA




### Nordic Nonfinancial Corporates Speculative Grade--EBIT Interest Rate Coverage (x)

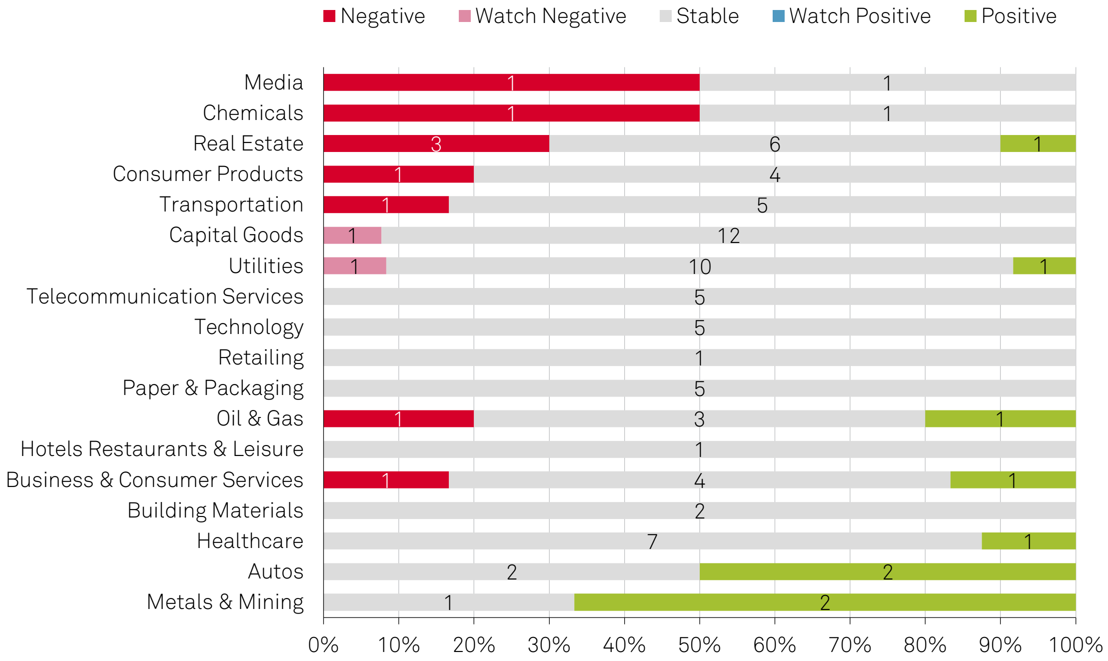



*Source: S&P Global Ratings. Data as of Oct. 31, 2021.*

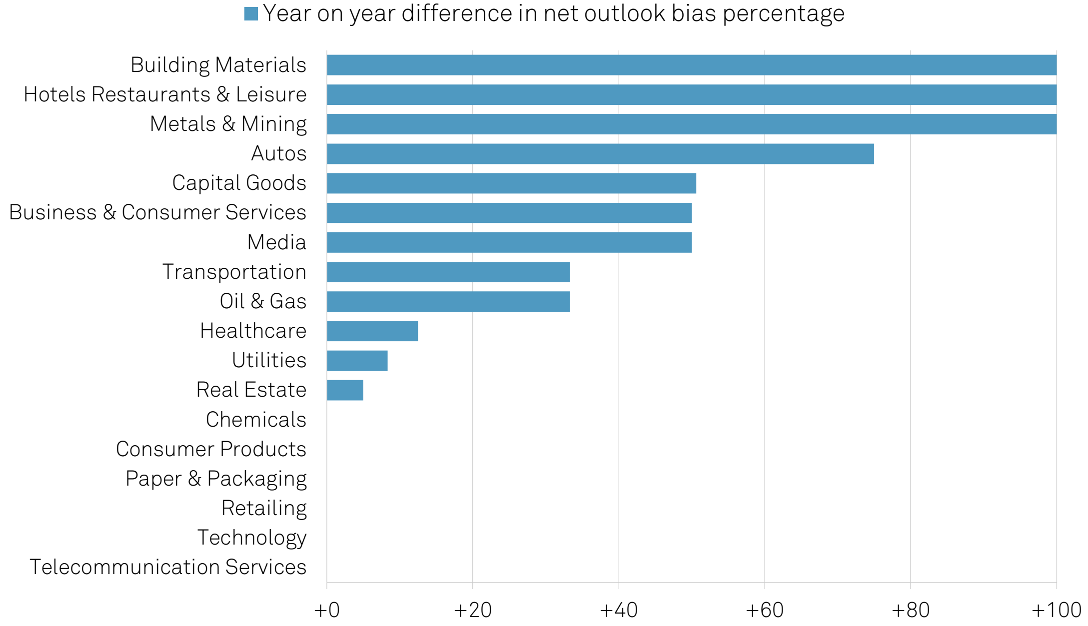
# Nordic Corporates | Not All Sectors Are Out Of The Woods Yet

- A strong commodities boom, the economic recovery, and surging consumer demand is supporting credit profiles in the oil and gas, steel, and auto sectors.
- M&A and consolidation weighing on some companies in the real estate industry, and for Assa Abloy.

## Nordic Ratings Outlook Distribution By Industry (Ranked By Net Outlook Bias)




## Nordic Industry Net Outlook Bias Mainly Positive in 2021




*Source: S&P Global Ratings. Ratings data as of Oct. 31, 2021.*

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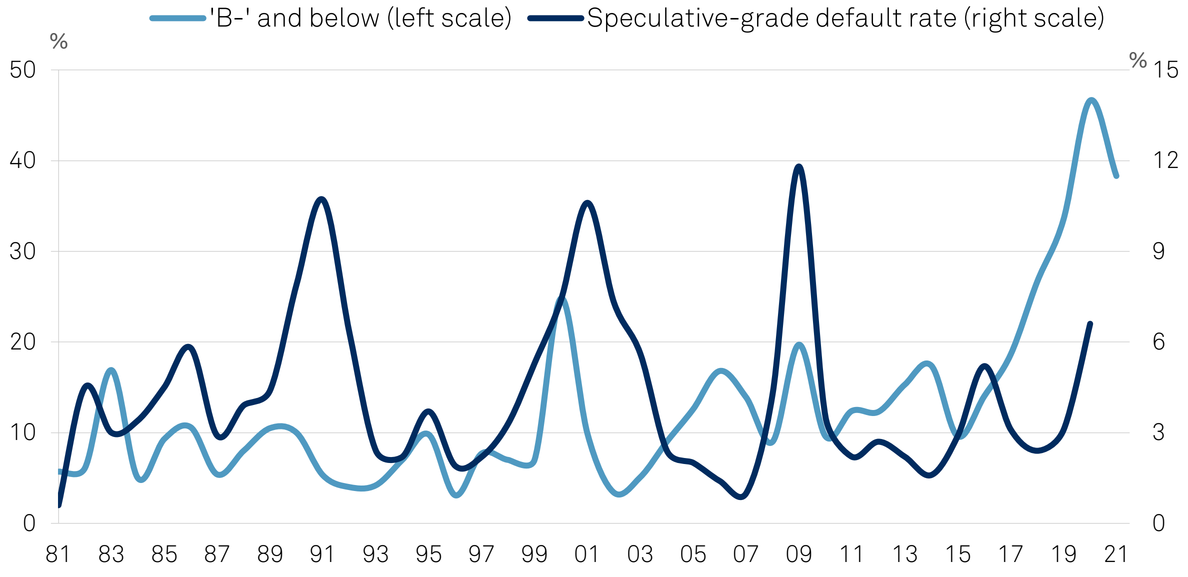
# Nordic Corporates | Unusual Credit Conditions Could Mask Long-Term Risks

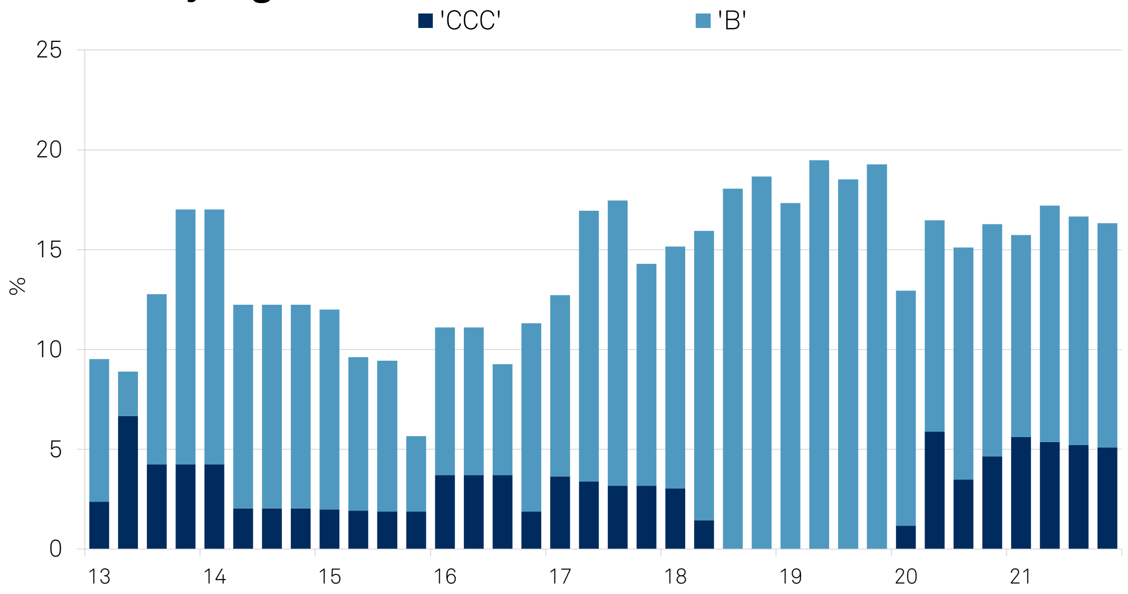
- Although most leading indicators suggest the strong credit environment will continue, we also observe an unusual combination of a new economic cycle coupled with late-cycle behaviors.
- The share of new issuers rated in the 'B-' or 'CCC' categories is at record highs globally, which tends to presage defaults. Moreover, still-high leverage, elevated M&A, rising dividends and share repurchases all point to higher risk.
- Negligible risk premiums, cost and supply pressures in some sectors, and the impact of secular disruption all bear close watching.
- Credit vulnerabilities is greatest for corporates in sectors most exposed to COVID-19-related mobility restrictions.

**Default Pressure Could Rise As New Issuers Globally Typically Have Weak Credit Quality**




*Source: S&P Global Ratings. Default pressure chart shows new issuers with an initial rating of 'B-' or lower as a proportion of total new issuers, alongside the speculative-grade default rate.*

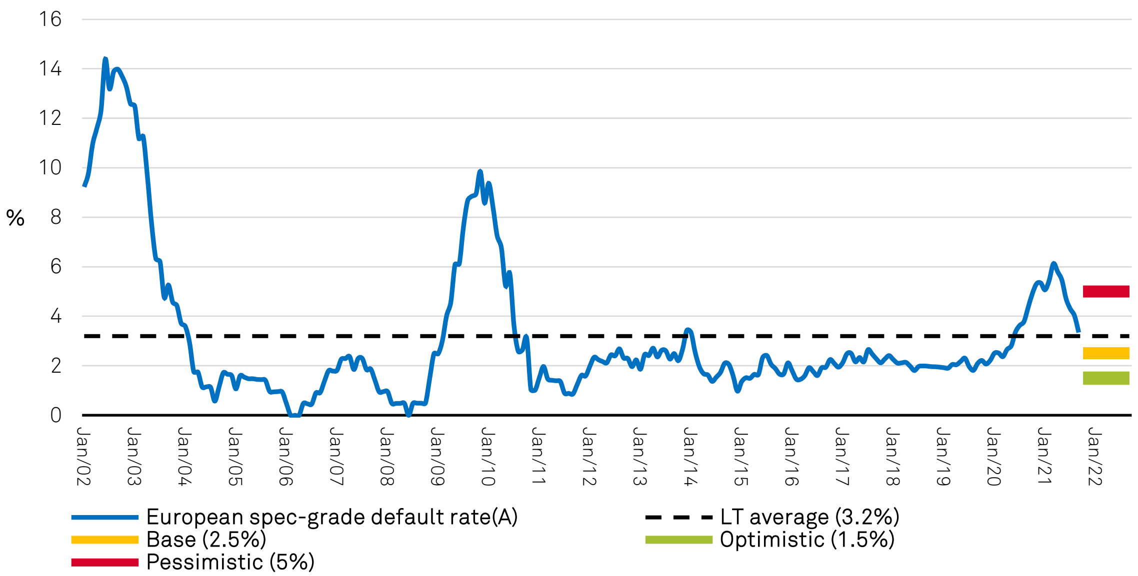
**Share Of 'B' Category Or Below Ratings In The Nordics Is Relatively High**



# Nordic Corporates | Credit Trends: Defaults? What Defaults?

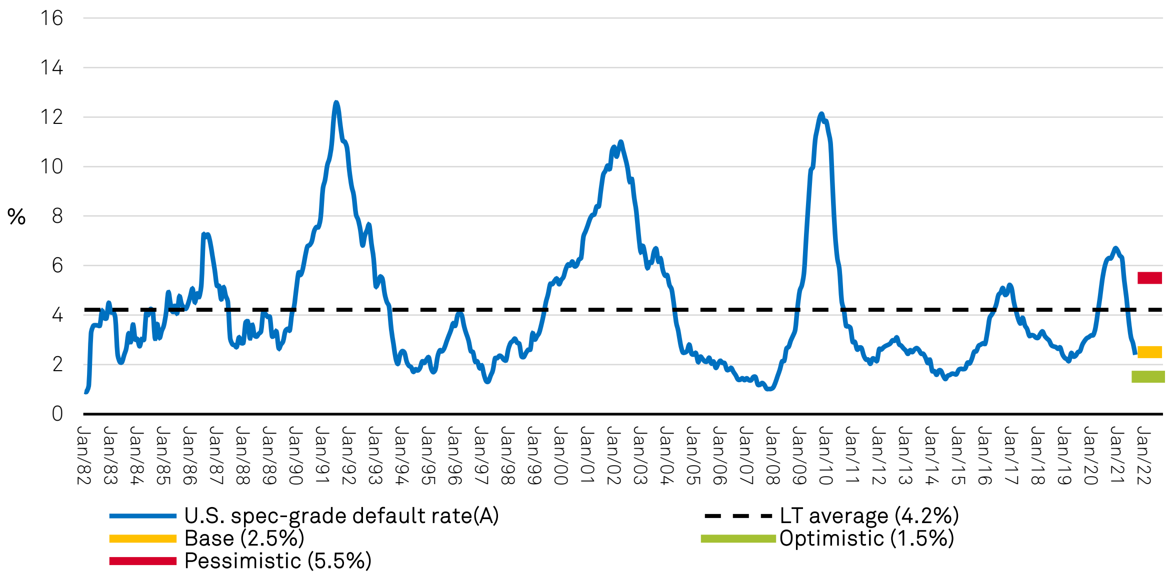
- Default rates during the pandemic materially outperformed (that is, were lower than) our expectations due to successful monetary and fiscal support, accommodating funding markets, and a strong economic recovery.
- We expect speculative-grade ('BB+' and lower ) default rates to decline to well below long-term averages in both EMEA and the U.S.
- The strong global economic recovery, continued policy support, and very supportive lending conditions are main factors for the favorable credit outlook.

## European Trailing 12-Month Speculative-Grade Default Rate And September 2022 Forecast




*Source: "The European Speculative-Grade Corporate Default Rate Could Reach 2.5% By September 2022". Published on GCP Nov. 18, 2021*

## U.S. Trailing 12-Month Speculative-Grade Default Rate And September 2022 Forecast

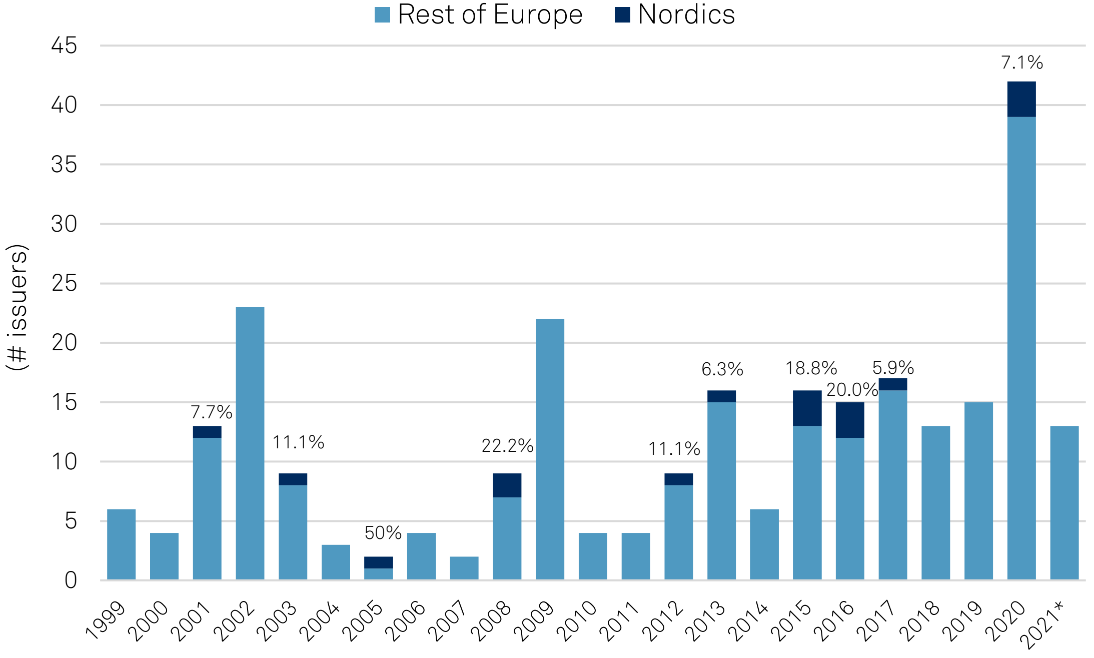



*Source: "The U.S. Speculative-Grade Corporate Default Rate Could Reach 2.5% By September 2022". Published on GCP Nov. 16, 2021*

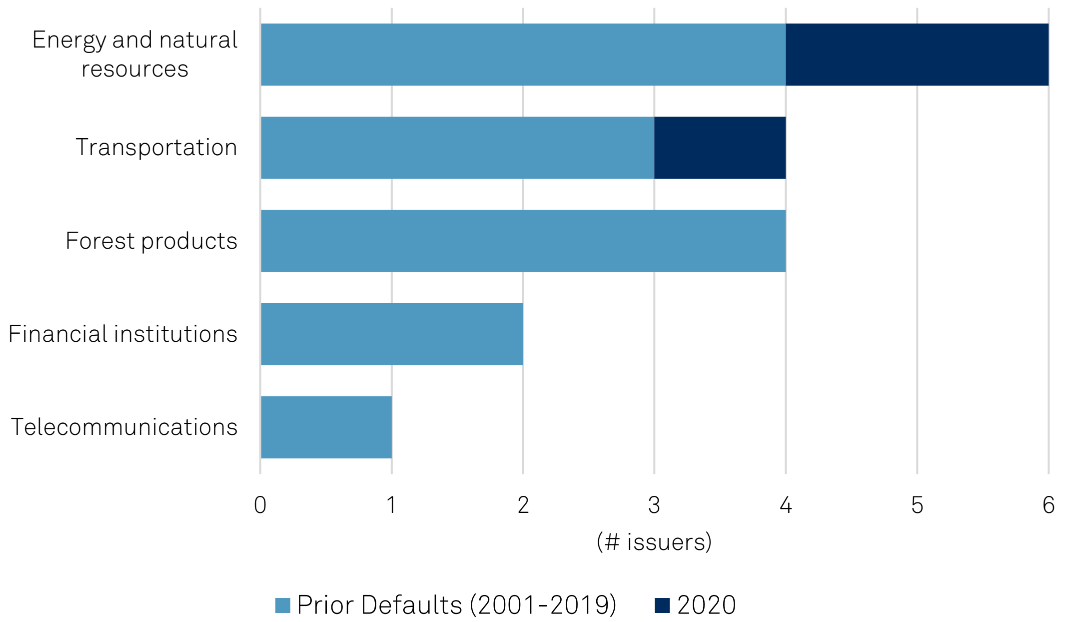
# Nordic Corporates | Contribute Sporadically To European Defaults

- Relatively few Nordic defaults during the heigh of the pandemic in 2020, only three nonfinancial entities--tying 2015 and 2016.
- Given both an oil supply and demand shock last spring, it is unsurprising to see energy and natural resources lead the default total in 2020.
- The Nordic region has yet to see any defaults from the global typically represented sectors: media and entertainment, retail/restaurants, and consumer products.
- Both defaults from financial institutions were from Iceland during the financial crisis of 2008.

