ESG Industry Report Card: EMEA Banks

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Key Takeaways

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

Analytic Approach

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

We define ESG credit factors as ESG risks, or opportunities, that influence an obligor's capacity and willingness to meet its financial commitments. This influence could be reflected through a change in the size and relative stability of the obligor's current or projected revenue base, its operating requirements, the emerging risks it is exposed to, its earnings, cash flows or liquidity, or the size and maturity of future financial obligations.

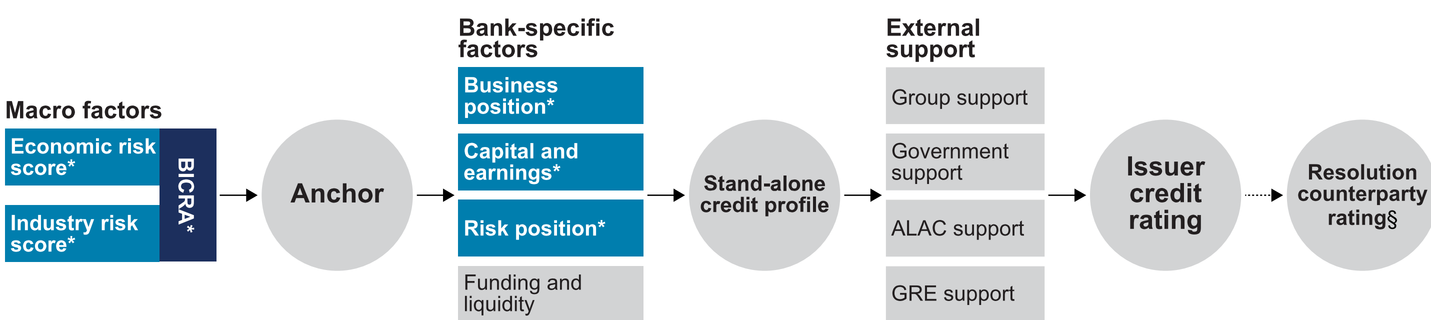
This report explores how ESG credit factors influence the credit quality of 52 banks in Europe the Middle East, and Africa (EMEA), among the largest in the region, including how and why ESG factors may have had a more positive or negative influence on an entity's credit quality compared to sector peers or the broader sector. These comparative views of environmental and social risks are qualitative and established by analysts during industry portfolio discussions, with the goal of providing more insight and transparency.

For seven of these 52 reviewed banks (or 14%), one or more of these ESG credit factors directly influences credit quality. More specifically, at four of these seven banks, ESG factors influence credit quality more negatively than peers. We recognize ESG is becoming central in most banks' strategies and topics like climate-change, treating customers fairly, ensuring proper governance and transparency rank high in board's agendas, likely more than a decade ago. We also recognize that embedding ESG considerations in business settings or risk frameworks is a complex task, which takes time, especially the way banks are looking to support the transition to a carbon-neutral economy. Although banks have started those efforts for some time, they are gaining traction right now. In parallel, there is increasing interest, but also demand for transparency, from investors, regulators, and the society as a whole about what large banks do, commit to do, or are reluctant to do. Cases where environmental or social factors that positively influence banks' credit quality are still rare, because we need to put the new initiatives in the context of total exposures and these credit benefits may take time to crystallize.

Unsurprisingly, we have more cases where ESG factors influence credit quality more negatively than positively. Large banks have faced, to varying degrees, a significant number of governance-related controversies over the past decade, especially in the aftermath of the great financial crisis but also more recently with potentially large-scale money laundering cases. Large banks, of course, form the vast majority of the 52 banks reviewed in this report. Those controversies include large fines and other litigation risks due to retail conduct issues or other types of inappropriate behaviour, or inappropriate governance with insufficient control framework (including compliance) or knowledge of risks. Despite changes since the financial crisis, banks remain structurally exposed to a large number of legal, reputational, and operational risks, some longstanding and others emerging. These governance, and social, risks weigh on the credit quality more negatively than peers' when they are recent, or still pending, and they have affected, or continue to affect, the earnings or risk profile and the business model (via large-scale restructuring or franchise-related risks).

