ESG In Credit Ratings December 2022

Rating Actions Decline, Though Negative Ones Continue To Exceed Positive

S&P Global Ratings

This report does not constitute a rating action.

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By The Numbers: November 2022 ESG-Related Credit Rating Actions

Total ESG-driven credit rating actions, November vs. October 2022

▲ Increase ▼ Decrease

- 18 ▼ All credit rating actions
- 7 ▼ Positive rating actions
- 11 ▼ Negative rating actions

November 2022 positive rating action breakdown

- Key factor: 4 Health and safety
- Key sector: 5 Corporates and infrastructure
- Key region: 4 Europe

November 2022 negative rating action breakdown

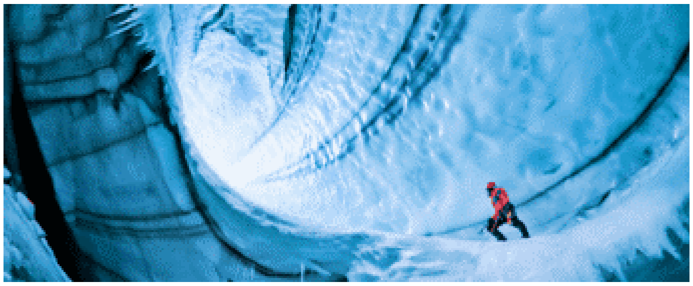
- Key factor: 4 Human capital
- Key sector: 7 U.S. Public Finance
- Key region: 8 North America

ESG-related rating actions are those where ESG credit factors were a key driver of the decision to change a credit rating, outlook, or CreditWatch status. S&P Global Ratings considers ESG credit factors to be those ESG factors that may influence the capacity and willingness of an issuer to meet its financial commitments. Rating actions include rating, CreditWatch, and outlook changes in November 2022. Total rating actions include the assignment of stable outlooks to ratings previously on CreditWatch developing. ESG--Environmental, social, and governance.

Key Takeaways

- The number of rating actions related to environmental, social, and governance (ESG) factors decreased to 18 in November from 27 in October. Social factors led with eight rating actions, followed by governance factors with seven and environmental factors with three.
- Negative actions continue to outnumber positive ones, led by human capital-related social factors, which were largely a result of elevated labor costs.
- Four positive rating actions were attributable to health and safety factors, also under the social heading, as some issuers continue to benefit from the post-pandemic recovery in the leisure and travel segments.
- Governance issues surrounding risk management, culture, oversight, and governance structure remain prominent among ESG-related rating actions.

ESG Research Highlights



Global Credit Outlook 2023: No Easy Way Out

Dec. 1, 2022

As we end a year in which COVID-19, a major conflict in Europe, an associated energy crisis, and high inflation roiled markets and slowed the global economy, early signs of easing of some of these pressures provide hope that credit conditions could stabilize in the second half of 2023. But finding a way out of the strains weighing on credit leaves little room for error.

COP27: Top Five Takeaways That Matter

Nov. 23, 2022

In our view, the Sharm el-Sheikh Climate Change Conference (COP27) in November 2022 did not break new ground, focusing more on impacts than new pledges to reduce emissions. Discussions and initiatives at COP27 focused on the delivery of commitments to deal with climate change and supporting developing economies with related challenges. We lay out five takeaways from the conference that we consider most relevant to the world of sustainable finance.