### The Nordics Represent A Fairly Small Share Of European Nonfinancial Defaults




### Oil And Gas Service Companies Represent A Large Share Of Total Defaults



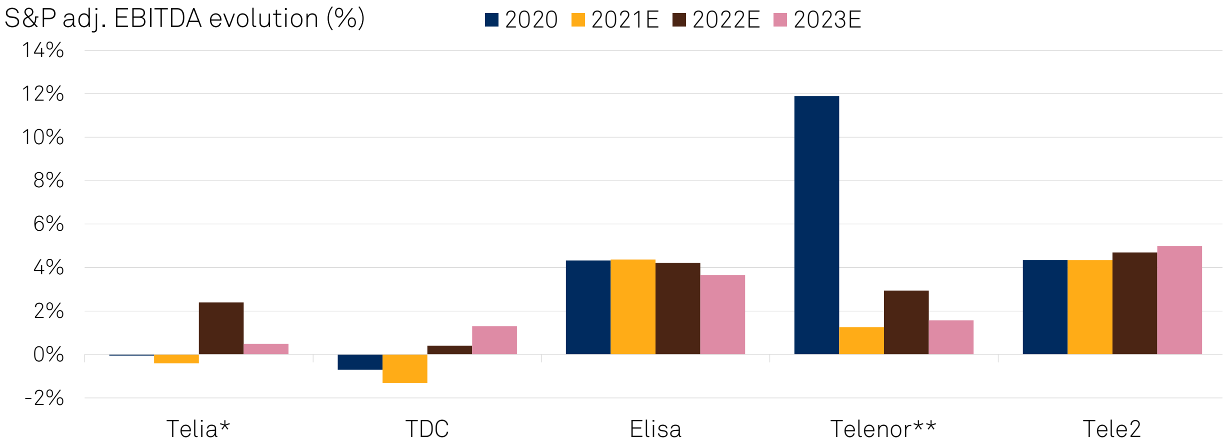

Percentages reflect Nordics' contribution to annual default totals. Source: S&P Global Ratings Research; S&P Global Market Intelligence's CreditPro®.

S&P Global Ratings

# Telecoms | Modest Growth In Sight For 2022 And 2023

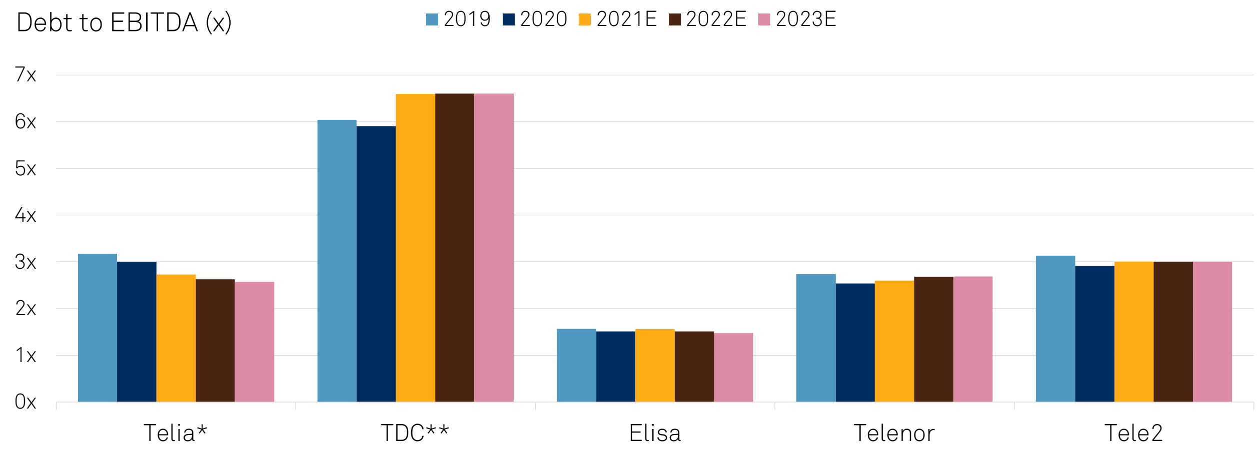
- In 2020 and 2021, the sector demonstrated its resilience, with no negative rating actions among Nordic telecom operators during the pandemic (compared with about 12% telecom ratings in EMEA).
- Stable consumer demand coupled with low churn rate and cost-cutting actions taken by operators, leads to flat organic EBITDA growth expectations over 2022-2023, typically below 5%.
- We expect no sharp boost from an economic rebound in 2022-2023. Lower travel activity affects roaming and business-to-business, and structural challenges (data commoditization/heavy competition in the Nordics) may constrain revenue growth, despite gradual 5G expansion.
- We see limited deleveraging potential. Use of excess cash flows will need to be balanced between investments needs (5G rollout and fixed networks upgrades), shareholder remuneration, and debt repayment. As a result, we see limited leverage reduction and foresee credit ratios broadly unchanged over 2022-2023 for the key players.

## Relatively Flat EBITDA Development Throughout Our Forecast Period




Source: S&P Global Ratings. * Telia: full consolidation of Bonnier Broadcasting in 2020, divestment of Telia Carrier in 2021. ** Telenor: full consolidation of DNA in 2020. E--Estimate.

## Limited Deleveraging Expected



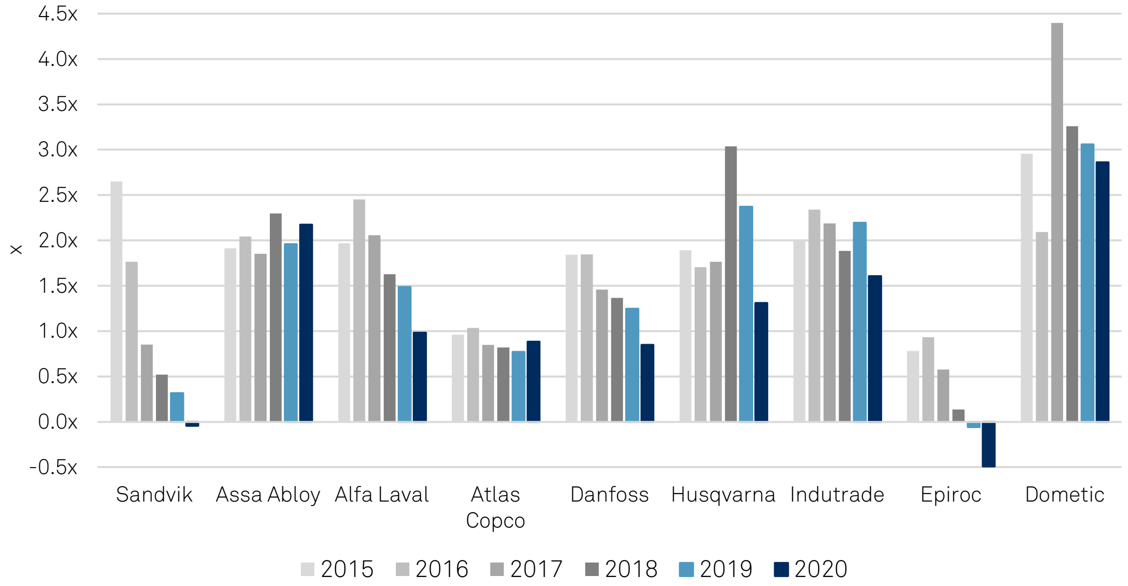

Source: S&P Global Ratings. *Divestment of Turkcell in 2020 and Telia Carrier in 2021 **Excluding shareholder loans. E--Estimate.

S&P Global Ratings

# Capital Goods | Strong M&A Activity & Shareholder Returns In 2021

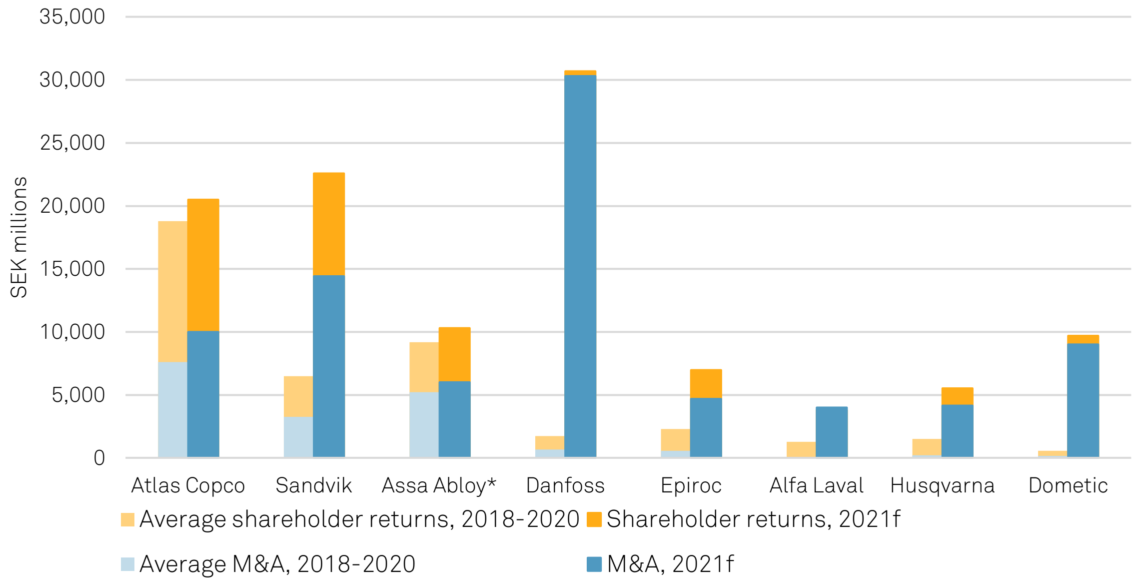
- Despite the backdrop of COVID-19 pandemic, capital goods companies were able to maintain, if not increase, their historical healthy FOCF in 2020, further strengthening balance sheets.
- In 2021, we saw a steep increase of M&A activity as well as ample dividend distributions or share-buyback resulting in some debt buildup on average and a subsequent erosion of the otherwise-ample financial flexibility companies were able to retain in 2020.
- We expect sales and EBITDA to recover to 2021 levels on average. At the same time, supply chain constraints and cost inflation represent tailwinds that the companies in this sector will need to proactively manage through sufficient price increases.

**S&P Global Ratings-Adjusted Debt To EBITDA 2015-2020**




*f--Forecast. Source: S&P Global Ratings' research.*

**Shareholder Returns And M&A: 2018-2020 Average Vs. 2021f**



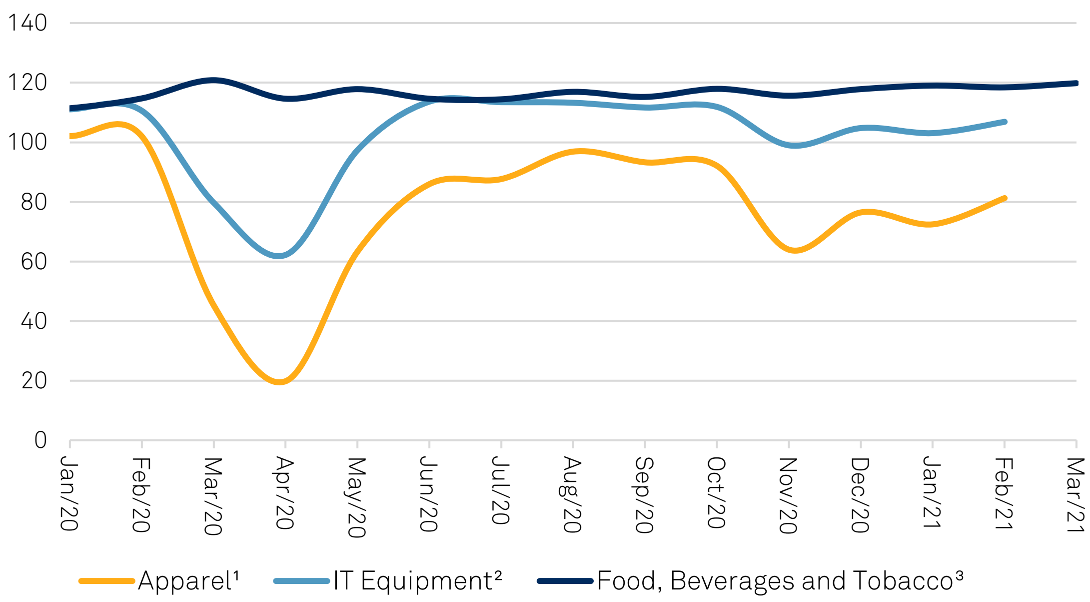

**HHI acquisition for $4.3 billion assumed to have its cash effect on Jan 1. 2022.*

S&P Global
Ratings

# Retail | H&M Preserves Its Credit Metris Through The Pandemic

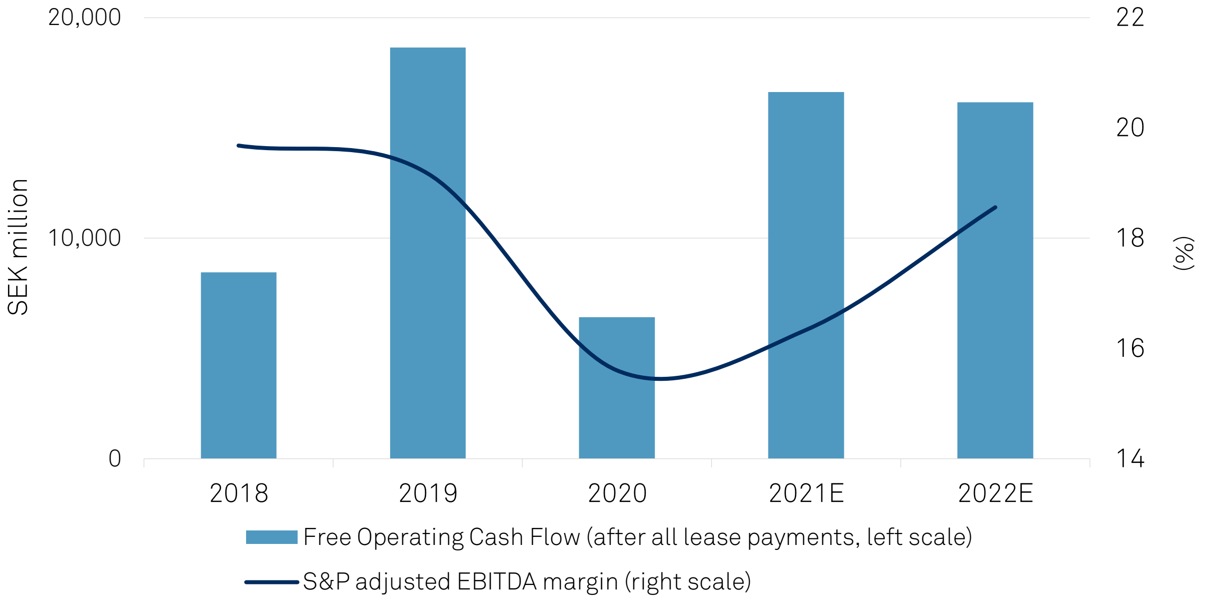
- We believe that European apparel retail sales in 2021 will remain 10%-20% below 2019 levels.
- With an omnichannel presence becoming paramount for success, we see H&M's 30% share of online sales broadly in line with peers.
- Despite affected sales, we expect H&M's credit metrics to return to historical levels over one-to-two years, due to a healthy balance sheet and liquidity on the back of cost savings, a flexible lease portfolio with material share of turnover rents, and capex and dividend cuts.