In our analysis of operating conditions in a given country, we recognize that banks are also exposed to those risks in a systemic way. Weak governance standards could be a systemwide issue affecting a country, and its banks, for instance. For the most part, these systemwide considerations are incorporated in our Banking Industry Country Risk Assessment analysis (our country-specific analysis of the systemic risks a bank is exposed to, depending on where it operates) in addition to entity-specific ones (see chart).

Bank Criteria Framework



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

Environmental Risk

Banks are primarily exposed to environmental and climate risks via their lending and securities portfolios, due to physical and transition risks. Transitioning to a low-carbon economy entails a large set of evolving environmental legislations, norms, and innovations; or changing customer preferences. The EU already announced ambitious objectives for renewables to account for at least 32% in final energy consumption by 2030 and a net-zero carbon target by 2050. Substantial industrial and consumer adjustments will be needed to achieve a 2-degree Celsius scenario. Banks and their clients have to embrace these objectives, or otherwise be exposed to credit, market, operational or liability risks, or simply be disrupted. At this stage, these factors are less directly credit relevant for banks, but the pace of change is rapid.

More and more banks are committing to restrict, or in some cases stop, lending to the most carbon-intensive sectors (such as thermal coal, artic drilling and tar sands, but not only). Some commitments are long-term ones, tough. Banks also put a lot of emphasis of new commitments to "greener" counterparties, or sectors. While this could ultimately benefit the competitive position, earnings profiles, and investor sentiment via-à-vis such banks, we have yet to observe any tangible evidence of how a bank's sustainable investment and underwriting approach might translate to reduced earnings and capital volatility, translate to improved diversification, or even become a differentiator in a competitive market, ultimately benefiting its credit quality.

Energy transition risk is not specific to banks with corporate or investment banking activities. Assets banks use as collateral, such as properties in the case of mortgage loans, are also at risk of devaluation due to the risk associated with policy transition (evolving isolation, or heating, norms for instance) and rising risks of extreme weather events (such as flooding and water scarcity). While it is unclear when policy action might trigger revaluations, the longer the period of inaction, the more severe the response and therefore the impact will be. Nevertheless, the bank industry as a whole exhibits a manageable exposure to this transition risk, due to well-diversified corporate and retail portfolios especially for large players.

Social Risk

Conduct risk presents a direct social exposure for banks, particularly as regulators are increasingly focused on ensuring that banks are treating customers, predominantly retail ones, fairly and providing value in the financial advice they are giving. Banks face social challenges, including how to avoid reputational or regulatory risks in retail activities, at the time when their commercial practices are under heightened scrutiny in many countries and rising expectations from the population and regulators. Banks need also to carefully manage a transition to a workforce that has a different skill-set than before, and also, being essentially a human capital business model, adapt to the expectations of workers in the new economy. As well, banks are susceptible to data privacy and security–IT breaches, a serious and common threat to the data-intensive industry.

Governance

We also form a view of their governance, which is an important component of our assessment of the quality of management and strategy. We look at a number of factors, including the risk appetite and strategy's stability, the quality of the management team, of the board and the nature of their relationship, the incidence of governance-related controversies and track record of regulatory, tax or legal infractions, the quality of the corporate governance, and the quality and transparency of communication. Some of those issues are systemic and affect the whole industry in a given country. Out of the three factors, governance is by far--and unsurprisingly--the one that influences bank credit quality the most, and most often negatively.