Chart Of The Month

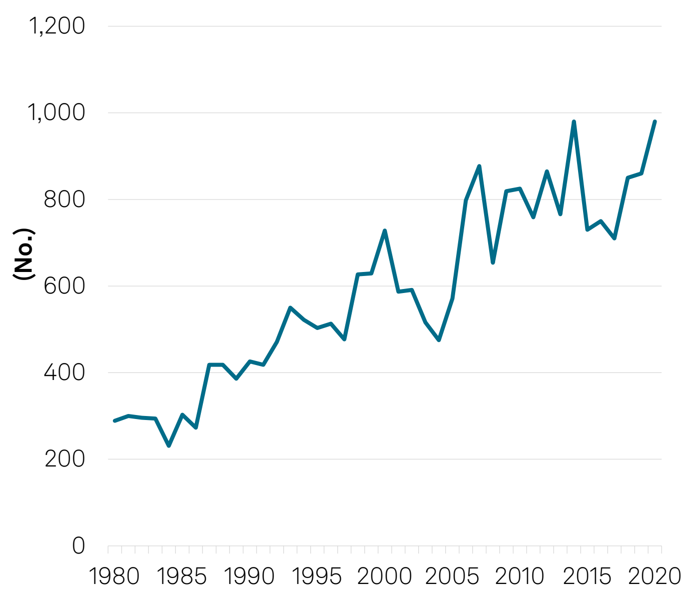
Physical risks can have negative credit implications. We have identified physical risks as one of the environmental credit factors that can affect creditworthiness. Our "Environmental, Social, And Governance Principles In Credit Ratings," criteria, published Oct. 10, 2021, articulates the principles we apply to incorporate ESG credit factors, including physical risk factors, into our credit ratings analysis. For example, costs associated with damage or lost revenue due to temporary shutdowns or supply-chain disruptions can affect corporate issuers' cash flows. Rising exposure to extreme weather events can also adversely affect the cost of insurance and property valuations, which can reduce revenue collections for government entities or increase repayment risk for banks' mortgage books and mortgage-backed securities.

Insurance can play an important role in helping issuers manage physical climate risk. The financial impact of extreme weather will remain on an upward trajectory. In addition to a greater number of areas that will be exposed to extreme events, other factors--like urbanization, increasing economic interconnectivity (including through global supply chains), aging infrastructure, and fewer natural defenses--will drive up the costs. Insurance against physical risks is a key mitigant for many sectors, as timely claims payments can help stabilize cash flows and enable faster response, recovery, and reconstruction, which can bolster economic activity following an event. However, if investment in adaptation and resilience is insufficient to contain the risks posed by extreme weather within insurers' risk appetites, it could accelerate insurer exits or lead to steep price increases, widening the protection gap and pushing the risk back to corporations, households, and governments.

For more information, see the "Climate Considerations" section beginning on page of 46 of "Global Credit Outlook 2023: No Easy Way Out," Dec. 1, 2022.

Natural disasters are on the rise: The growth of secondary perils is bringing the extreme weather around the world

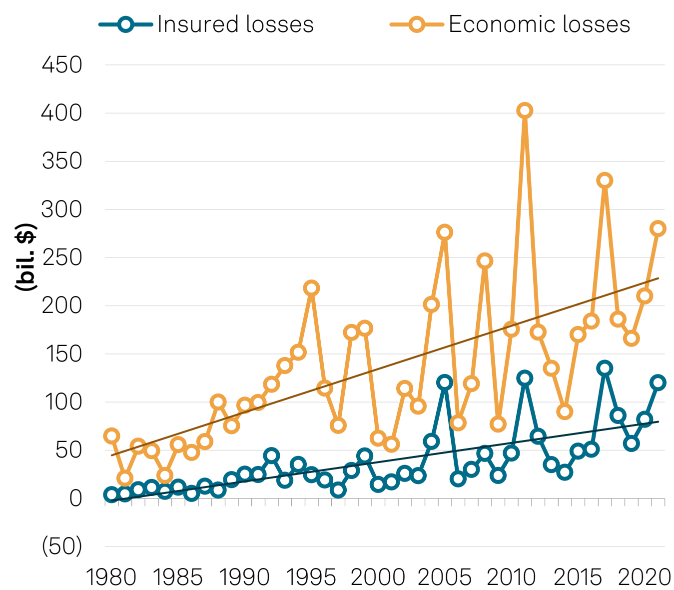
Number of extreme weather events



Source: Munich Re NatCatSERVICE.