### European  Apparel Most Hit Segment During The Pandemic




*Index of turnover (2015 = 100). Seasonally and calendar-adjusted data. Source: Eurostat, S&P Global Ratings.*

### H&M Maintains Positive Free Cash Flow Despite Store Closures



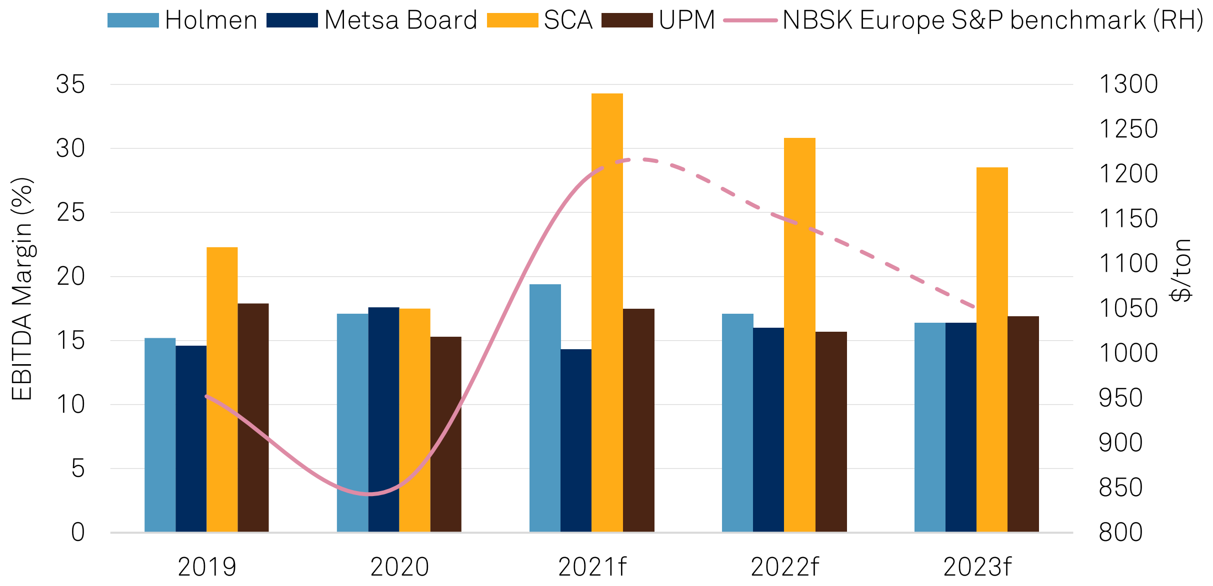

*FOCF—Free operating cash flow. SEK--Swedish krona.* Fiscal Year-end November 30th *Source: S&P Global Ratings forecasts*

S&P Global
Ratings

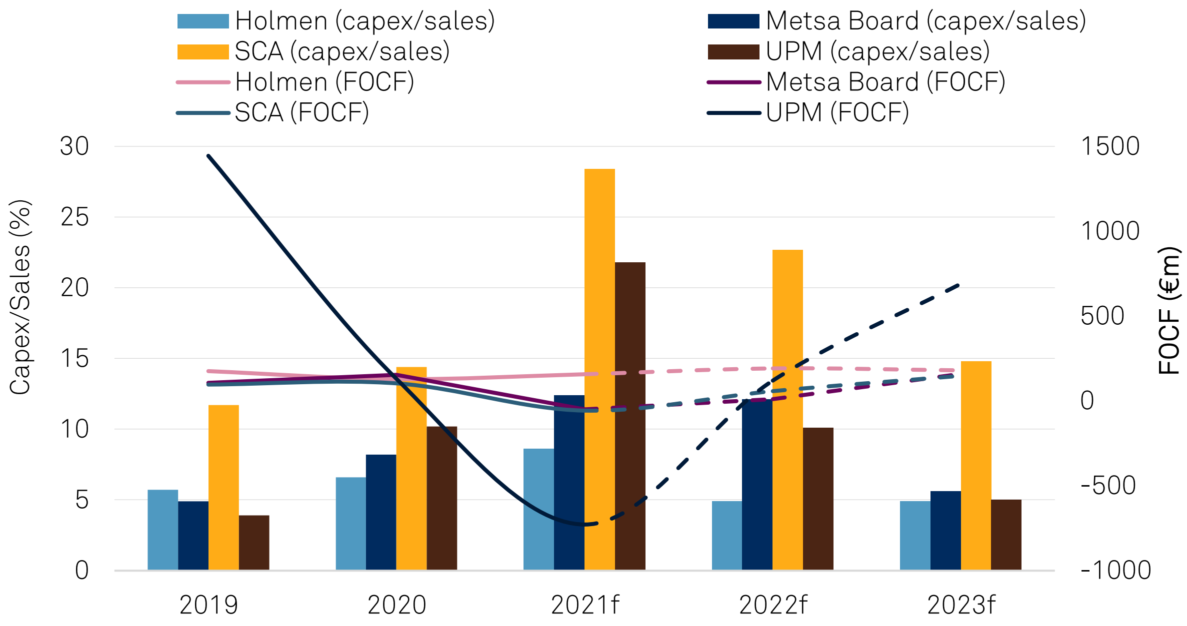
# Forest Products | Stronger Cash Flows In 2022 Despite Weaker Market Environment

- Nordic companies are set for a very strong 2021, benefiting from their long pulp positions, as prices skyrocketed on demand from the global recovery, and constrained supply with very low-capacity additions taking place in 2021.
- Despite weaker expected prices in 2022 due to softening demand and capacity additions, mainly from South America, we expect Nordic companies to increase their free operating cash flow (FOCF), as capex decreases following peak investments in 2021. This will increase their exposure to pulp, packaging paper, or specialty paper, as they progressively reduce their graphic paper production capacities.
- Given their vertical integration with direct or indirect forest ownership, Nordic companies have seen a limited impact from higher pulp prices on the production costs of packaging and specialty papers in 2021. Moreover, they have passed on significant price increases for these products.

**Forest products companies EBITDA margins will overall decrease in 2022 as pulp prices go down...**




**... but cash flows will improve as investments fall**



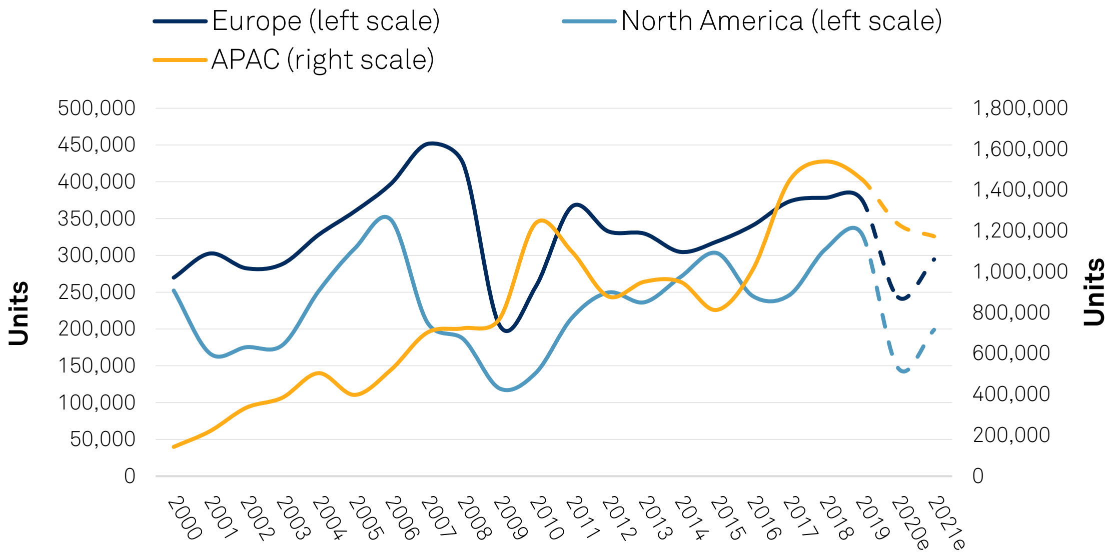

*f--Forecast. Source: S&P Global Ratings.*

S&P Global
Ratings

# Trucks | Strong Order Intake; Post-COVID-19 Margins Are Set to Stabilize At High Levels

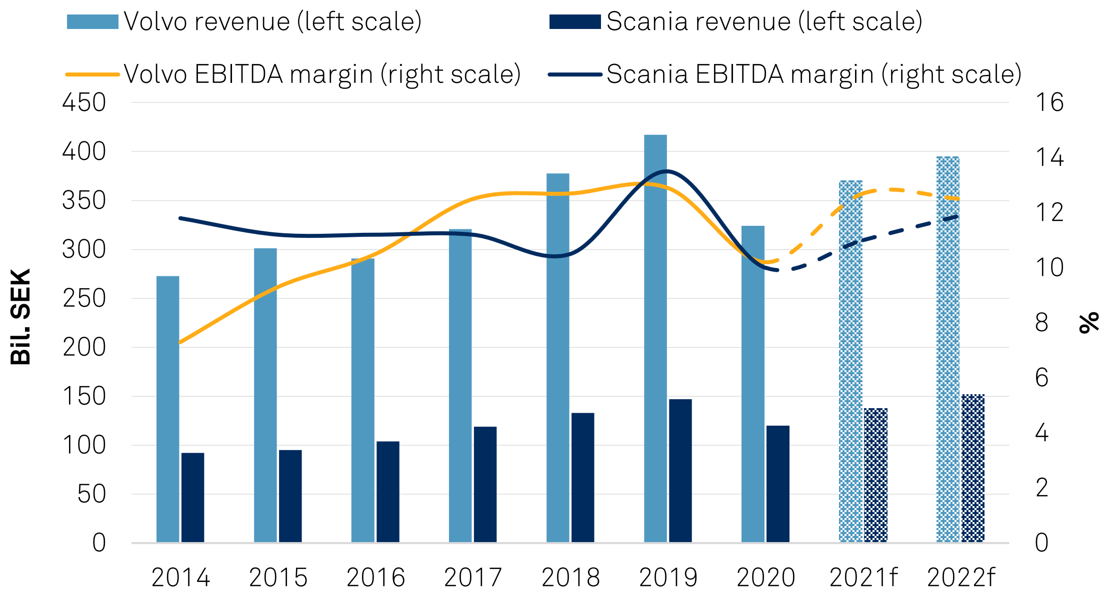
- Both Volvo and Scania managed significant volume declines in 2020 comparably well; profitability for both companies remained high, close to 10%, despite severe volume drop and volatility through the year.
- For 2021, we expect volumes to recover 15%-20% driven by strong GDP growth fuelling transportation needs. For 2022 we see a risk of volatility earnings and cash flow, due to the pandemic and its economic effects, and the impact of the semiconductor shortage.
- We forecast Volvo and Scania to continue having strong balance sheets and that both will remain in an adjusted net cash position and margins in the 11%-13% range, which is among the highest in the industry globally.

### Heavy Duty Truck Sales Should Pick Up Next Year




e--Estimate. Source: S&P Global Ratings. APAC—Asia-Pacific.

### Revenue And Margins To Improve, But More Intrayear Volatility

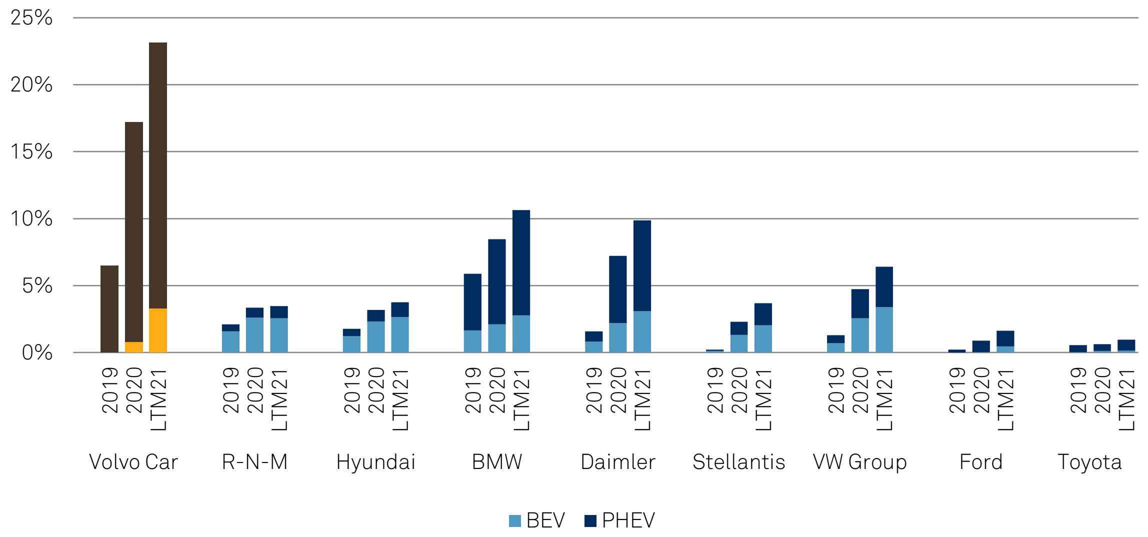



SEK--Swedish krona. e--Estimate. f--Forecast. Source: S&P Global Ratings.

# **Autos** | Volvo Car's Equity Raise Will Help Pay For Its EV Transformation Amid Execution And Supply Chain Risks

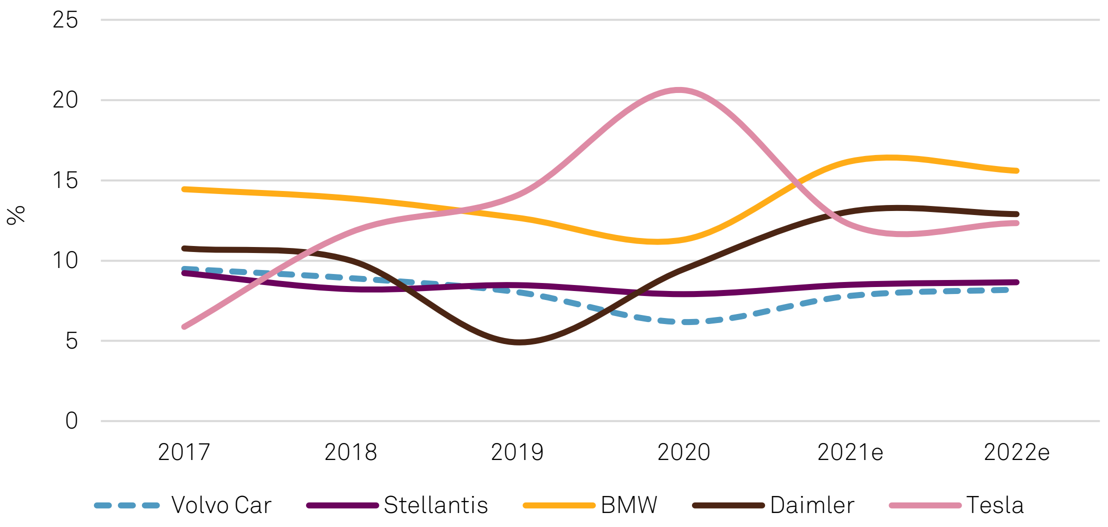
- Volvo Car's SEK20 billion listing proceeds will help fund its investment plan without damaging its strong balance sheet.
- The company's and 50%-owned Polestar's ambitious electric vehicle (EV) growth strategies carry execution risk and will be accompanied by heavily negative free operating cash flow at Polestar.
- The ongoing supply chain issues could increasingly constrain rating upside in the next 12 months.
- Despite the listing of new shares on Nasdaq Stockholm, Zhejiang Geely Holding Group Co. Ltd., Volvo Car's parent, will retain control over the company and remain its majority shareholder, with about 82% of the economic and voting rights.

### Volvo Car Enjoys A Large Share Of Electric Vehicles In Its Sales Mix




*Source: S&P Global Ratings. BEV--Battery electric vehicle. PHEV--Plug-in hybrid electric vehicle. LTM—Last 12 months.*

### But Still Lags Behind Premium OEMs On EBITDA Margin

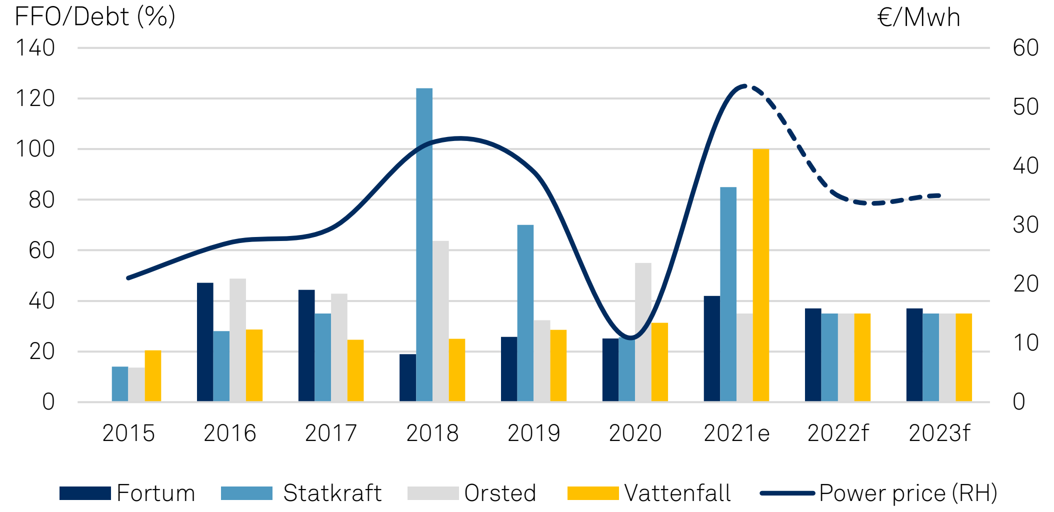



S&P Global Ratings

# Integrated Power | Volatalile Power Prices Are Here To Stay

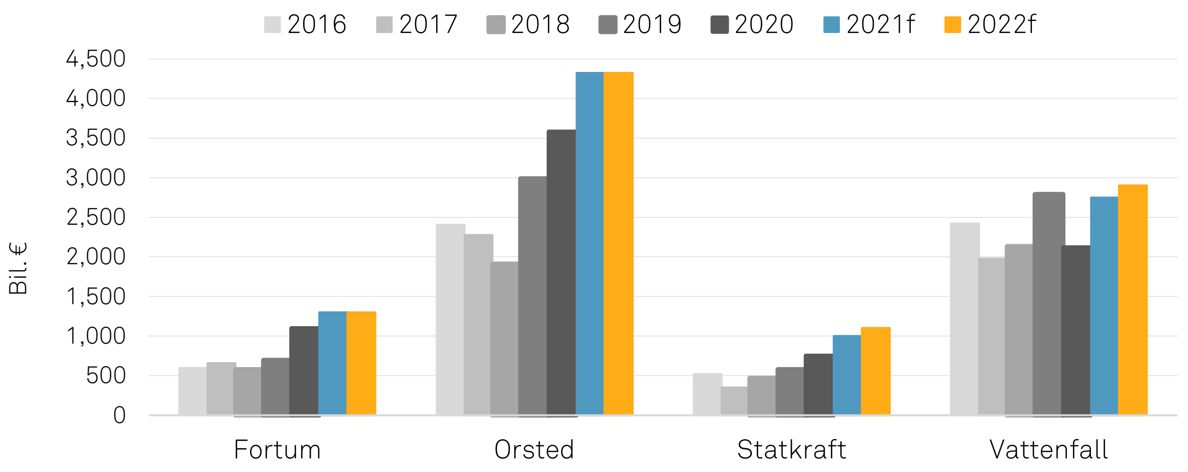
- We expect power prices to remain high in 2022 (YTD average €55-€60 per megawatt-hour [MWh]) but with substantial volatility as intermittent generation is added to the grid, high CO2 emission costs, and heavier use of higher cost fossil fuel-based generation as the price setter.
- The short-term effect on power generators' credit metrics from the rebound in power prices, from a record low of €11/MWh in 2021, is muted by hedges and expected step-up in investments. Continued elevated prices should support credit ratios post-2023, as short-term hedges roll off.
- Increasing power demand from industrial projects in Northern Sweden, electrification of the society, and additional cable connections with higher power price areas, such as Germany and the U.K., confirms the trend of relatively high power prices over the medium term.
- We expect capex spending to increase massively until 2023, up about 25% on average, driven predominantly by expansions into renewable capacity; the exception is Fortum, which is focusing on rebuilding its balance sheet after the acquisition of Uniper in 2020.