ESG Risks/Opportunities In Financial Institutions

ESG Issuer Review: EMEA Banks

Issuer/Rating/Comments	Country	Analyst
ABN AMRO Bank N.V. (A/Stable/A-1) We see exposure to ESG risks/opportunities for ABN AMRO to be broadly in line with those of domestic and industry peers. There is increased regulatory scrutiny in the Netherlands on anti-money laundering (AML) and know-your-customers requirements. The bank announced in September 2019 that it is under investigation by the Dutch public prosecutor relating to requirements under the Dutch act on the prevention of money laundering and financing of terrorism. The investigation follows the announcement in August 2019 that the Dutch Central Bank wants ABN AMRO to review all its retail clients and that sanctions, such as an instruction, fines, may be imposed by the authorities. It is performing a thorough review of its retail client base to check that its risk profile is properly assessed. Our base-case scenario assumes that any financial penalty would be manageable, because ABN AMRO has good profitability and capital. However, any recurrence of these conduct issues could indicate some weaknesses in governance and create reputational risks for the franchise, ultimately exerting downward pressure on the ratings. The bank's corporate loan book features some concentrations in sectors such as energy (including oil and gas), transportation, and logistics that are exposed to transition risks. We will monitor how ABN AMRO manages the gradual reduction of the most carbon-intensive part of its portfolio, but consider it is actively working to limit the risks.	**Netherlands (BICRA: 3)**	**Hardy, Nicolas**
Abu Dhabi Commercial Bank PJSC (ADCB) (A/Stable/A-1) We believe that ESG factors for ADCB are broadly in line with its industry and domestic peers. The Abu Dhabi government holds a 60.2% stake in ADCB and has a significant interest in, and business relationship with, the bank. The emirate appoints the majority of the bank's board of directors. The government therefore has a strong influence on ADCB's strategy. In its governance disclosures, the bank sets out its criteria for board member independence, and we believe the governance framework is well-advanced, which we view as positive in this ownership context. Even if UAE's political institutions are still developing and decision-making processes remain centralized, with some weaknesses in transparency, we believe it has not been detrimental to the bank's strategic choices or sound business development. High carbon-emitting industries constitute a significant portion of the UAE's economy and the majority for Abu Dhabi. While we estimate that ADCB has relatively limited direct lending to sectors exposed to energy transition risk, the indirect exposure (via the overall dependence of the UAE economy on hydrocarbons) is higher. We view environmental legislation and norms as less stringent in the UAE than in some European countries or the U.S., which is understandable in an oil-rich economy. Therefore, local firms are under less time pressure to adjust to changing global energy demands and, by implication, local banks will likely have more time to reduce their exposure to fossil-fuel-related industries. We consider bank regulation in the UAE less focused on consumer protection than in Europe or the U.S., meaning that the bank is less exposed to misselling penalties or other retail conduct risks.	**United Arab Emirates (UAE) (BICRA: 5)**	**Young, Benjamin**
AIB Group PLC* (BBB+/Stable/A-2) We see ESG factors for AIB as broadly in line with those of the industry and domestic peers. Social factors are important in our credit analysis due to changing customer preferences and increased regulatory focus on banks' business conduct. The Irish regulator pays increasing attention to consumer protection issues, probably more than in countries which did not experience such a large banking crisis a decade ago. This gives birth to higher potential risks of conduct-related costs for Irish banks, including AIB. The "Tracker Mortgage Examination" performed by the Central Bank of Ireland has worked to ensure that customers affected by the mistreatment by Irish banks are paid appropriate redress and compensation. Irish banks--and AIB in particular--are still facing the costs arising from the examination. On Feb. 4, 2020, AIB announced an additional €300 million provision, nearly half of the bank's annual net income, to face redress and compensation costs in relation to this issue. This is in addition to the €307 million already provisioned from 2015 to June 2019.The enforcement phase is ongoing and final costs for AIB are uncertain. We believe the financial impact to be largely absorbable, though. The Irish government-imposed cap on senior management remuneration is believed to be one of the factors leading to the departure of some previous AIB top managers, because the bank is still partly government-owned. While we see those changes as credit neutral, we note AIB's strategy, senior management continuity and growth plans have to consider this ownership structure, and its consequences. It also acts as an incentive for the bank to keep a prudent approach to risks and controls. Finally, we believe that AIB has manageable exposure to environmental and climate-change risk, but it also faces transition risk. Compared with large international corporate-focused banks, AIB's structural exposure to high carbon intensive industries is modest.	**Ireland (BICRA: 4)**	**Conversano, Letizia**
JSC Alfa Bank (BB+/Stable/B) We believe ESG factors, more specifically governance, are having a more positive influence on Alfa Bank's credit quality than on its	**Russia (BICRA: 8)**	**Velieva, Irina**