The disaster protection gap is widening: Economic losses are outpacing insurance coverage

Insurance and economic losses



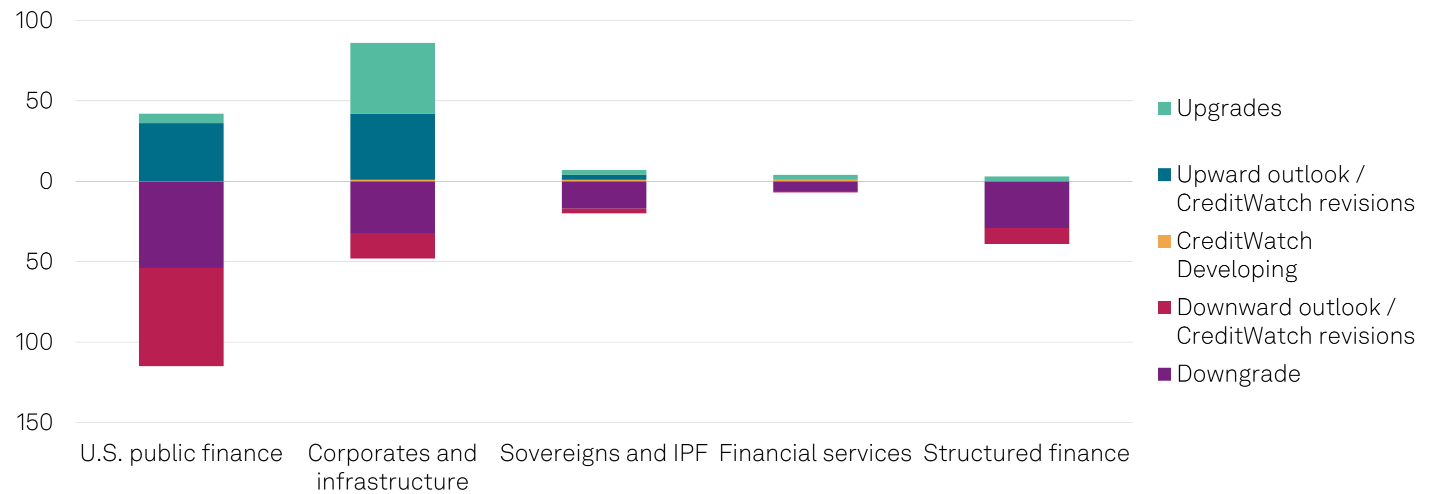
Source: Munich Re NatCatSERVICE.

Overview: ESG Credit Rating Actions

S&P Global Ratings includes an explicit reference in our credit rating rationales when one or more of the below ESG factors were a key driver behind a change to the credit rating/outlook and/or CreditWatch status. We consider ESG credit factors to be those ESG factors that can materially influence the creditworthiness of a rated entity or issue and for which we have sufficient visibility and certainty to include in our credit rating analysis. They are not an assessment of an entities' sustainability profile or ESG performance. Our "ESG In Credit Ratings Newsletter" provides additional data and insights on ESG credit factors that have been key drivers behind changes to our credit ratings.