## Despite Volataile Prices, Credit Ratios Are Expected To Stabilize




*F--Forecast. Source: S&P Global Ratings.*

## Capital Expenditure Programs Will Increase



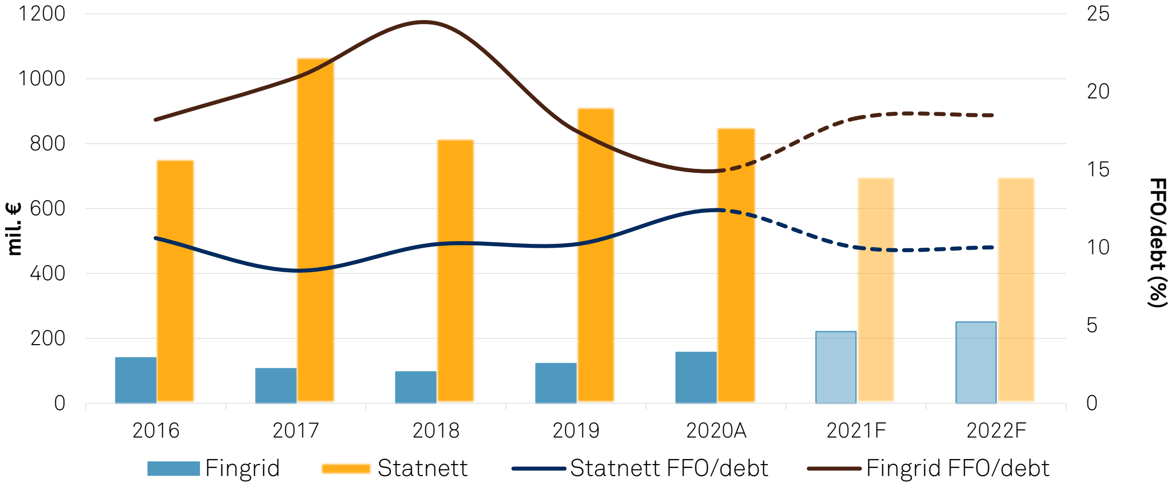

*Sources: Company and market data, S&P Global Ratings.*

S&P Global Ratings

# Regulated Utilities |Regulatory Turbulance in Finland, Increasing Investments Needs For the Sector

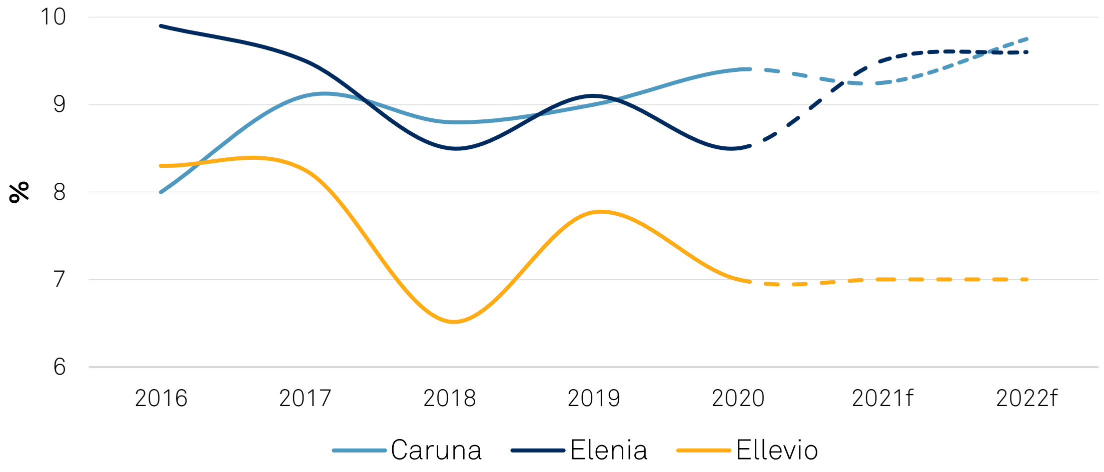
- In Finland, the regulator unexpectedly imposed negative changes to the framework in the middle of the regulatory period. Consequently, we placed the ratings on Caruna and Elenia on CreditWatch with negative implications, because we now view the regulatory compact more negatively.
- Cash flows for Sweden-based DSOs supported by the possibility to roll-over unutilized revenue. Final WACC compensation for 2021-2024 is unclear. The regulator was instructed, through a court decision, to recalculate and revise the WACC level upward in line with the original framework, which should be positive for DSOs' profitability. However, the regulator has appealed.
- Finnish TSO Fingrid is gearing up investments to meet the electrification trend and accommodate more renewable energy in the grid; Norwegian TSO Statnett's investments are flattening out at a high level as previous years multibillion euro investment in interconnector capacity is largely completed.
- Investment needs will be high over the medium term as more interconnections are needed and to prepare for more renewable sources on the grid.

**Continued High Investment Levels For The TSOs**




*Source: S&P Global Ratings forecasts. *WACC—Weighted-average cost of capital. TSO--Transmission System operator. DSO--Distribution system operator.*

**DSOs' FFO/Debt Expected To Be Stable Due To Flexibility In Shareholder Distributions**

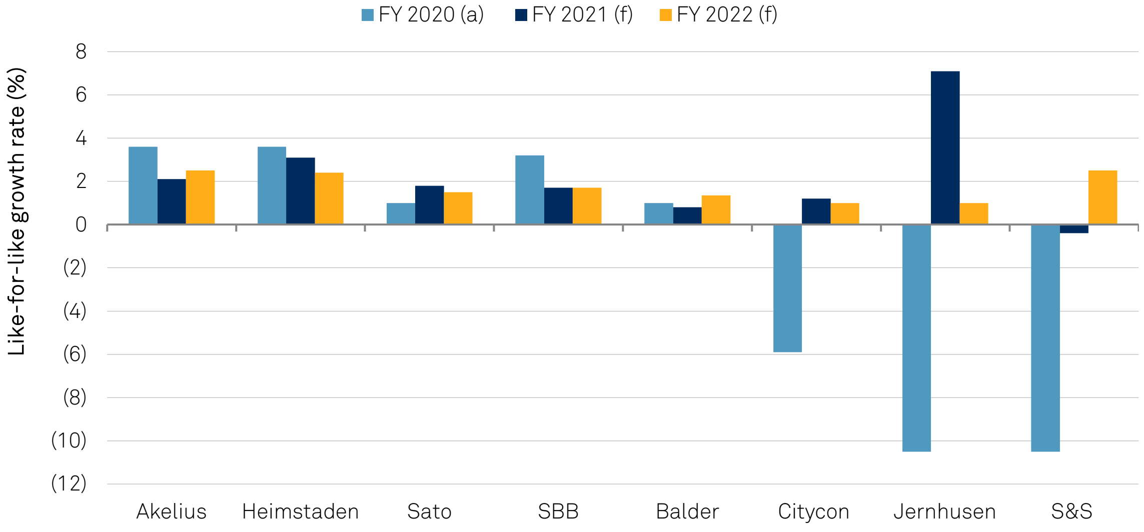



*Source: S&P Global Ratings. FFO--Funds from operations.*

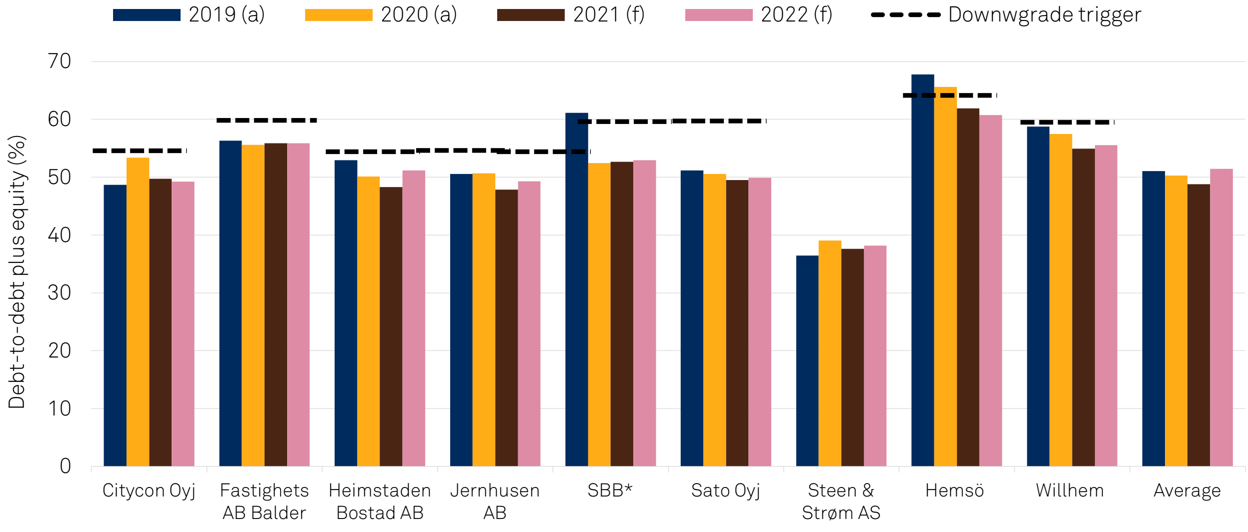
# Real Estate | Mixed Operating Trends; Leverage Should Increase Slightly

- Retail: Nordics' retail property companies perform better than the EMEA average, especially in terms of like-for-like net rental income and tenants' sales. The near-term outlook has improved but uncertainty remains for the long-term outlook, such as the rise in e-commerce and shift in consumer habits exacerbated by the pandemic.
- Office: Acceleration of remote working adoption will likely hamper some office demand. Rental market should gradually bottom out in 2021-2022 thanks to the recovery, limited new supply, and still-very low vacancy. The polarization between prime-quality and low-quality offices should intensify.
- Residential/community service properties/logistics: Rental growth should remain positive (1.5-2.5% like-for-like). These sectors had limited impact from the pandemic so far and vacancy remains low. We assume a slight positive asset revaluation in 2021-2022.

**Nordic Like-For-Like Rental Growth Should Be In The Low Single Digits in 2021-2022**




**Our Base-Case: Debt-To-Debt Plus Equity Should Rise Modestly In 2021-2022, But Remain Within Rating Expectations**

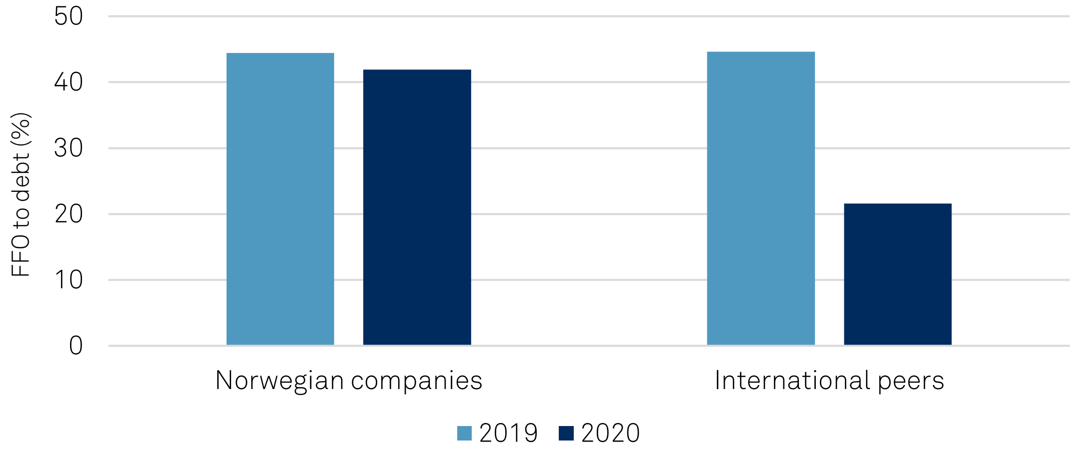



*Sources: Company data, S&P Global Ratings.*

# Oil And Gas| Low Cash Taxes Supportive During The Pandemic Set The Base For Continued Above-Average Balance-Sheet Strengths

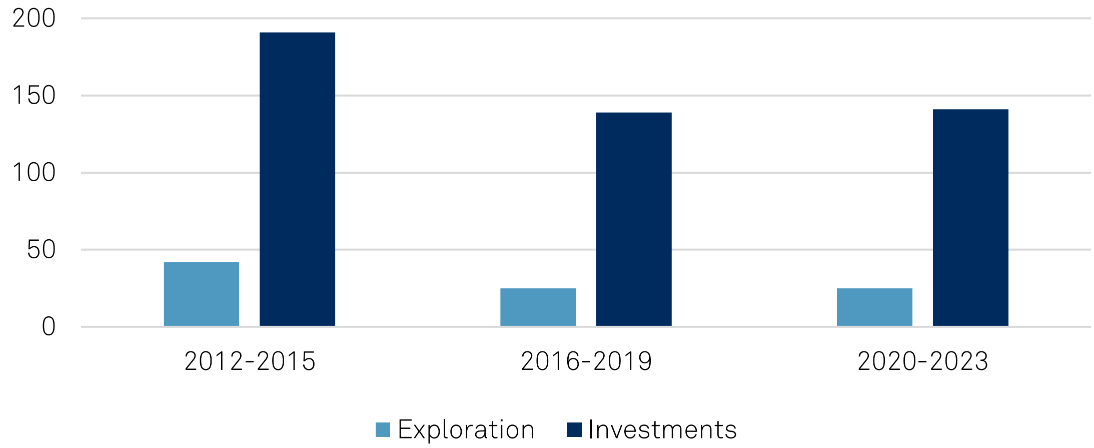
- Rebounding economic activity and continued supply restraint from OPEC+ members is driving oil and gas prices to levels higher than pre-pandemic. We assume a gradual decline toward our long-term price assumption of $55 per barrel, but near-term performance might be cyclically strong compared with our base-case scenario. The scenario of a near-term supply increase, putting pressure on prices, is not very likely in our view. However, the re-emergence of country-specific lockdowns or other pandemic-related measures could weaken demand in the near term.
- Global market and policy uncertainty is increasing challenges for the sector. In Norway, the political debate is focusing more and more on energy transition and the place of oil and gas in the country, which could lead to a less-supportive environment for oil and gas producers.
- We anticipate rating headroom to build for Nordic producers, notably as they entered 2021 with relatively stronger balance sheets than global peers'. Financial policy decisions and investments into growth projects will remain important rating considerations in 2022. We anticipate strong credit metrics to continue into 2023 when tax conditions change, albeit not materially affecting creditworthiness in our view.

**Resilient And Strong Credit Metrics**




*Source: S&P Global Ratings; Company Reports.*

**Despite Tax Reform, Investment And Exploration Activity Are Stable**

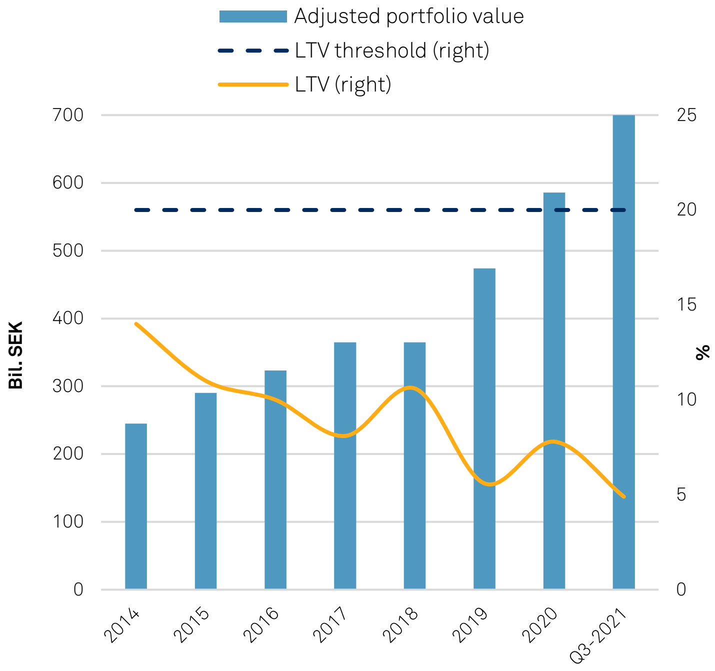



*In Billion NOK; Sources: Norwegian Petroleum Directorate; S&P Global Ratings.*

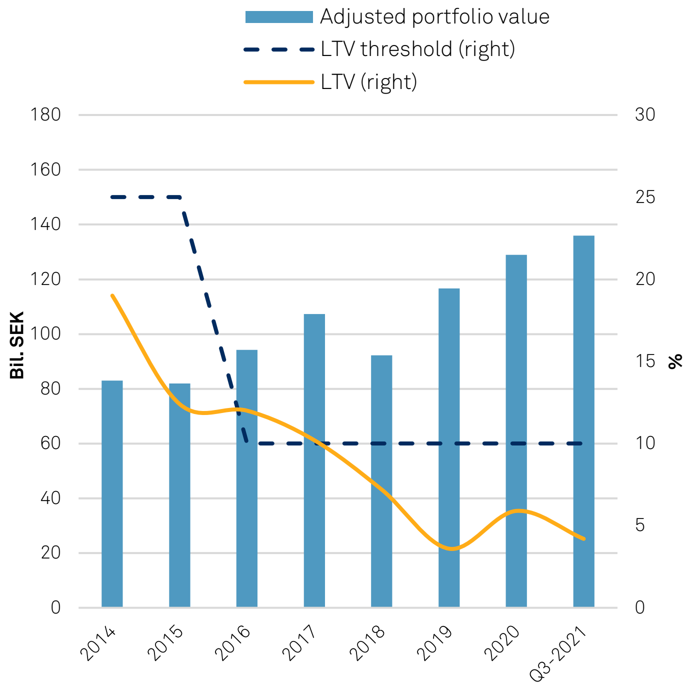
# Investment Companies | Low Debt And Asset Prices Recover

- Low absolute debt levels helped sustain investment holding companies' loan-to-value ratios during equity market volatility in 2020. Average loan-to-value (LTV) was 4.6% at third-quarter-end 2021 (second-quarter for Lundbergs), compared with 5.0% at end-2019.
- The increase in LTV for Investor and Industrivärden over 2020 followed debt-funded investments.
- Lower-than-historical dividend income in 2020 temporarily reduced cash flow adequacy ratios as several investee companies did not distribute dividends. However, ratios are recovering strongly in 2021 on shareholder distributions resuming and we expect an average cash adequacy ratio of about 13.0x, up from 4.6x in 2020 (15.3x in 2019).