Russian peers, although we assess governance and transparency in the Russian banking sector as relatively weak by global standards. This is one of the reasons behind our strong assessment of the bank's business position, despite its relatively small size vs. large state-owned banks. Alfa bank is privately owned, which insulates it more from state interference. We also note its consistent and reasonable strategy, led by an experienced management team. We believe the bank's balanced approach to risk taking has led it to navigate more successfully than peers through several crises in its core markets, especially in Russia. At the same time, we recognize that the group's legal structure is complex, with several holdings within the shareholding structure. The Alfa Group, led by prominent Russian businessman Mikhail Friedman and several others, is the ultimate owner of the bank. The group is not involved in the day-to-day management of the bank and we do not see unusual links between Alfa Bank and the other beneficiaries' businesses. Bank regulation in Russia focuses less on consumer protection as it may in Western Europe. Therefore, Alfa Bank appears less exposed to retail misselling or conduct risks compared with its EMEA counterparts. As with any large bank in Russia, Alfa Bank has exposure to the oil and gas and metals and mining sectors. This mirrors the structure of the Russian economy and the sectors where the largest and most creditworthy borrowers operate. Alfa Bank will not escape global trends in terms of energy transition and will likely have to gradually reduce concentrations to the most carbon-intensive industries, although we do not expect to see it in the near-to-medium term. We will observe how Amsterdam Trade Bank, the majority-owned Dutch subsidiary of Alfa Bank (72.7%) active in trade and commodities, will adjust its business model and manage the evolving environmental regulations in Western Europe, which are changing faster than in Russia.

Banco Bilbao Vizcaya Argentaria S.A. (BBVA) (A-/Negative/A-2)	**Spain (BICRA: 4)**	**Rizzo, Antonio**

We believe BBVA's credit quality could be sensitive to governance risk. Social and environmental credit factors are in line with those of industry peers. Some questions around the soundness and effectiveness of the bank's corporate governance emerged recently, as the bank is embroiled in an alleged corporate spying scandal, which the Spanish courts are investigating. Authorities are trying to assess whether Grupo Cenyt conducted illegal wiretapping on behalf of BBVA, targeting a number of senior company executives and politicians. The alleged misconduct happened under the administration of the former chairman, who stepped down after 18 years of service in 2018 and, since then, we acknowledge that management has carried out various initiatives and improvements to the bank's governance. Although there has been no tangible impact so far on the financial profile of the bank and its franchise, the investigations and potential consequences are one of the reasons behind our negative outlook on the bank. BBVA has a large presence in some countries or regions of the globe, like Turkey or Latin America, with weaker governance standards than in Spain, which forces the group to maintain high vigilance in terms of underwriting and know-your-customer practices, which it has done efficiently so far. Social factors are gaining importance, particularly in Spain where consumer activism increased notably since the financial crisis. As most other domestic players, BBVA had to take on the cost of withdrawing interest rate floor clauses from retail mortgages. We believe that litigation risk is here to stay. Eventually, greater customer protection will likely extend to other countries where BBVA operates, such as Mexico. The bank's exposure to environmental risk factors is mostly indirect, through its lending and investing activities. The challenges posed by the energy transition are no different from those of other international banks. Exposure to industries more sensitive to environmental risks, like fossil fuels, utilities, oil and gas, and carbon mining stands at about 4% of the group's assets. In the U.S., the bank has a higher presence in Texas, so is vulnerable to a weaker oil sector, despite its overall direct exposure being limited. BBVA has an advanced framework related to incorporating climate risk in strategy, with a 68% target reduction of direct CO_2 emissions by 2025 and an extensive exclusion lists of sectors it plans to stop financing, which is ambitious compared to many other European peers.

Banco Comercial Portugues S.A. (BCP) (BB/Positive/B)	**Portugal (BICRA: 6)**	**Gonzalez, Lucia**

ESG credit factors do not influence BCP's credit quality differently from its industry and local peers. Even if we do not see this as credit-weakness, we note that, unlike most domestic peers, the bank's board of directors does not have a majority of independent members, and its size is higher than average (17). Its two largest shareholders (the Chinese conglomerate Fosun, controlling 27.2%; and the Angolan-petroleum and natural gas company Sonangol, controlling 19.5%) may have different interests, but we do not believe this has been so far detrimental to the bank's development, strategy, and notably the priority given to the reduction of problematic exposures. The share of retail clients in the bank's ownership structure is high and there are voting caps for shareholders holding more than 30% of votes, although currently no shareholder reaches the limit. Management has strengthened risk oversight, and has a clear focus on reducing the high stock of nonperforming exposures accumulated during the crisis. BCP also has a limited presence in Mozambique and Angola, countries with weaker governance standards than Portugal. We will continue to monitor any potential reputational issues emerging from these countries, which could come from nonfinancial risks like deficiencies in underwriting or compliance and know-your-customer practices. This has not been the case so far. The bank is exposed to litigation and reputational risks, such as those related to its foreign currency-denominated retail mortgage loans in Poland, where it owns a 50% stake in Bank Millennium. We believe ensuing financial risks, if any, are manageable in the group's context.