ESG-Related Credit Rating Actions By Type

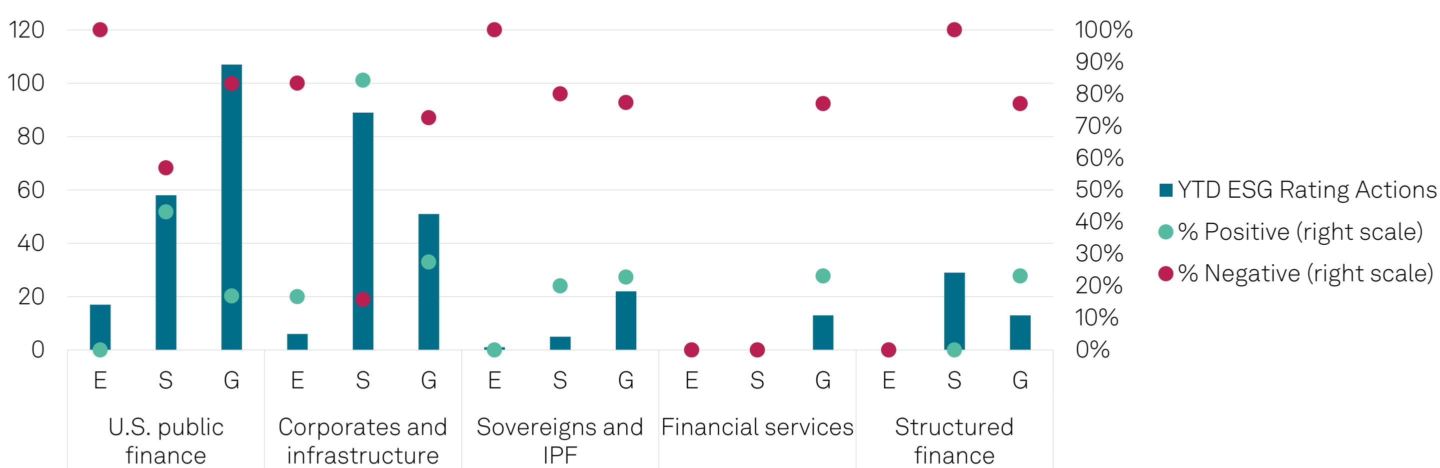
Year-to-date



Data as of Nov. 30, 2022. Structured finance actions relate to ESG impacts by transaction (tranche), while for other sectors, the impact is measured on the issuer credit rating. For the purposes of this chart, CreditWatch developing rating actions are counted as positive rating actions. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

ESG-Related Credit Rating Actions By Sector And Factor

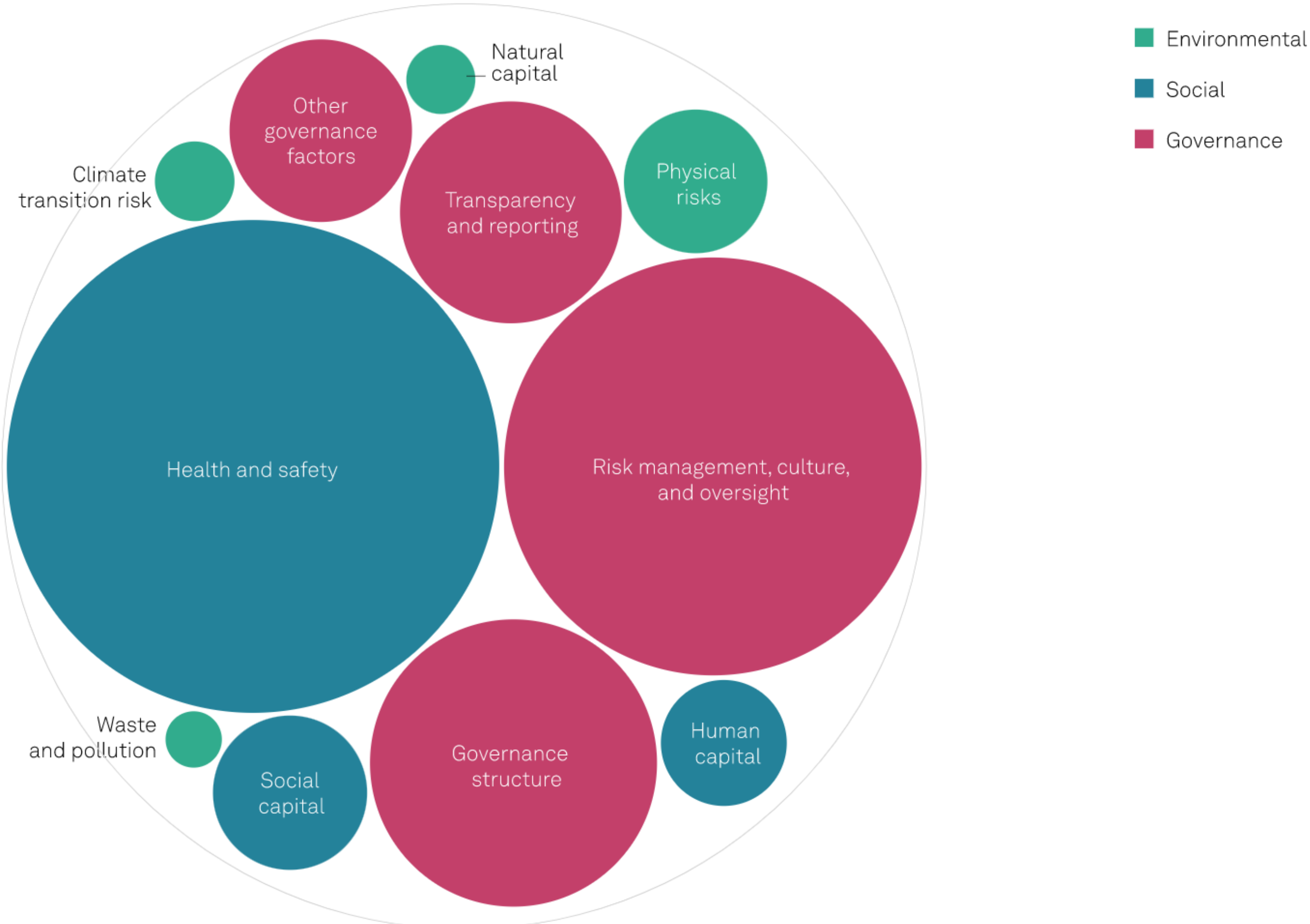
Number of actions and proportion positive/negative, year-to-date