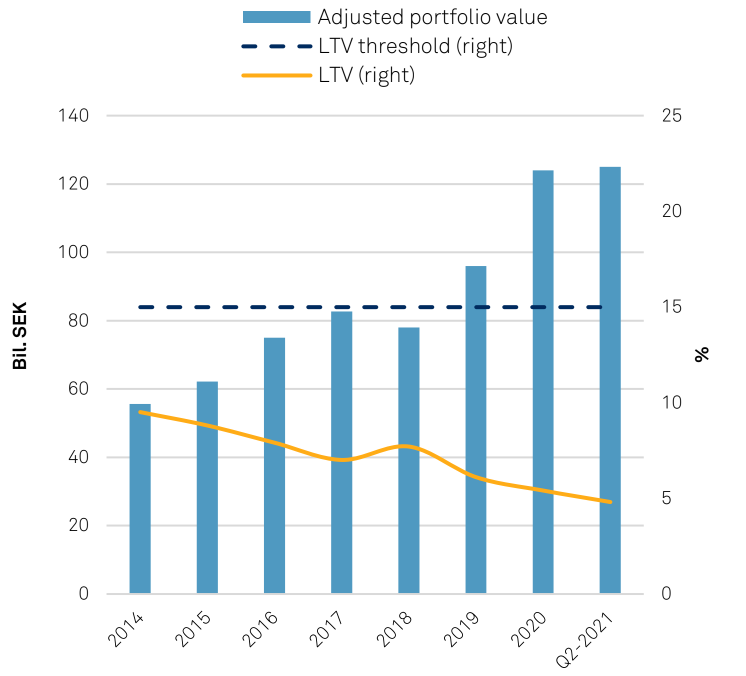
## Investor AB (AA-/Stable/A-1+)




## Industrivärden AB (A+/Stable/A-1)




## L E Lundbergforetagen AB (A+/Stable/A-1)




*LTV--Loan to value. SEK--Swedish krona. Source: S&P Global Ratings and company reports.*

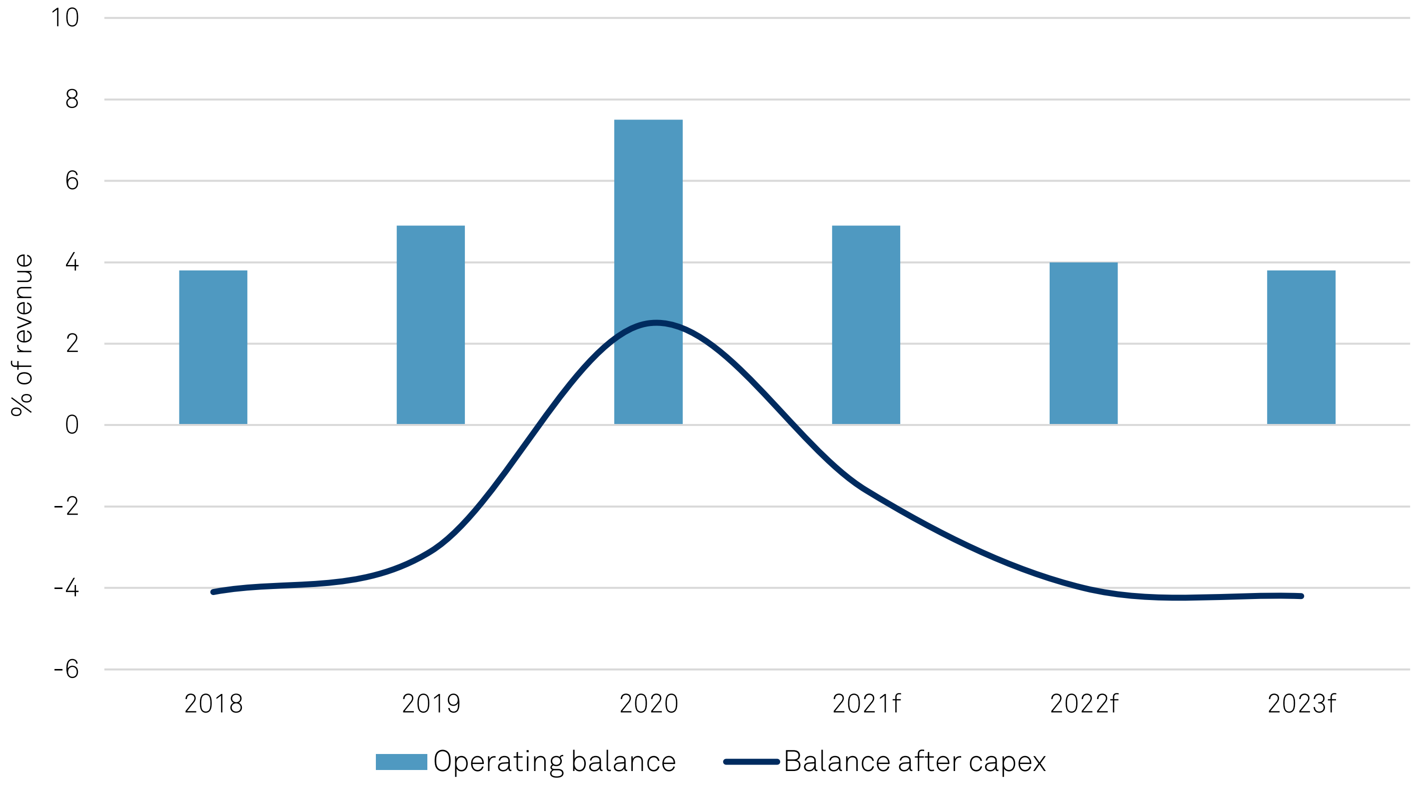
# Local And Regional Governments

Performance and support lead to generally strong results

S&P Global
Ratings

# Sweden | Surprisingly Strong Performance In 2020

## Budgetary performance

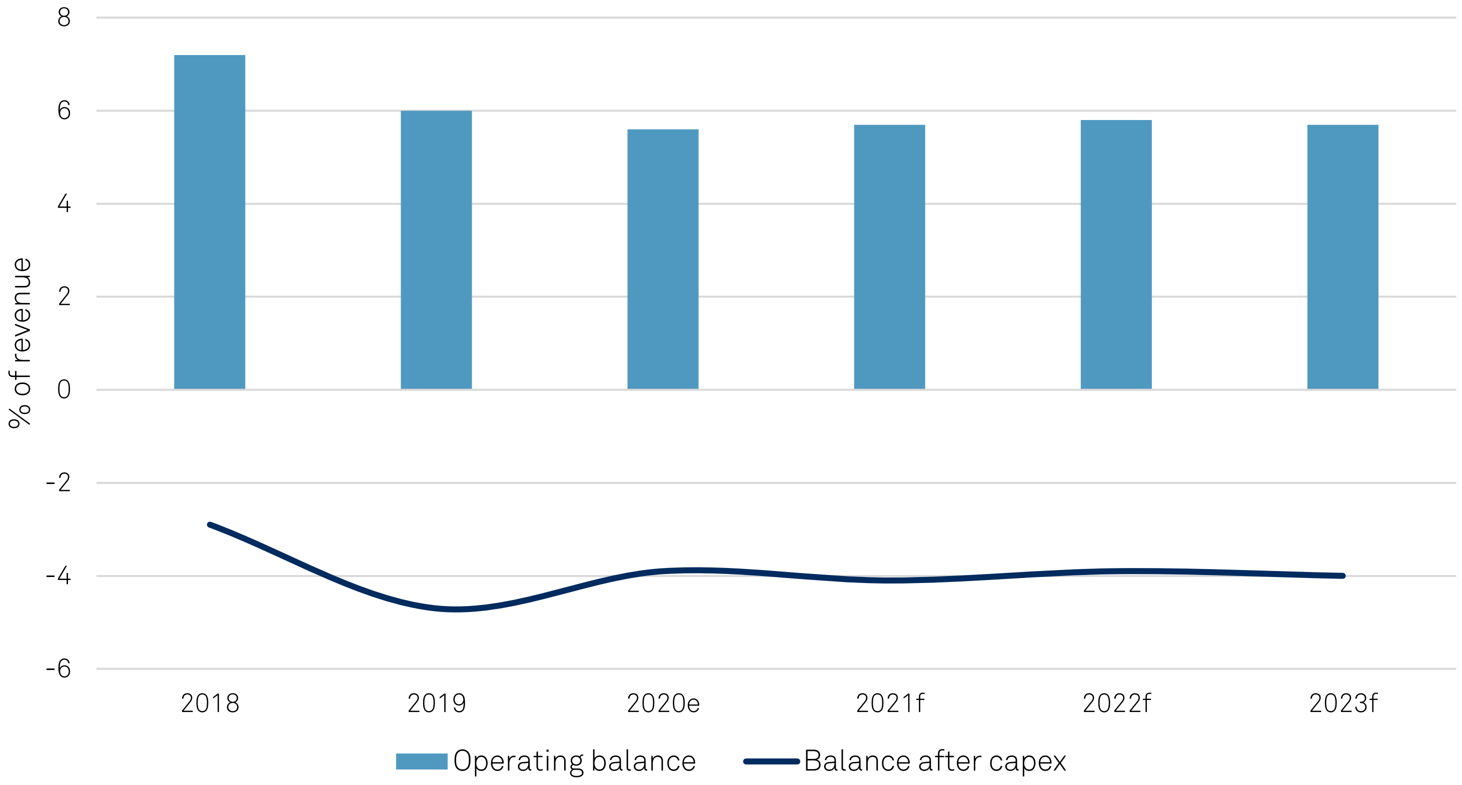



*Source: S&P Global Ratings*

- COVID-19 negatively affected the Swedish local and regional government (LRG) sector in terms of weakened tax revenue, expenditure pressure within health care, and lower ticket sales in regional transportation companies.
- However, these are mitigated by central government support, both directly via grants and indirectly via labor market stimulus that supports LRG tax revenue.
- Operating results in the sector reached record-high in 2020, with a strong forecast for 2021.
- Even if we foresee some weakening in the years to come, we now have a more positive view about the sector's budgetary performance.
- In 2020, we revised to negative our outlooks on six municipalities. So far in 2021, we have revised four of these outlooks to stable.

# Norway | Central Government Support Upholds Performance

### Budgetary performance

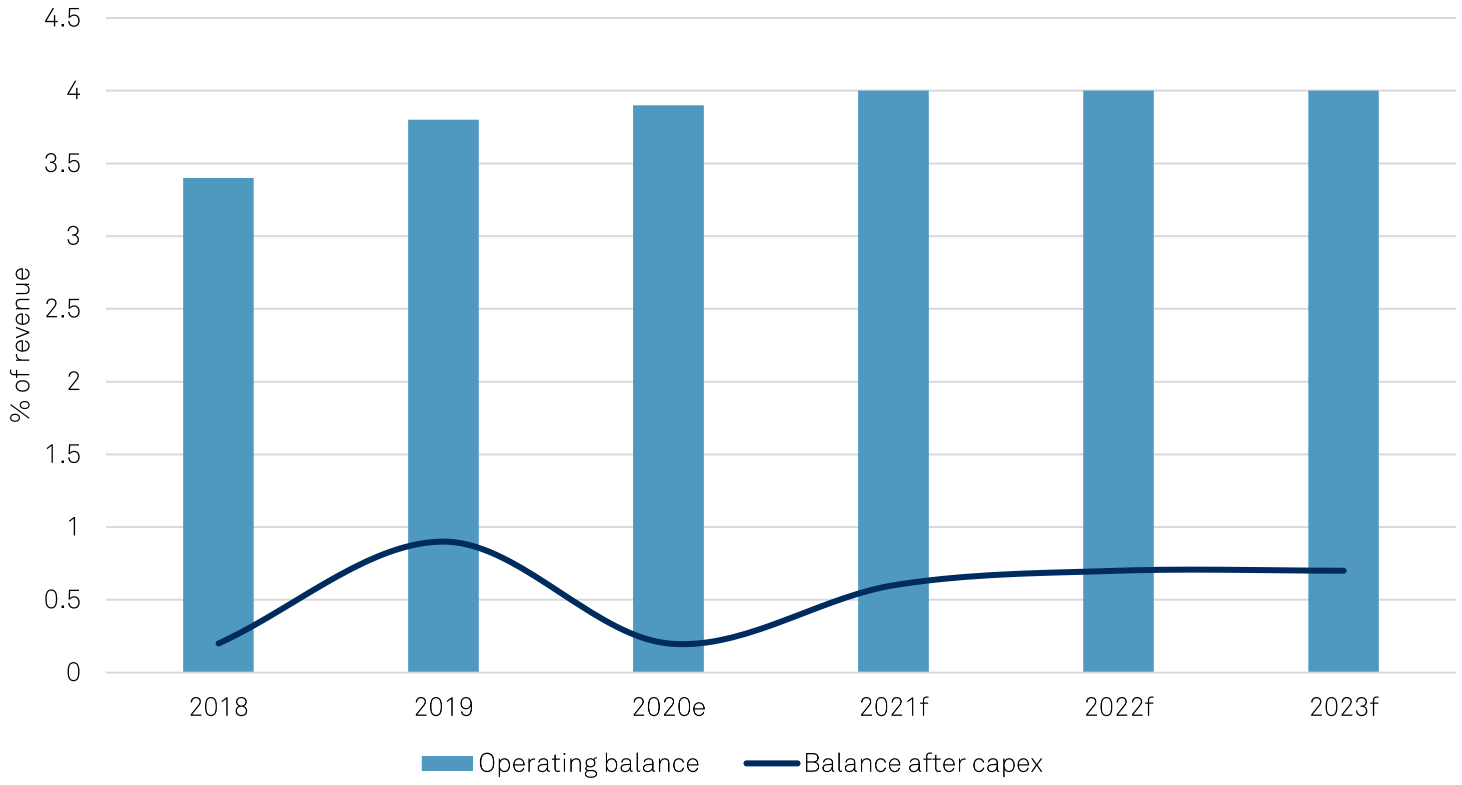



*S&P Global Ratings – Sovereign Risk Indicators April 2021*

- The central government's response to COVID-19 resulted in increased transfers to the LRG sector.
- In 2020, the sector saw the culmination of structural reform that reduced number of LRGs to 367 from 447. Even if reform represented the largest sector change for a long time, it did not change the allocation of responsibilities or balance between various levels of government.
- Budgetary performance (before and after capex) is broadly stable.

# Denmark | Very Stable Performance Due To Automatic Stabilizers

**Budgetary performance**

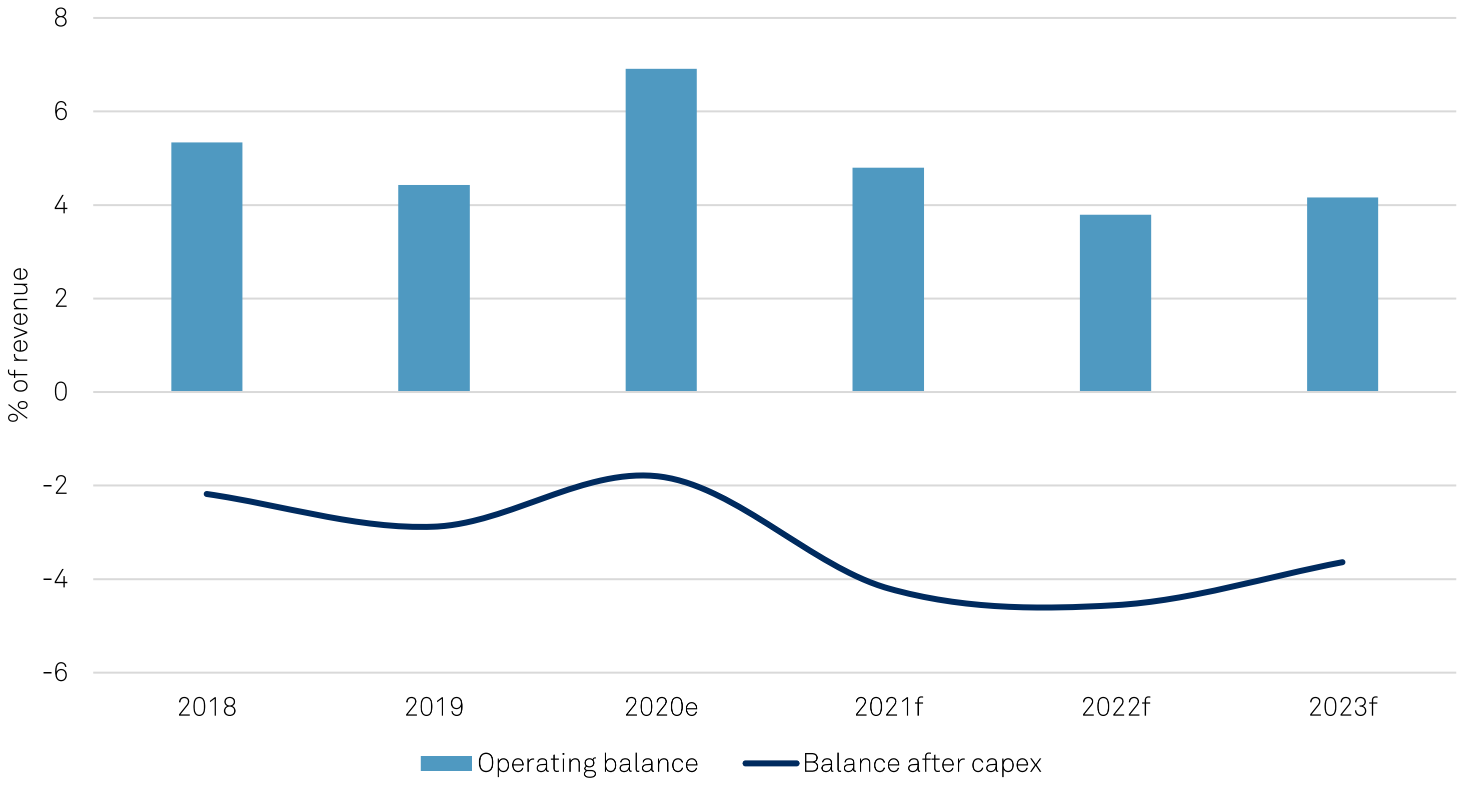



*Source: S&P Global Ratings*

- The Danish LRG sector has experienced revenue shortfalls due to lockdown-related restrictions. Furthermore, expenditure increased during the pandemic, further pressuring LRGs' budgets.
- Of importance, Denmark's institutional setup prescribes that the municipal sector should not be affected by economic declines. Therefore, thanks to automatic state grant mechanisms, the central government carries most of the pandemic's fiscal burden.
- Consequently, budgetary performance (before and after capex) has been broadly stable.

# Finland | Weakening Institutional Trend Due To Lagging Reform

### Budgetary performance




*Source: S&P Global Ratings*

- Although extra COVID-19 central government support boosted 2020 operating balances, we expect budgetary performance to weaken from 2021 as the extraordinary government support rolls off.
- The government's proposal on LRG reform was accepted in June 2021 and is to be introduced in 2023. The aim is to replace the current structure of joint municipal boards by creating a new regional tier of government. The main responsibility of these new regional governments will be within the field of health care.
- We observe a weakening institutional framework for Finnish municipalities as we think uncertainty and delayed reform have strained local government finances.