Banco de Sabadell S.A. (BBB/Stable/A-2)	**Spain (BICRA: 4)**	**Fernandez, Miriam**

We see exposure to ESG risks and opportunities for Sabadell as broadly in line with those of the industry and Spanish peers. The bank's well-balanced board composition, with 60% of its members being independent, is an element of adequate governance. Despite its stable and experienced top management and a proven track record of integrating domestic acquisitions, the difficulties faced by TSB Bank, its U.K. subsidiary, have revealed the complexity of managing the migration and integration of different IT systems in different countries. High managerial turnover at TSB, coupled with litigation and reputational risks related to addressing over 150,000 customer complaints, also pose some risks for TSB from a social standpoint. We will continue to monitor the financial impact of these events, but believe at this stage that it will be manageable for the group, especially due to the sound performance but also strong customer franchise of the Spanish operations. In Spain, amid increasing customer litigation activism, Sabadell, similar to other players, incurred in some costs of withdrawing interest rate floor clauses from retail mortgages. We expect the impact on Sabadell to be manageable from a financial and franchise point of view and note that its lending mix, skewed toward corporates and SMEs, somewhat protects the bank from customer activism. We also note that the bank is more exposed than other domestic peers to Catalonia, where it has 20% of its loan book. We do not see as a credit weakness, but will monitor more closely the impact of regional exposures if political tensions further escalated. Environmental risks do not significantly affect our ratings on Sabadell, which is exposed to transition risks in its lending and investing activities, like peers.

Banco Santander S.A. (A/Stable/A-1)	**Spain (BICRA: 4)**	**Iparraguire, Elena**

We see ESG credit factors for Santander as broadly in line with those of industry and domestic peers. Santander's governance, control standards, and transparency are high, which is very much needed given that its presence in several countries exposes the group to diverse risks. In recent years, it has been under the regulatory scrutiny of the U.S. authorities and was required to make meaningful adjustments to its risk management in the country. Major issues have now being addressed. The bank also has large exposure to markets like in Latin America, where governance practices may be weaker than in Spain, Santander's domestic market, and therefore requires constant monitoring. So far, the bank has managed those risks well. For instance, the bank was not affected by the ramifications of the "Lava Jato" corruption scandal in Brazil. Santander's board of directors is diverse, is fairly international, and includes several independent members. The representation of the Botin family, founder of the bank, looks high compared with the economic interest the family holds. Of the two seats the family holds, however, one belongs to Ana Botin in her role of executive chairman. Recently, the decision making process at the board level has raised questions from stakeholders. In particular, when the board announced a new CEO, to only reconsider it three months later, suggesting that the decision was perhaps premature. Social factors are increasingly relevant for a retail-focused bank like Santander. However, the bank has experienced less clients' claims or conduct issues than several other global banks in the past decade. It was not affected by Spanish customers' claims on mortgage interest rate floors and the bank managed to proactively reduce the risk of claims in other instances (arranging solutions to private banking clients affected by Bernie Madoff's case or to retail clients of Popular who lost their investment when the bank was resolved). In the U.K., misconduct originated from the bank that Santander acquired before the financial crisis. Environmental factors do not overly affect the bank's credit quality, and related risks are very much in line with those faced by peers. Of note, Santander is a large provider of auto loans (15% of the group's loan exposure), so its business prospects could be indirectly affected by the business and financial challenges faced by the auto industry. If consumer preferences change substantially, favouring renting over ownership, the bank could be challenged to adapt its product offer.