Data as of Nov. 30, 2022. Note: Rating actions include rating, CreditWatch, and outlook changes over January-November 2022. The sum of environmental, social, and governance actions slightly exceeds total ESG-related rating actions because some actions were influenced by multiple factors. Structured finance actions relate to ESG impacts by transaction (tranche), while for other sectors, the impact is measured on the issuer credit rating. CreditWatch developing is excluded from the positive and negative percentages, as it can represent either a positive or negative rating action. ESG--Environmental, social, and governance. IPF--International public finance. YTD--Year-to-date. Source: S&P Global Ratings.

Leading ESG Factors Driving Credit Rating Actions

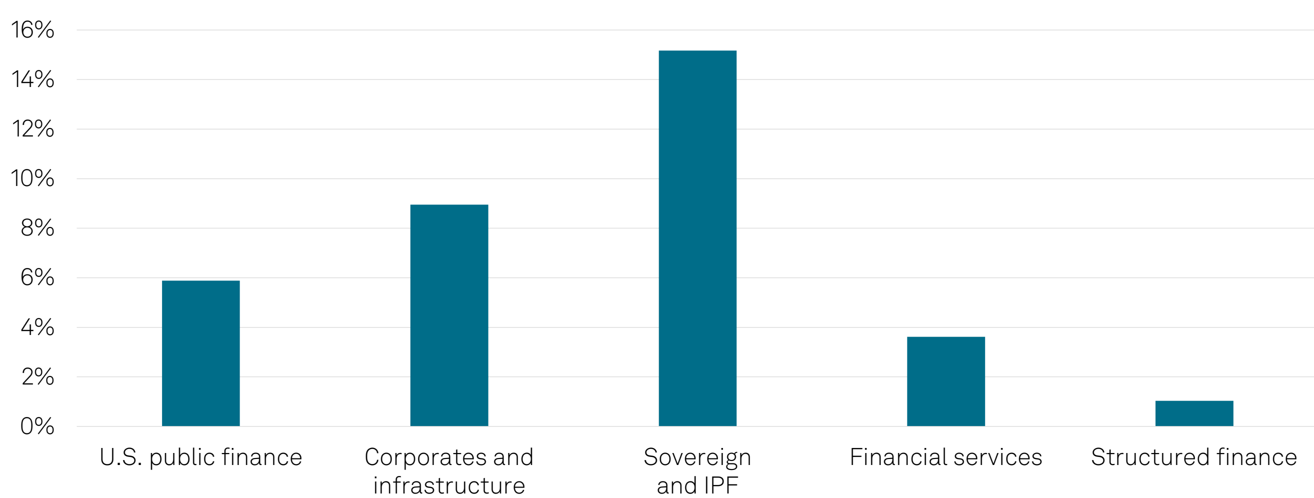
Year-to-date



Data as of Nov. 30, 2022. Bubble size is determined by the occurrence of factors between January and November 2022. In instances where multiple ESG factors were recorded as the main drivers of the credit rating action, each is counted for the purposes of this infographic. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