# Insurance Companies

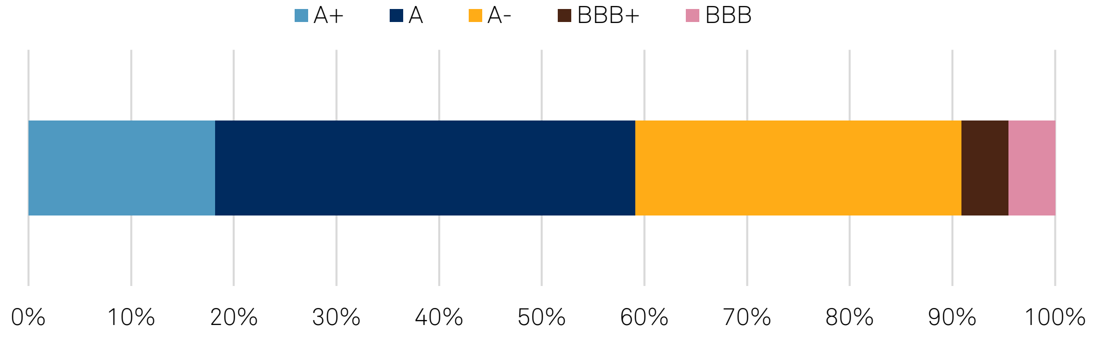
Nordic insurers proved themselves up the challenges of the pandemic

S&P Global Ratings

# Nordic Insurer Ratings | Unaffected By The Pandemic

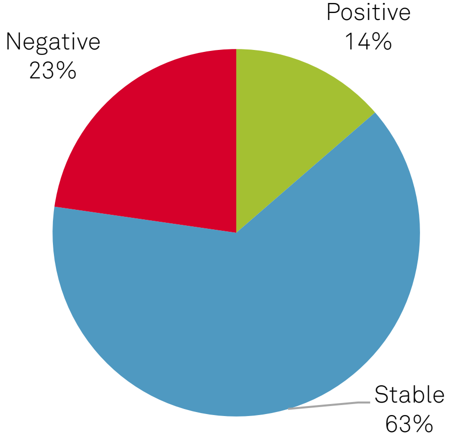
- Our ratings on Nordic insurers were largely unaffected by the pandemic in 2020, thanks to healthy pre-pandemic capital positions.
- During the past 18 months, we have revised outlooks to negative (from stable) on four insurers, and to positive (from stable) on three, but not because of the pandemic. The vast majority of the negative outlooks relate to marine protection and indemnity clubs, and due to global issues in that subsector rather than Nordic-specific ones.
- The Nordic insurance sector is mostly back to the status quo, that is, the lower-for-longer interest rate environment. In some markets, vehicle traffic is still below historical levels, benefiting motor insurers with lower frequency claims.
- We believe growth will continue based on the ramping up vaccination levels across the region and economies remaining open.
- There is continued risk of falling values of insurers' invested assets because of potential financial market volatility. Persistent low interest rates that depresses life insurers' investment margins could also add pressure.

### Ratings Distribution




Source: S&P Global Ratings.

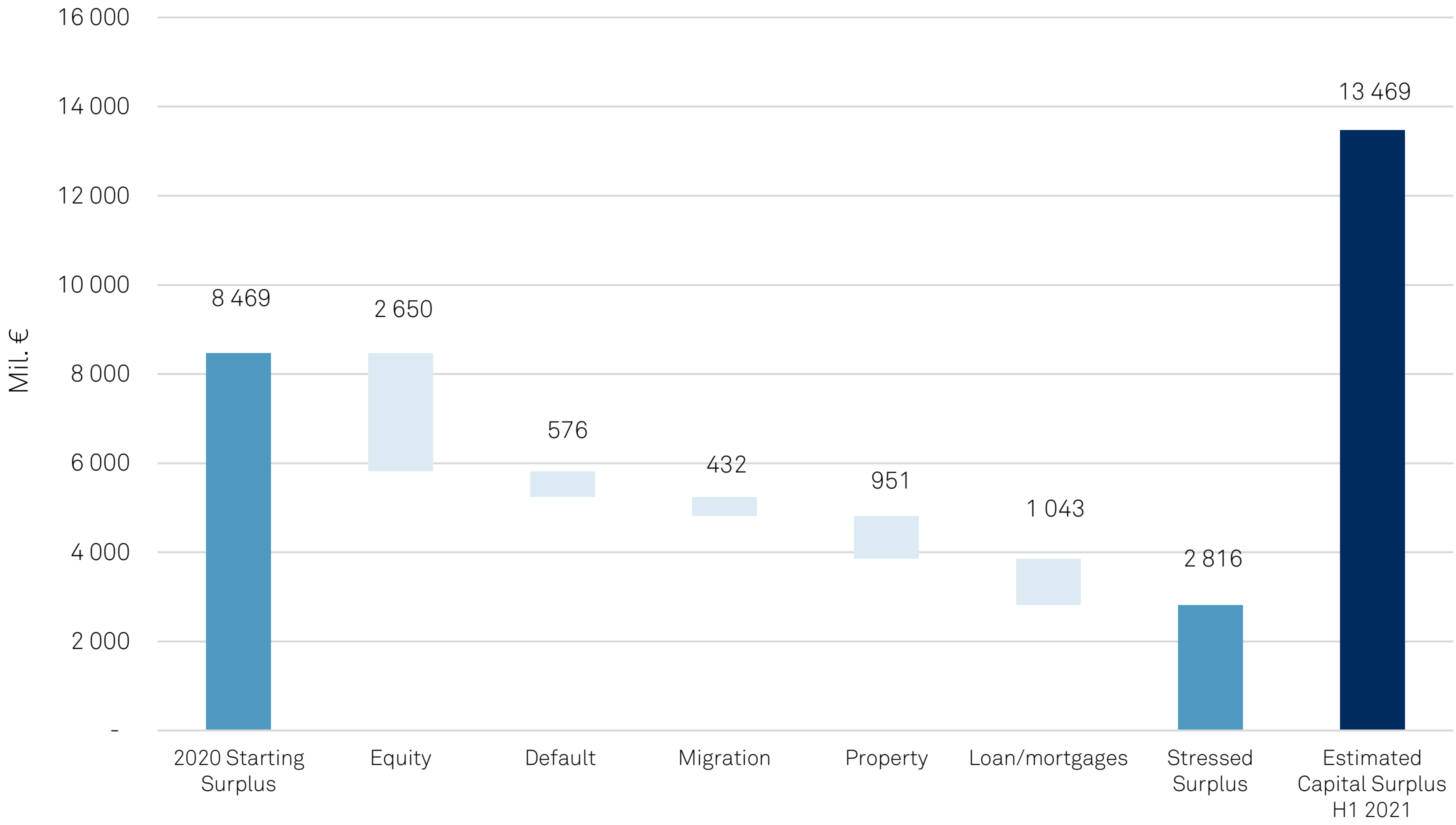

### Outlook Distribution




Source: S&P Global Ratings.

# Nordic Insurer Ratings | Capital Buffers Have Clearly Recovered

## Capital Surplus Well Above Pre-Pandemic Levels




Source: S&P Global Ratings.


- We estimate the first-half 2021 capital buffer is well above pre-pandemic level, positively affected by rebound in financial markets, continued focus on underwriting, and one-offs such as suspended dividend payments during the pandemic, and fresh capital through hybrid issues.
- Nevertheless, we estimate that the Nordic insurance industry lost about two-thirds of its capital buffers at the height of 2020's pandemic-inspired market turbulence.
- Based on 2020, equity risk is the most significant, and property and loan/mortgages risk remain sizable.
- A rebound in equity and debt markets recovered much of the deteriorated buffer.
- We expect capital to continue rebuilding in 2021 and 2022 with the recovery.

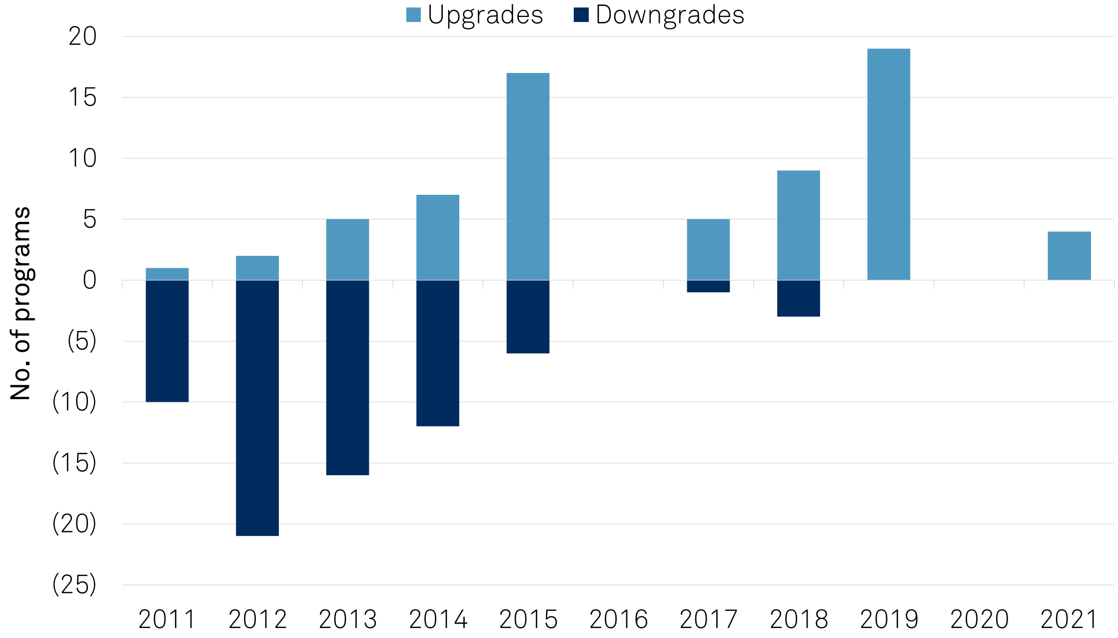
# Covered Bonds

S&P Global
Ratings

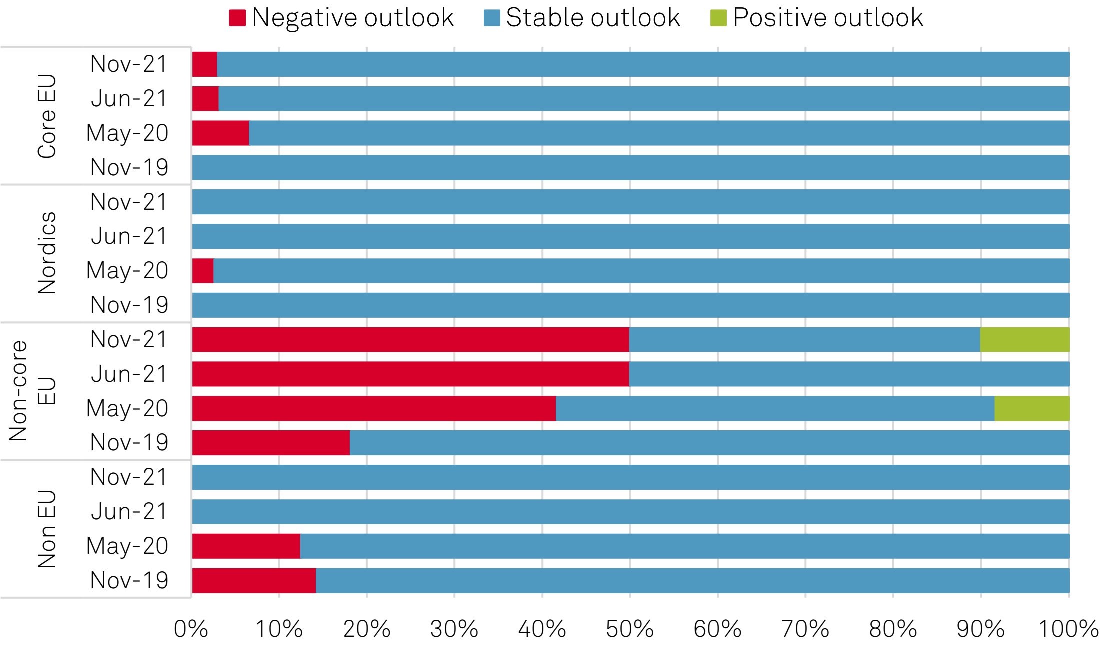
# Outlook | Ratings Stable Despite Lockdowns And Drop In Economic Activity

- We have not downgraded any rated covered bond program since the pandemic's onset.
- However, we did revise outlooks to negative on less than 15%, and four transactions were upgraded because of rating actions on the issuing banks or the related sovereigns.
- All rated covered bond programs in the Nordics have stable outlooks on them.

### No Negative Rating Actions On European Covered Bonds During The Pandemic



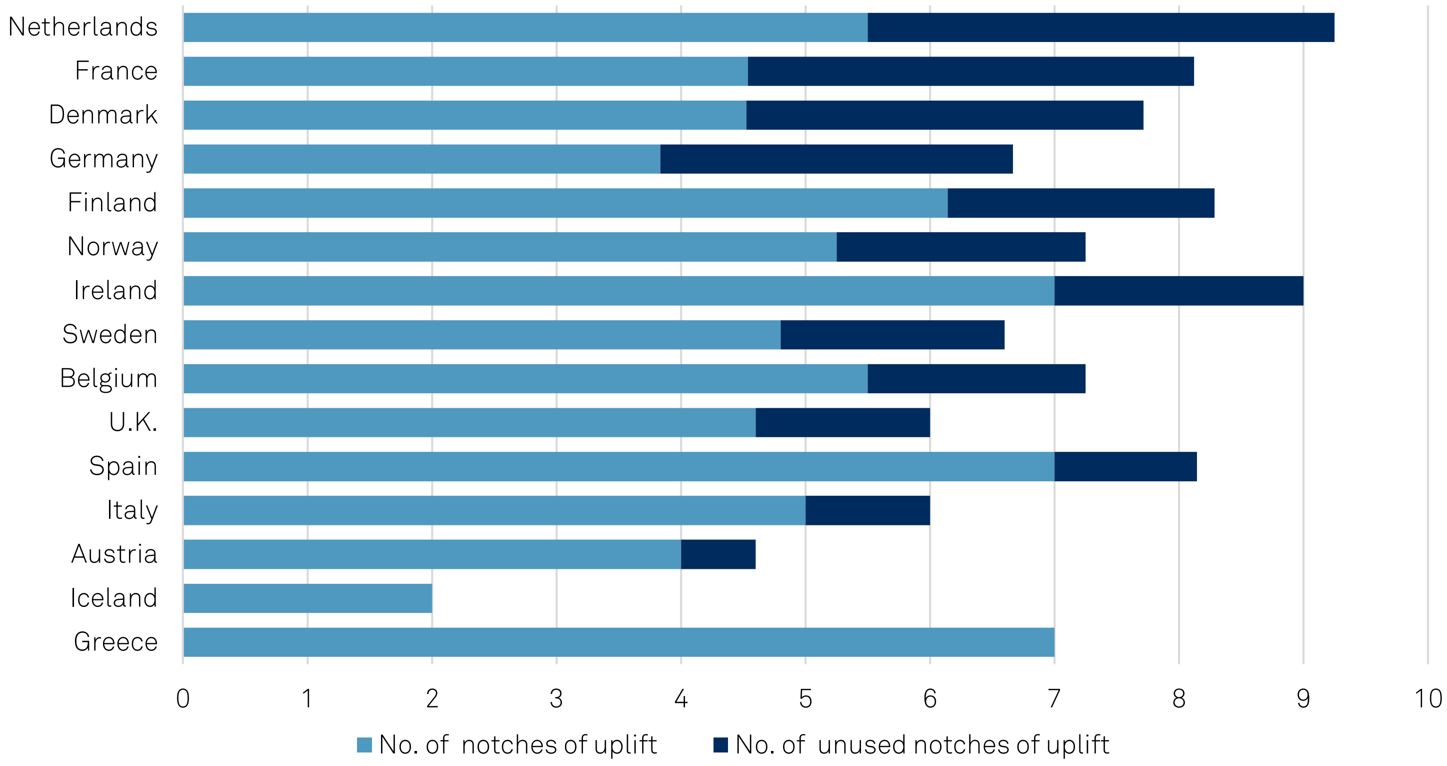

### 100% Stable Outlooks In The Nordics




*Note: Core EU: Austria, Belgium, France, Germany, The Netherlands. Nordics: Denmark, Finland, Norway, Sweden. Noncore EU: Greece, Hungary, Ireland, Italy, Spain. Non EU: Singapore, South Korea, U.K. Source: S&P Global Ratings.*

# Outlooks | Unused Notches Partially Mitigate Bank Downgrade Risk

**Average Number Of Unused Notches By Country In Third-Quarter 2021**




- Key risks to rated covered bond programs remain the potential changes in sovereign or issuing bank issuer credit ratings.
- Currently, rated programs benefit on average from 2.2 unused notches--the number of notches we can lower the issuing bank rating without resulting in a downgrade to the covered bonds.
- Nordic programs are relatively well protected from the risk of bank downgrades compared with European peers.
- Spanish and Italian programs have less of a buffer to mitigate the effect of bank downgrades and could be immediately affected by a sovereign downgrade.