Bank of Ireland Group PLC* (BoI) (A-/Stable/A-2)	**Ireland (BICRA: 4)**	**Turdyeva, Anastasia**

We believe ESG credit factors are weighing on BoI's credit quality the same as for the industry and Irish peers. Social factors are important due to changing customer preferences and increased regulatory focus on banks' business conduct and consumer protection, especially in Ireland, which suffered a severe banking crisis a decade ago. Misconduct or misselling issues are particularly relevant given that BoI has the largest domestic retail franchise. A "Tracker Mortgage Examination" performed by Central Bank of Ireland (CBI) has worked to ensure that customers affected by the mistreatment from Irish banks receive appropriate redress. In the first half of 2019, the bank booked an extra €55 million charge associated with customer redress. The enforcement phase is ongoing with uncertainties on the final cost for BoI, but we expect it to remain manageable. The bank's governance standards are consistent with industry norms in Ireland. There is a government-imposed cap on senior management remuneration in Ireland, which is rare in Europe. We understand it is one of the reason of the departure of some top managers at some Irish banks. BoI has a relatively stable senior management team and consistent strategy, however, and exhibits disciplined execution and operational control.

Bankia S.A (BBB/Stable/A-2)	**Spain (BICRA: 4)**	**Gonzalez, Lucia**

We view exposure to ESG risks and opportunities for Bankia as broadly in line with those of the industry and Spanish peers. Management has largely rebuilt the bank's franchise and financial strength, both of which were hurt by its severe financial difficulties earlier in the decade and its subsequent nationalization. Like several banks in Europe and the U.S., Bankia has not been immune from governance problems. Its former CEO and several other directors and executives were accused of fraudulent activities by Spain's High Court. Some have received jail terms. We believe these episodes are largely over, because the whole board and management team was renewed in 2012, and therefore no longer affect Bankia's creditworthiness. Its governance and risk controls are now in line with the domestic peers. Although ultimately majority-owned by the Spanish government, the bank has always been managed independently. With its large retail franchise, Bankia is exposed to conduct risks. Some legacy events and legal cases have financially and reputationally affected the bank in the recent past, such as the missale to retail customers of preference shares and subordinated debt, as well as equity shares at the time of the bank's IPO, and the inclusion of interest rate floors in some of its mortgages. Overall, we believe those cases reflect increasing consumer awareness and activism, but we do not consider Bankia to be more exposed to those risks than domestic peers' from a credit perspective. We believe the bank's exposure to environmental risk, essentially transition risks in the lending and investing activities, is manageable and in line with industry peers.

BankMuscat S.A.O.G. (BB/Negative/B)	**Oman (BICRA: 6)**	**Tuli, Puneet**

We view ESG credit factors for BankMuscat as broadly in line with those of industry and domestic peers. The Omani government directly and indirectly owns about 50% of the bank, which helps BankMuscat maintain key account relationships with the government and state enterprises. The stable management team, execution capabilities, and sound governance framework are reflected in our favorable view of BankMuscat's business position. Solid risk management has also supported the bank's asset quality, even in a weaker economic environment. In the past few years, BankMuscat has not been involved in any material reputational controversies, has not experienced any incident related to noncompliance with laws and regulations, and has not been subject to any material legal or regulatory fines or settlements. Despite being the flagship bank of a large oil-producing country, we understand that BankMuscat's direct lending to sectors exposed to energy transition risk is limited (at about 12.5% of total lending). However, the indirect exposure through the potential impact of carbon transition on the Omani economy is higher. Typical in oil-rich countries, environmental legislation and norms are less stringent for corporates than in Europe or the U.S., giving them, and by implication the banks, more time to prepare for energy transition and the gradual move away from fossil energy sources. Social risks are not materially different from those of its industry peers. Omani society is relatively cohesive, but the regional environment is turbulent. Omani banks are not totally immune from the tensions in the Middle East. Aligned with the country's 2020 vision and as part of its corporate social responsibility, BankMuscat is committed to the hiring and advancement of Omani nationals. The bank maintained an overall Omanization ratio of approximately 95% across its organization in 2019.