ESG-Affected Rating Actions As A Percent Of Total

Year-to-date

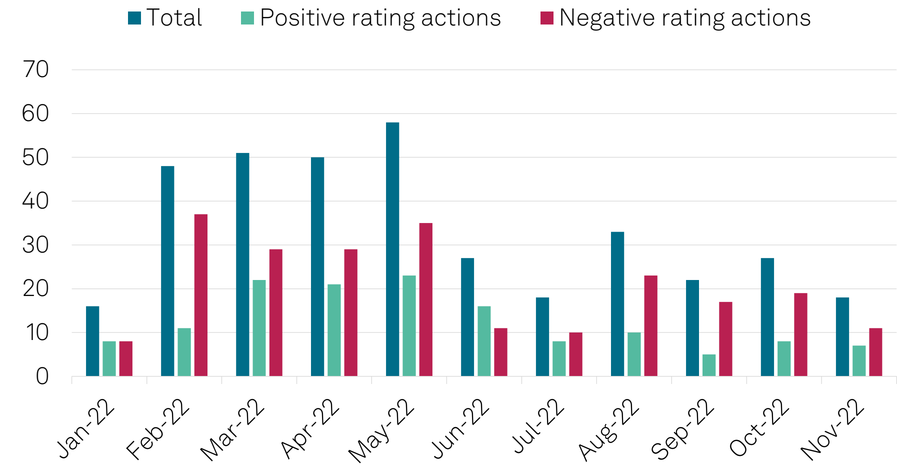


Data as of Nov. 30, 2022. Total rating actions exclude affirmations, withdrawals, and new ratings. ESG--Environmental, social, and governance. IPF--International public finance Source: S&P Global Ratings.

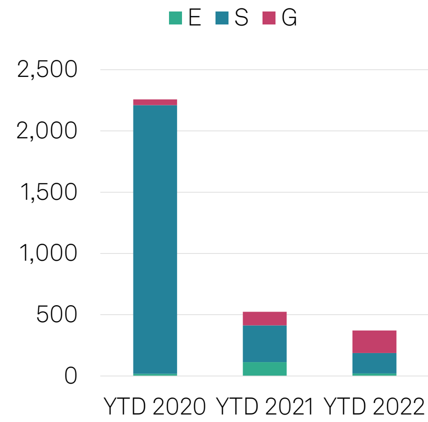
ESG-Related Credit Rating Actions By Month And Year

Year-to-date

By month



By year



Year to date January-November. Data as of Nov. 30, 2022. Excludes CreditWatch developing, as it can represent either a positive or negative rating action. Positive actions include upgrades, upward outlook revisions, and upgrades with outlook revisions. Negative actions include downgrades, downward outlook revisions, CreditWatch negative placements, downgrades with outlook revisions, and suspensions. ESG--Environmental, social, and governance. YTD--Year-to-date. Source: S&P Global Ratings.

Appendix

ESG-Related Credit Rating Actions

Year-to-date

	U.S. public finance	Corporates and infrastructure	Sovereigns	International public finance	Financial services	Structured finance	Total
Downgrade	53	32	6	11	6	29	137
CreditWatch negative	42	2	0	0	0	10	54
Downward outlook revision	19	14	1	2	1	0	37
Suspension	1	0	0	0	0	0	1
Upgrade	6	44	3	0	3	3	59
Upward outlook revision	36	41	2	1	0	0	80
CreditWatch developing or removed from CreditWatch developing	0	1	1	0	1	0	3
Total ESG-related rating actions*	**157**	**134**	**13**	**14**	**11**	**42**	**371**
Environmental§	17	6	0	1	0	0	24
Social§	58	89	1	4	0	29	181
Governance§	107	52	14	9	14	13	209

Data as of Nov. 30, 2022. *Rating actions include rating, CreditWatch, and outlook changes over January-November 2022. Structured finance actions relate to ESG impacts by transaction (tranche), while for other sectors the impact is measured on the issuer credit rating. §The sum of environmental, social, and governance actions may exceed total ESG-related rating actions because some actions are influenced by multiple factors. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

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