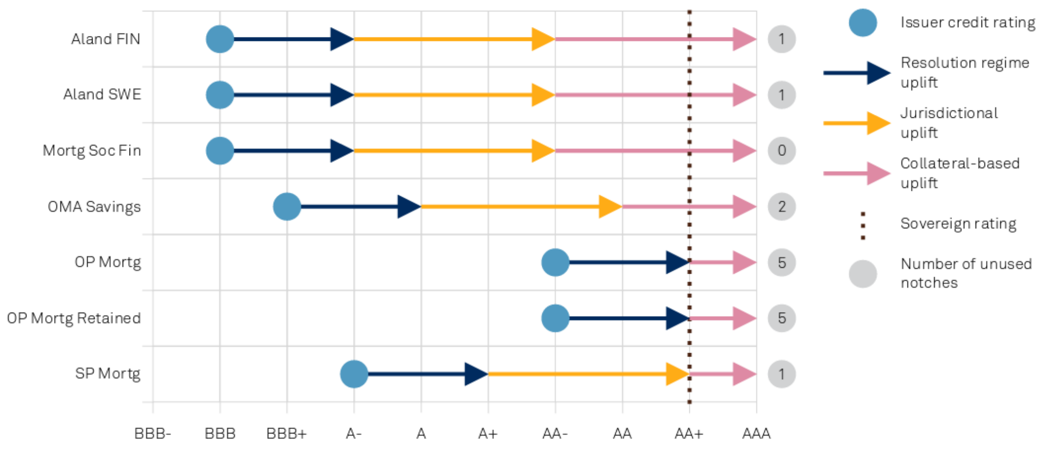
*Source: S&P Global Ratings.*

# Ratings Outlook | Nordic Covered Bond Programs Have Varied Protections For Potential Issuing Bank Downgrades

## Finland

**Covered Bond Ratings: Distribution Of Uplifts Above ICR**

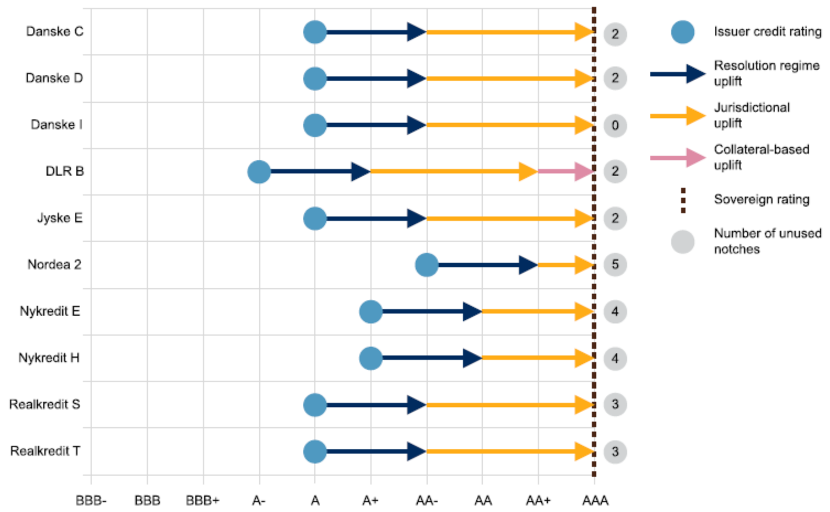
Finnish mortgage covered bond programs




## Denmark

**Covered Bond Ratings: Distribution Of Uplifts Above ICR**

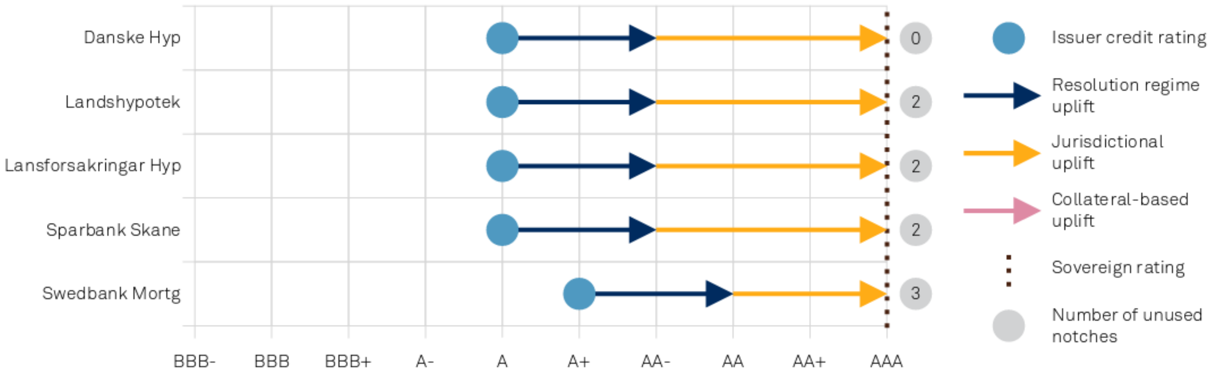
Danish SDO and SDRO covered bond programs




## Sweden

**Covered Bond Ratings: Distribution Of Uplifts Above ICR**

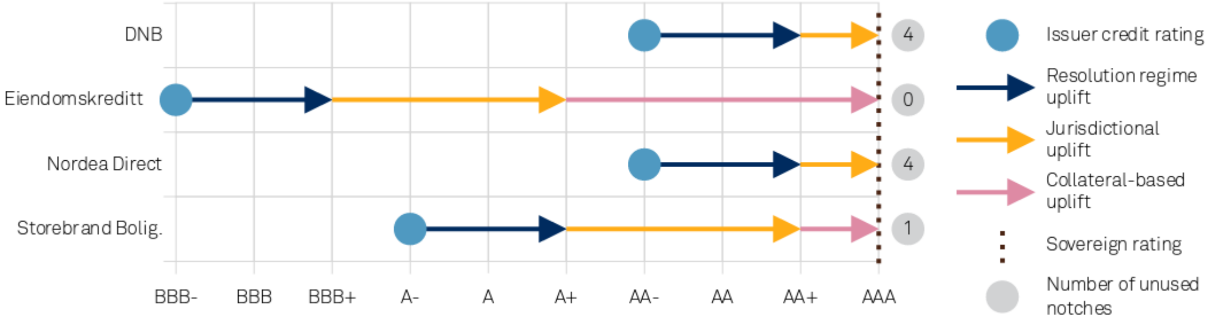
Swedish mortgage covered bond programs




## Norway

**Covered Bond Ratings: Distribution Of Uplifts Above ICR**

Norwegian mortgage covered bond programs




*Sources: S&P Global Ratings. Covered Bond Insights Q3, 2021*

S&P Global Ratings

# ESG Initiatives

ESG in Credit Ratings, ESG Evaluations, And Sustainable Finance Opinions

# S&P Global Ratings Initiatives in Sustainable Finance & Research

## 1. ESG in credit ratings

- Provides transparency on how we incorporate ESG considerations in our credit ratings (creditworthiness).
- We have long incorporated ESG into our credit analysis.
- ESG Credit Indicators have been released to reflect how material the influence of ESG factors is in our rating analysis.
- ESG Credit Indicators are additional disclosure. They are applied after the rating has been determined.

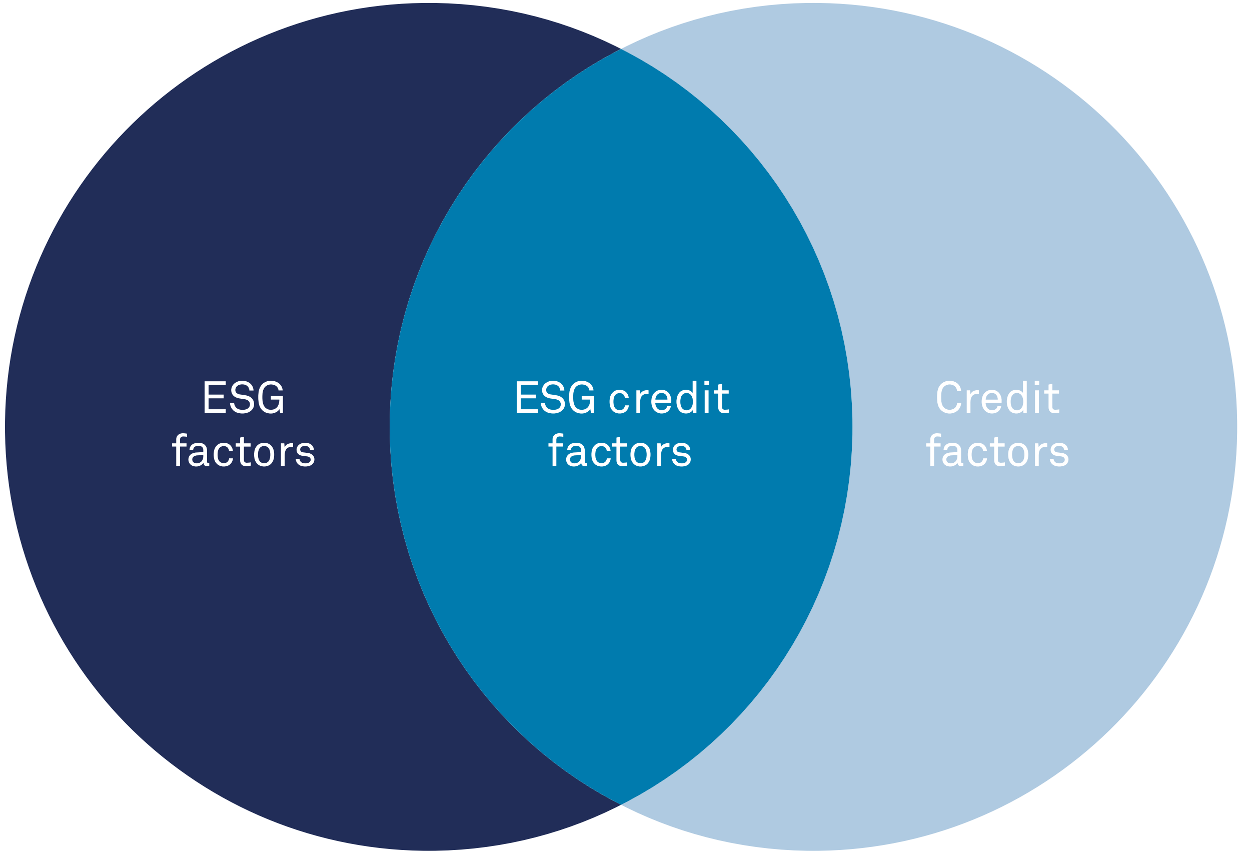
## 2. ESG Evaluation

- This is a forward-looking assessment of an entity's ESG impact on all stakeholders, including its relative performance and ability to prepare for risks and opportunities.
- It is neither a credit rating nor a measure of credit risk or a component of our credit rating methodology.
- This combines our opinion of an entity’s relative exposure to observable ESG-related risks and opportunities (the ESG Profile), with our qualitative opinion of long-term preparedness for ESG related opportunities and disruptions (ESG Preparedness).

## 3. Sustainable Financing Opinions

- These include Second Party Opinions (SPOs) focusing on green, social, sustainability, or sustainability-linked instruments as well as Transaction Evaluations (TEs).

**The Intersection Of ESG And Credit Risk**




Source: “General criteria: Environmental, Social, And Governance Principles In Credit Ratings”, published on RatingsDirect on Oct. 10, 2021
“S&P Global Ratings’ ESG Roadmap And Reminders About Our Approach”, published on RatingsDirect on Oct. 5, 2021

# Comparison Of ESG Analytical Efforts Across S&P Global Ratings

| | ESG in credit ratings | ESG specific evaluations & opinion | |
|---|---|---|---|
| Comparison factors | Credit ratings | ESG Evaluation | Sustainable Financing Opinions (SFOs) |
| Creditworthiness: specifically, an entity's ability and willingness to service its financial obligations when they become due | Yes | No | No |
| Sustainability: specifically, "stakeholder materiality", or an entity's ability to manage ESG risks and opportunities | Only when relevant and material for creditworthiness on a forward-looking basis | Yes, regardless of the creditworthiness impact | Yes, for Transaction Evaluations, which reflect the relative environmental benefit of funded projects |
| Fixed time horizon | No | No | Yes |
| Publications and disclosure | **Individual issuers**: Issuer reports<br>**Sector views**: ESG commentaries and ESG report cards<br>**Other**: ESG Credit Indicators<br>"ESG In Credit Ratings Newsletter" | **Individual issuers**: ESG Evaluation report<br>**Sector views**: Key Sustainability Factors (KSFs)<br>ESG Risk Atlas<br>**Other**: Monthly "ESG Sustainable Finance Newsletter" | **Individual issuers**: SPO reports<br>Transaction Evaluation reports<br>**Sector views**: ESG commentaries<br>**Other**: Monthly "ESG Sustainable Finance Newsletter" |
| Analytical participants and process | Credit rating analysts as part of credit rating committees with the potential for non-voting participation of sustainable finance analysts | Joint team of sustainable finance analysts and credit rating analysts (providing industry knowledge) as part of ESG Evaluation committees | Joint team of sustainable finance analysts and credit rating analysts (providing industry knowledge) as part of SFO committees |
| Subject to monitoring & surveillance | Yes | Yes | No |
| Includes discussions with entity management teams | Yes | Yes, often including non-executive board members | Yes |
| Methodology | Sector-specific credit rating criteria, complemented by specific ESG principles in credit ratings criteria | "ESG Evaluation Analytical Approach," supplemented by sector-specific KSFs | "Sustainable Financing Opinions Analytical Approach," alongside the "Sustainable Financing Opinions Analytical Supplement" |



Source: "S&P Global Ratings' ESG Roadmap And Reminders About Our Approach," published on RatingsDirect on Oct. 5, 2021

# ESG In Credit Ratings: Key Takeaways

– We incorporate ESG credit factors into our credit analysis across all sectors if we believe the factors are material/relevant to creditworthiness.

## General Principles Of How ESG Credit Factors Can Influence Credit Ratings

**Principle 1**

Our long-term issuer credit ratings do not have a predetermined time horizon

**Principle 2**

The current and future effect of ESG credit factors on creditworthiness can differ by industry, geography, and entity

**Principle 3**

The direction of and visibility into ESG credit factors might be uncertain and can change rapidly

**Principle 4**

The influence of ESG credit factors can change, which is reflected in the dynamic nature of our credit ratings

**Principle 5**

Strong creditworthiness does not necessarily correlate with strong ESG credentials and vice versa

## ESG In Our Credit Rating Analysis

**ESG credit factors**

Climate transition risks
Health and safety
Governance structure

→ Consideration: When material to creditworthiness →

**ESG criteria**

ESG principles in credit ratings and sector-specific criteria

→ Application of criteria →

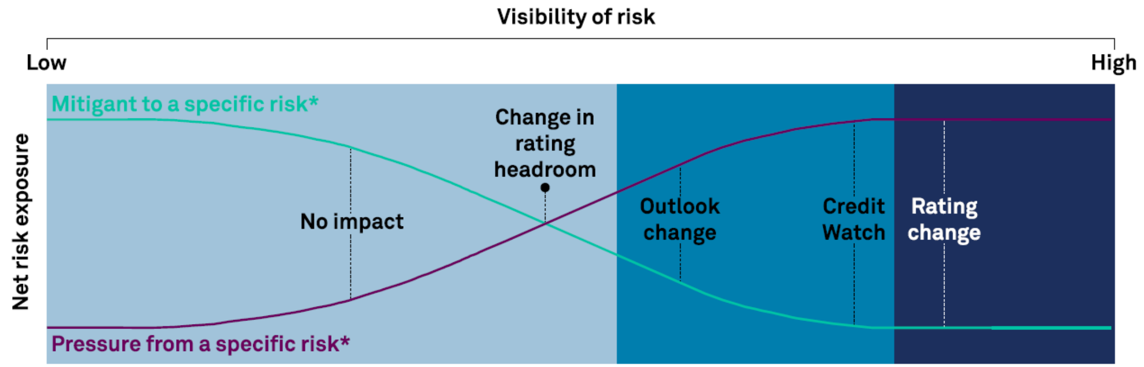
**Credit rating**

Reflecting both ESG and non-ESG credit factors

→ Communication & additional disclosure of ESG influence in Credit Ratings →

- ESG credit factors
- ESG paragraphs in issuer reports
- ESG sector report cards
- ESG disclosures in rating actions

## Visibility Of Risks: Example Impact On Ratings




*Both the pressure from the risk and the mitigants to the risk can change or stay the same over time. This chart shows how the influence of a specific ESG risk--or opportunity--may change over time as visibility increases. Source: S&P Global Ratings.




Source: "ESG Credit Indicator Definitions and Application", published on RatingsDirect on Oct. 13, 2021
"General criteria: Environmental, Social, And Governance Principles In Credit Ratings", published on RatingsDirect on Oct. 10, 2021

# ESG Credit Indicators

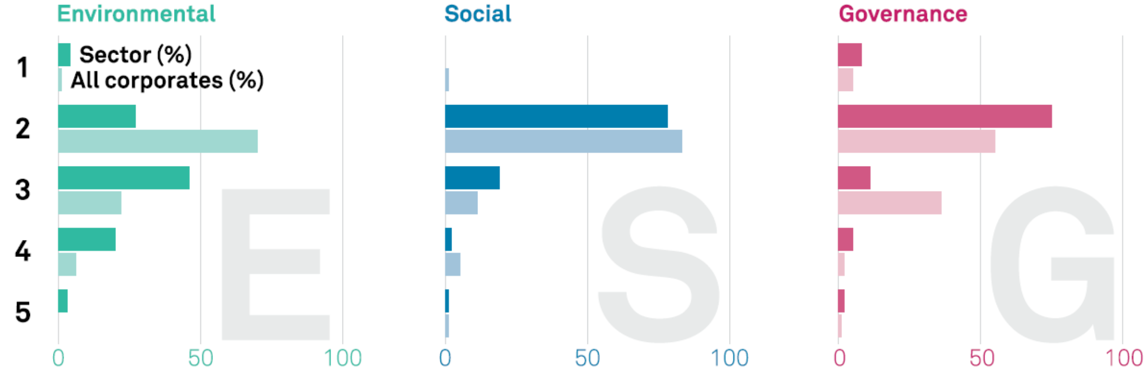
- Our ESG credit indicators provide disclosure by reflecting our opinion of how material the influence of ESG factors is on the various analytical components in our rating analysis through a scale from 1 to 5.
- ESG credit indicators will be published for individual companies (public ratings) in the corporate and infrastructure, banking, and insurance sectors in 2021, and remaining asset classes in 2022.
- The ESG credit indicators will be incorporated and updated in our issuer-specific rating publications to complement our existing credit rating analysis and surveillance.
- The application of--or change in--an ESG credit indicator cannot by itself trigger a rating or outlook change. However, the impact of ESG factors on creditworthiness could contribute to a rating action, which in turn could lead to a change in the ESG credit indicator.

## ESG Credit Indicators Provide Additional Disclosure And Transparency Of How ESG Factors Influence An Entity's Creditworthiness

| Credit indicator | Definition |
|---|---|
| E-1 | Environmental factors are, on a net basis*, a positive consideration in our credit rating analysis, affecting at least one analytical component§. |
| E-2 | Environmental factors are, on a net basis*, a neutral consideration in our credit rating analysis. |
| E-3 | Environmental factors are, on a net basis*, a moderately negative consideration in our credit rating analysis, affecting at least one analytical component§. |
| E-4 | Environmental factors are, on a net basis*, a negative consideration in our credit rating analysis, affecting more than one analytical component§ or one severely. |
| E-5 | Environmental factors are, on a net basis*, a very negative consideration in our credit rating analysis, affecting several analytical components§ or one very severely. |

*"On a net basis" means that we take a holistic view on exposure to environmental factors and related mitigants. §Analytical components include criteria scores and subscores (including the key analytical elements to assess them). "Affecting" means leading to a different outcome for an analytical component or lower/higher headroom for an analytical component.

## Example: Power Generators



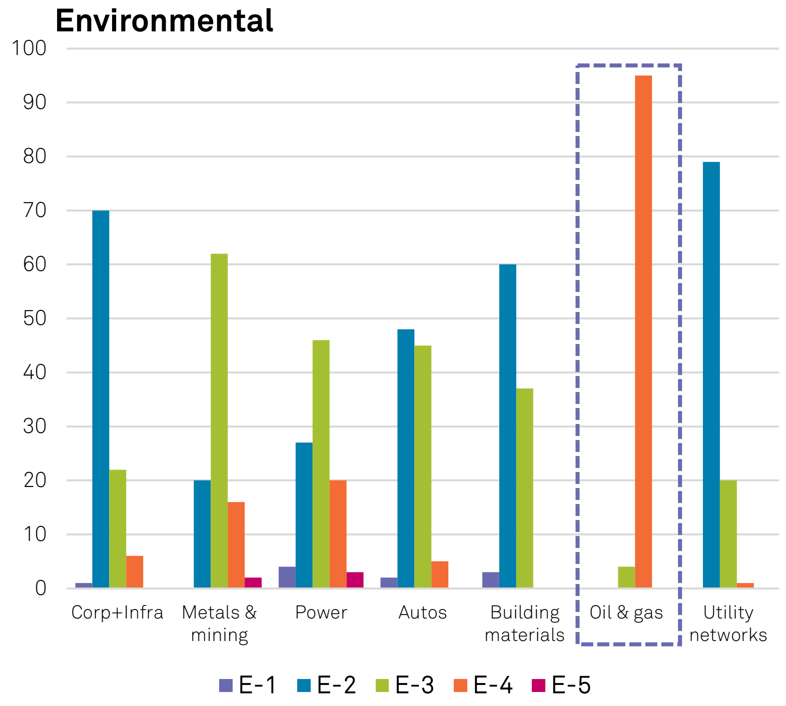

**1** = positive | **2** = neutral | **3** = moderately negative | **4** = negative | **5** = very negative.
Our opinion of the influence of ESG factors on our credit rating analysis is reflected on a 1-5 scale. Source: S&P Global Ratings.