Barclays PLC* (A/Stable/A-1)	**United Kingdom (BICRA: 3)**	**Barnes, Richard**

Overall, we see ESG credit factors for Barclays as broadly in line with those of the industry, including U.K peers. Over the past several years, we have observed several examples of conduct weaknesses among U.K. banks, including Barclays, and an increased propensity by customers to complain. The payment protection insurance (PPI) episode demonstrated how damaging retail misselling cases can be, although we believe 2019 was the last year of significant cost. Barclays has recognized £11 billion of cumulative PPI provisions to date, the second-highest among U.K. banks. U.K. conduct regulation focuses more than in other European countries on consumer protection, which structurally exposes banks to complaints and legal actions. Like many global banks, Barclays has faced a host of litigation issues over the past decade. All were absorbable from a pure financial point of view, largely at the expense of larger shareholder distributions. We consider that successive bank management teams have changed business practices and today we believe that both the management and awareness of conduct risk are firmly embedded into the organization. In our view, there are no litigation cases outstanding that could materially weigh on the bank's credit quality. As a major corporate and investment bank, Barclays is typically exposed as a lender, investor, or advisor to sectors exposed to environmental risks and changing regulation or norms (for example oil and gas, metals and mining, automobile, and chemical sectors). We see evidence of environmental risk being treated increasingly as a mainstream credit risk factor, and a gradual reduction in related exposures, such as those on thermal coal, is underway. Still, transition risks in the lending portfolio remains important in the medium term.

Belfius Bank SA/NV (A-/Stable/A-2)	**Belgium (BICRA: 2)**	**Raposo, Philippe**

We see ESG credits factors for Belfius as broadly in line with its industry and country peers. The bank has been government-owned since the aftermath of the great financial crisis but operates in a very similar way to privately owned banks. It is the largest lender to the public sector in Belgium and a leading retail bank. The legacy issues inherited from the collapse of the former Dexia weighed on the bank's credit quality, notably on its risk profile and earnings, until recently. Although most of the related and credit-relevant issues have been solved, the Arco legal case (from the name of the Belgian cooperative holding that was a shareholder of Dexia before its collapse) in which Belfius is indirectly involved, is still open. Contrary to the U.K., Nordic countries, and the Netherlands, conduct and compliance issues related to retail clients, like misselling or suspicion of money laundering, have not surfaced so far in Belgium. However, because the country's economy is very open, and the bank is fully integrated in international capital flows, it is an area of constant credit focus. As a primarily retail bank, the bank has modest exposure to sectors with high carbon intensity, but is exposed to challenges posed by the energy transition and carbon footprint in its lending portfolio.

BNP Paribas SA (BNPP) (A+/Stable/A-1)	**France (BICRA: 3)**	**Moneger, François**

We view ESG credit factors for BNPP as broadly in line with industry and domestic peers. We believe that the group's risk, governance, and oversight framework is fully set to comply with the wide regulatory coverage, and address the complex legal and litigation risks in many businesses and countries that a universal banking group like BNPP has to face. We believe this oversight abilities minimize, but does not eliminate, the risk of being caught up in money laundering scandals or violating rules applicable in certain countries. We see these risks as inherent to its diversified and international business profile. BNPP's framework has, in our view, materially improved as the bank strengthened its practices and controls following the €7 billion fine it paid in 2014 to the U.S authorities. No significant misselling issues with BNPP's retail clientele have yet surfaced, because we believe that the group has strong operational expertise and knows well how to engage customers in all business segments. Also, we believe that the consumer protection agenda is less burdensome in France, Belgium, or Italy--the group' main domestic markets--than in some peer countries such as the U.K, or Ireland. As with other French banks, the gradual-but-inevitable reduction of BNPP's sizable branch network is a strategic challenge that has a social aspect that must be managed. BNPP's commitments are relatively advanced compared with other large international banks, and consistently BNPP has set financing exclusions of certain sectors and companies that do not meet its objectives as regards environmental and social risks. We see BNPP's sensitivity to environmental risks as typical for such a globally diversified group, with large corporate banking and commodities finance franchises. It is exposed to energy transition risks, via its lending and investing portfolio, but also via its role as advisor, book-runner, or structurer of deals involving stakeholders with high greenhouse gas (GHG) emissions. In addition, several business lines will have to adjust to evolving environmental norms. These include insurance, car leasing, commodity financing and shipping. In addition, the asset management business segment follows environmental-specific rules of reporting.