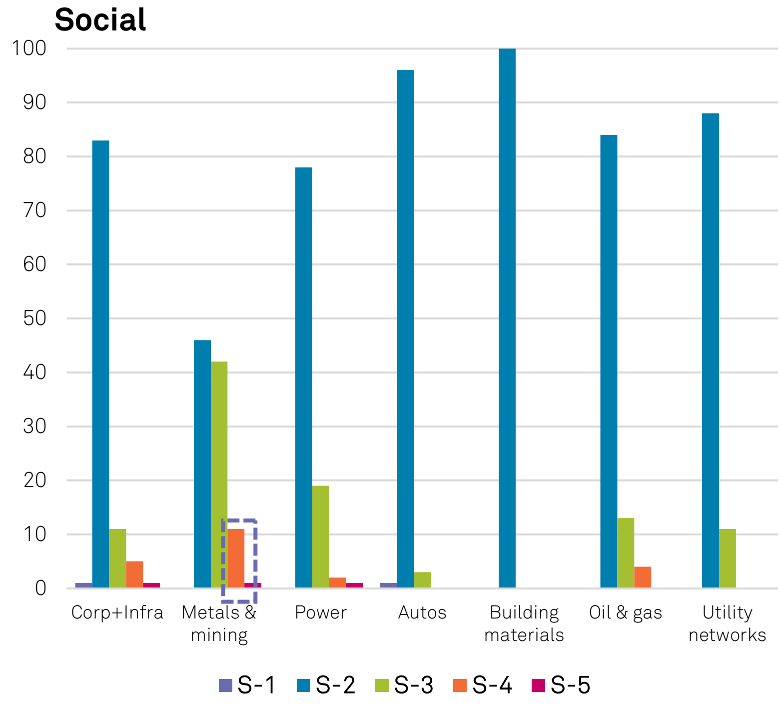

S&P Global Ratings

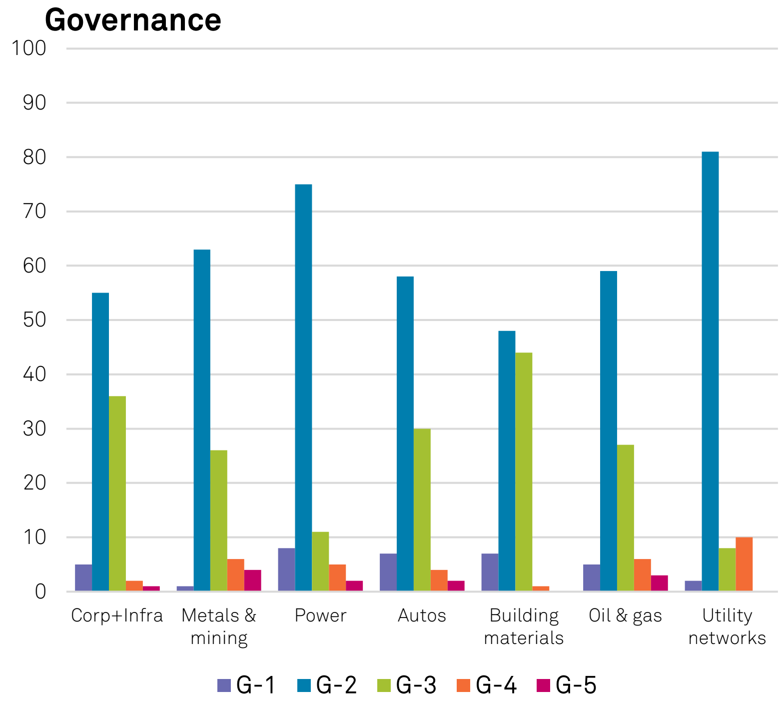
# ESG Credit Indicators: Sector Distribution

## Corporate and Infrastructure Ratings

- Environmental factors heavily affects many industry risk assessments for corporate and infrastructure entities, which generally imply a higher number of entities in these sectors have received "E-3" or lower. E.g., oil and gas, power generation, metals and mining, etc.
- Social factors are principally influencing entity-specific components of our analysis rather than differentiating industry scores. Social risks becomes more important when assessing an entity's specific exposure to and management of social risks, as it often relates to its own staff, communities, and customer base.
- Governance credit indicators are strongly linked to our management and governance (M&G) criteria score but could also reflect above-average country-related risks such as high institutional, political, regulatory, and/or transparency risks.



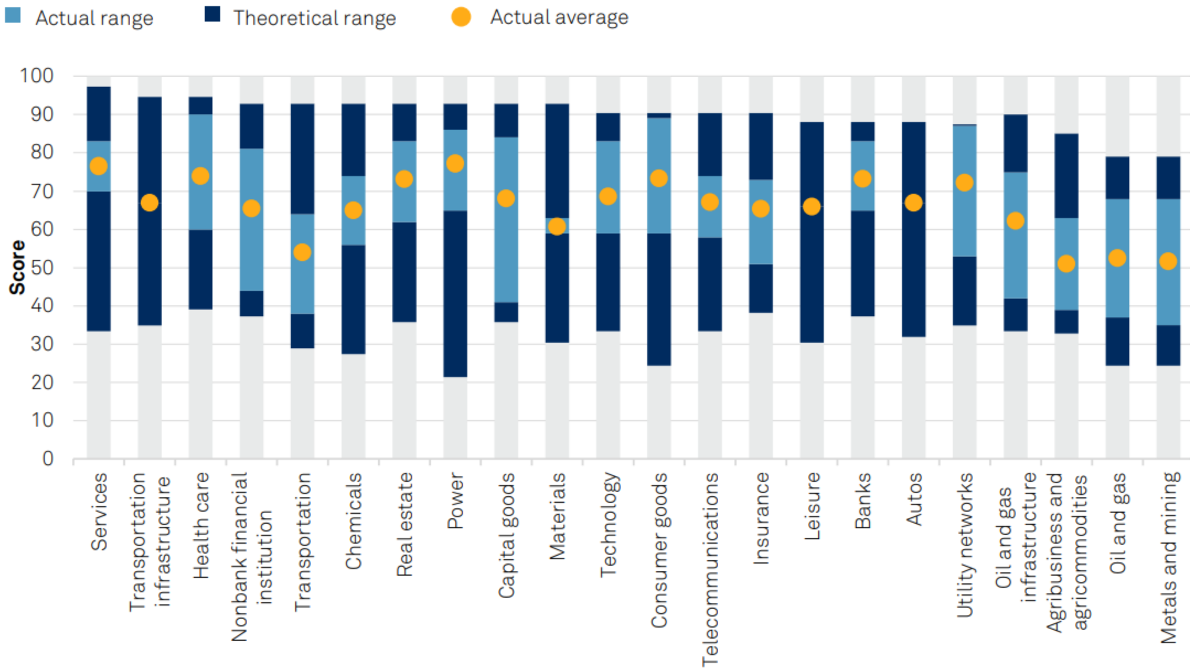

S&P Global Ratings

# ESG Credit Indicators: Nordic Examples

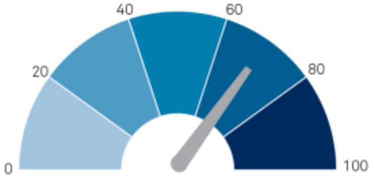
| Issuer | Credit Indicator E | Credit Indicator S | Credit Indicator G | ESG Credit Factors | ESG Comments (abbreviated) |
|---|---|---|---|---|---|
| Volvo Car | E-3 | S-2 | G-2 | Climate transition risks | Environmental factors are a moderately negative consideration for our rating on Volvo Car AB, mainly reflecting the regulatory push toward ZEVs. In 2020, Volvo Car comfortably met its CO2 emissions targets and even sold CO2 credits to Ford. Volvo Car is poised to benefit from its clear focus on electrified vehicles and its product pipeline, targeting the launch of one new electric car model every year until 2025. Volvo Car's electrified strategy has been successful so far, with one out of three cars it sold in Europe being a PHEV. By 2030, Volvo Car intends to sell BEVs only. Nevertheless, we think the company remains exposed to potential cost pressures related to EV supply chain and technology evolution that could constrain its EBITDA margin and free cash flow generation. |
| Vattenfall | E-2 | S-2 | G-2 | Climate transition risks; waste and pollution; governance structure | ESG factors have an overall neutral influence on our credit rating analysis of Vattenfall. Vattenfall's emissions are relatively low compared with its Nordic peers and the company is heavily investing in renewables. The bulk of investment benefits from a long-term remuneration framework. As a government-owned company, Vattenfall aligns with the Swedish government's environmental and climate goals. This said, the company is exposed to extreme weather conditions, which could affect the operation both of its generation assets and network. In early 2019, a severe snowstorm affected its network north of Stockholm, which led to significant outages and as a result exposed the company to penalties and extra costs. Overall, the company has a good track record of meeting the regulator's targets on network service quality, and we believe it manages its regulatory environment well. |
| Orsted | E-1 | S-2 | G-1 | Other environmental factors; risk management, culture, and oversight | Environmental factors are a positive consideration in our credit rating analysis of Orsted. This reflects the overwhelming contribution of renewable assets in Orsted's generation portfolio (about 90% of output in 2020, with an objective of 99% by 2025). Orsted is a global leader in offshore wind energy, with a market share of about 30%. Its GHG intensity (scopes 1 and 2) reduced to 65 grams of CO2 equivalent per KWh in 2019, down 86% from 2006, well below the European average. Governance factors are also a positive consideration, reflecting our view of the company's ability and first-mover strategy to successfully develop an offshore wind industry globally. In particular, it has quickly integrated the latest technologies without cost overruns or delays in project delivery. |
| SSAB | E-3 | S-2 | G-2 | Climate transition risks; waste and pollution | Environmental factors are a moderately negative consideration in our credit analysis of SSAB, similarly to its steel-making peers. Steel production is a very energy-intensive process, emitting large amounts of CO2. The company is currently investing in the conversion of its basic oxygen furnace in Oxelosund (others will follow) and has started a hydrogen pilot with a commercial trial in 2026, which would cut SSAB's emissions in Sweden by 25% (SSAB is one of the biggest contributors), becoming the first fossil-free steel producer in the world, if successful. |
| Equinor | E-4 | S-2 | G-2 | Climate transition risks | Environmental factors are a negative consideration in our credit rating analysis of Equinor ASA. The company has large offshore upstream operations, including deep and ultra-deep projects in Brazil and the Gulf of Mexico that bear relatively high environmental risk. The limited diversification outside of upstream further exposes the company to energy transition risks. That said, the company is one of the most energy-efficient E&P companies globally, has a very strong position in Norway with low emission production, and has a very strong track record of environmental performance, with no major incidents to report. Furthermore, Equinor is investing heavily in renewables (offshore wind and solar) and low carbon solutions (such as carbon capture and storage and blue and green hydrogen), diversifying cash flow sources over time. |
| Länsförsäkringar Sak | E-2 | S-2 | G-2 | N/a | ESG factors have no material influence on our credit rating analysis of Lansforsakringar Sak Forsakrings AB (publ). |
| Sandvik | E-3 | S-2 | G-2 | Climate transition risks | Environmental factors are a moderately negative consideration in our credit rating analysis of Sandvik. We view Sandvik as more sensitive to environmental factors than other capital goods companies given its significant exposure to the mining sector (40% of total revenue in 2020) as well as energy (10%) and auto (11%) end markets. |
| Atlas Copco | E-2 | S-2 | G-1 | Risk management, culture, and oversight | Governance factors are a moderately positive consideration in our credit rating analysis on Atlas Copco, while environment and social factors are an overall neutral consideration. Atlas Copco's end market exposure is well diversified, with no significant exposure toward industries with higher environmental risks such as O&G, metals and mining or automotive. We also recognize that the company has a long history of steering its product development toward energy- and resource-efficiency that in turn increases customers' productivity, energy, and cost savings, as well as reduces CO2 emissions. Furthermore, the group aims to reduce CO2 emissions from energy in operations and transport of goods by 50% in 2030 compared with 2018. |
| Perstorp Holding AB | E-3 | S-2 | G-3 | Climate transition risks; Waste and pollution; Governance structure | Environmental factors are a moderately negative consideration in our credit rating analysis of Perstorp Holding AB. The company has committed to reducing both direct and indirect GHG emissions by 2030, which is in line with the Paris Climate Agreement. Moreover, the company has been expanding its product offerings with pro-environment features, totaling about 25 of all Perstorp's major products as of date. Governance is a moderately negative consideration, as it is for most rated entities owned by private-equity sponsors. We believe the company's highly leveraged financial risk profile points to corporate decision-making that prioritizes the interests of the controlling owners. |

# ESG Evaluation: Summary

### ESG Evaluation Score Theoretical And Actual Range Distribution Per Sector

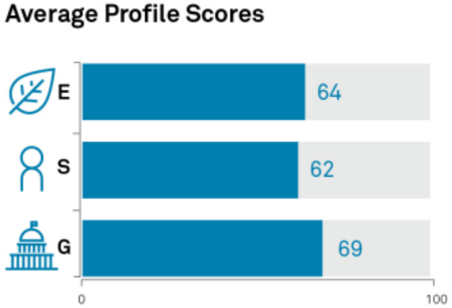


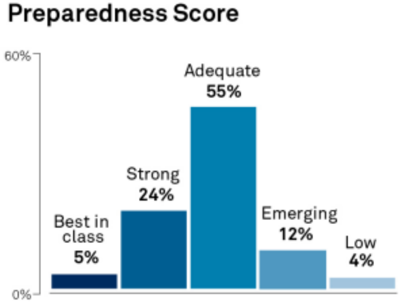

### Average Outcomes Of Our 100+ ESG Evaluations




**Average ESG Score**

**67/100**




- The ESG evaluation is a cross-sector, relative analysis of an entity's capacity to operate. It is grounded in how ESG factors could affect stakeholders, potentially leading to a material direct or indirect financial effect on the entity.
- A high ESG Evaluation score indicates an entity is relatively less prone to experiencing material ESG-related events and that it is relatively better positioned to capitalize on ESG-related growth opportunities than entities with lower ESG evaluation scores.
- As of Nov. 10, 2021, we have completed more than 100 ESG Evaluations, 50 second party opinions, and 95 Green Transaction evaluations.
- Swedbank is the only Nordic entity with an ESG Evaluation so far.



Source: "ESG Sustainable Finance Newsletter," published on RatingsDirect on Dec. 1, 2021

# Swedbank Is The First Nordic Entity To Be Assigned A Public ESG Evaluation

## Swedbank's ESG Evaluation score of 75 is above the global average

**Environmental, Social, And Governance Evaluation**

# Swedbank AB

### Summary


Swedbank AB is among the largest Nordic retail banks, with around €250 billion of assets. Headquartered in Sweden, where it is a leading retail player, the company also holds strong-to-dominant market positions in the Baltics. Half of the bank's income stems from its lending book focused on private individuals (67% of loans) and small and midsize enterprises (SMEs; 19%), with a smaller share of large corporates (14%). The rest mostly comes from payments (15%), asset management via Robur (12%), trading and capital markets (7%), and insurance (4%). Swedbank is connected with the Swedish saving banks network through cross-ownership and partnerships.

Our ESG Evaluation of 75 reflects Swedbank's established ESG integration along its value chain but is constrained by past governance deficiencies brought to light by the 2019 money laundering controversy.

Swedbank's asset management arm Robur was among the first to integrate ESG, with a particular focus on climate-related issues. The implementation of an advanced responsible investment framework has enabled Robur to reduce the carbon footprint of its portfolios and should support its commitment to align its investments with a 1.5C climate scenario by 2025. While the bank's ESG integration is comparatively less developed when it comes to its lending activities, we believe it is on track to roll out additional sector-specific ESG guidance, including on mortgages, which should facilitate systematic implementation and monitoring.

Relative to the industry average, Swedbank benefits from higher social standards in Sweden. On the other hand, along with other large banks, it faces challenges regarding customer satisfaction, partly after the material reputational damage caused by its severe 2019 money laundering case. Indeed, Swedbank is still strengthening its risk culture and governance following the controversy. While the new board and executive management have invested heavily to be among the leaders in combating financial crime, we believe those measures will take time to permeate across the entire organization.



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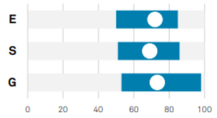
**ESG Profile Score**

72/100

**Preparedness Opinion (Scoring Impact)**

Adequate (+ 3)




Company-specific attainable and actual scores

**ESG Evaluation**

75/100

A higher score indicates better sustainability

## Component Scores

| Environmental Profile | | Social Profile | | Governance Profile | |
|---|---|---|---|---|---|
| **Sector/Region Score** | 35/50 | **Sector/Region Score** | 36/50 | **Sector/Region Score** | 33/35 |
| Greenhouse gas emissions | **Strong** | Workforce and diversity | **Strong** | Structure and oversight | **Good** |
| Waste and pollution | **Good** | Safety management | **Good** | Code and values | **Good** |
| Water use | **Good** | Customer engagement | **Good** | Transparency and reporting | **Strong** |
| Land use and biodiversity | **Good** | Communities | **Good** | Financial and operational risks | **Neutral** |
| General factors (optional) | **3** | General factors (optional) | **None** | General factors (optional) | **-2** |
| **Entity-Specific Score** | 37/50 | **Entity-Specific Score** | 33/50 | **Entity-Specific Score** | 40/65 |
| **E-Profile (30%)** | 72/100 | **S-Profile (30%)** | 69/100 | **G-Profile (40%)** | 73/100 |

**ESG Profile** (including any adjustments): 72/100

### Preparedness Summary

Swedbank's adequate preparedness reflects the bank's excellent awareness of potential long-term disruptions, including digitalization, climate change, and cybersecurity, and its good incorporation of these disruptions into its long-term strategy. This is balanced by the short track record of its current board and executive management team, which were largely renewed after the 2019 money laundering controversy, and our belief that it will take time for the bank to adjust its risk culture and governance fully and sustainably and avoid controversies.

| **Capabilities** | |
|---|---|
| Awareness | **Excellent** |
| Assessment | **Good** |
| Action plan | **Good** |
| **Embeddedness** | |
| Culture | **Good** |
| Decision-making | **Good** |

**Preparedness Opinion (Scoring Impact)**: Adequate (+ 3)

**ESG Evaluation**: 75/100

- The score is supported by Swedbank's established ESG integration along its value chain. Asset management arm Robur, in particular, is well advanced in implementing ambitious climate targets.
- The governance score is constrained by past deficiencies that resurfaced by the bank's 2019 money laundering controversy. Although the new board and executive management have invested heavily to be among the leaders in combating financial crime, we believe these measures will take time to permeate across the organization.
- The robust preparedness reflects an excellent awareness of potential long-term disruptions, including digitalization and climate change, balanced by the short track record of the board.

Go to www.spglobal.com/sustainable-finance for more information and access to reports

S&P Global Ratings

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