BPCE SA (A+/Stable/A-1)	**France (BICRA: 3)**	**Dalmaz, Sylvie**

We see ESG credit factors for BPCE as broadly in line with its industry and country peers. As a cooperative bank focused on retail and small business clients, social and societal considerations are important in strategic settings. BPCE typically has a prudent risk culture and low risk appetite. The stability of earnings and sustainability are higher priorities for the group than absolute returns. BPCE is the second-largest player in French retail banking and has a significant presence in the housing market, which is partially skewed toward social financing. The bank was a precursor in issuing social/health care bonds in 2017. Significant misselling issues with the retail clientele have not surfaced so far in France, but it is a risk that banks are increasingly vigilant against. Typical of a cooperative group, the decision-making process is decentralized at BPCE, and governance practices are expected to be aligned at all levels. The recent difficulties at its affiliate H2O demonstrate the challenge of running a multi-affiliate model in asset management, less integrated than peers. Natixis, the group's wholesale banking arm, is a lender to large corporates and runs banking activities that entail lending to or investing in some carbon-intensive sectors, although its exposure is less than the larger corporate and investment houses. Environmental risks and transition to a greener economy are challenges for Natixis, but also for BPCE in the housing space. We believe the group is increasingly equipped to analyze these risks. For example, Natixis recently rolled out its innovative "green weighting factor" that enables it to allocate capital to deals based on their climate impact. Environmental considerations are well embedded in decision making.

Caisse Centrale du Credit Mutuel (Credit Mutuel Group) (A/Stable/A-1)	**France (BICRA: 3)**	**Malaterre, Nicolas**

We do not believe ESG credit factors are having more or less influence on the group's credit quality than on industry or domestic peers. Social factors are important due to changing customer preferences and increased regulatory focus on banks' business conduct, including how they treat customers. This is an area of particular attention for the group, especially in its consumer finance business, which caters to a typically more fragile clientele, and in the management of its large branch network. Digitalization and changing customer preferences are key risks for all banks. Building on strict rules in terms of IT security and privacy, the bank uses private cloud networks located in France, with back-ups in Germany. The group displays a highly decentralized organizational model. Its local cooperative banks are credit institutions whose equity capital is held by members who are also customers. These entrenched local roots support the group's focus on sustainability and its leading position within retail and SME clients. The intragroup tensions between Crédit Mutuel Arkéa (the second-largest grouping of regional federations, representing about 15% of Crédit Mutuel's total assets) and the group's central governance body (Confédération National du Crédit Mutuel) are unusual in large banking groups. So far, it has not weighed on the group's operational effectiveness or financial performance, which is why we do not yet consider these tensions credit-relevant. From an environmental standpoint, the group could be vulnerable to evolving norms and legislations that may affect the credit quality of its loan exposures and securities investments (including in insurance). The group has set financing exclusions on certain sectors and companies that could have a negative impact on humans or the environment. Given its relatively small portfolio of large corporates, transition risks to a greener economy affecting its portfolio are manageable.

CaixaBank S.A. (BBB+/Stable/A-2)	**Spain (BICRA: 4)**	**Rizzo, Antonio**

We believe ESG credit factors are influencing the group's credit quality similarly to its industry and domestic peers. Due to its previous savings bank status, CaixaBank has an atypical ownership structure, with a holding company (CriteriaCaixa) owning a minority stake (40%) in the bank, while the holding is itself fully owned by a banking foundation (la Caixa). Unlike other savings banks in Spain, the bank did not face any governance issues during the financial crisis. Moreover, the corporate governance further strengthened and became leaner in 2017 when the bank was prudentially deconsolidated from the rest of the la Caixa group, leading to negligible intragroup exposures and a reduction of board member representatives. CaixaBank, through its Portuguese subsidiary BPI, has minority stakes in two financial institutions in Angola and Mozambique. Although no material issues have surfaced so far, this requires vigilance due to the bank's lack of managerial control over the underwriting and business practices of those entities. CaixaBank is also more exposed than domestic peers to potential consequences from political tensions in Catalonia, where it originates about 20% of its loan book. For now, it is not a rating weakness in our view, but it could become a credit issue if political tensions escalate and the local economy suffers. Amid mounting customers' activism in relation to mortgage-related claims, the bank's larger-than-domestic peers portfolio of IRPH-linked mortgages (€6.4 billion as of June 2019 or 3% of its domestic loan book) has been recently a source of controversies. We believe the financial and reputational impacts are manageable, however. In 2019, CaixaBank's owner-foundation disbursed €545 million for social projects, the largest amount of any other Spanish private foundations. We believe this is a differentiating and recognized feature in the Spanish market as the strong social commitment in turn reinforces the bank's franchise. CaixaBank is exposed to transition risks in its retail and corporate loans portfolios, but not differently from most peers, in our view.

Commerzbank AG (A-/Negative/A-2)	**Germany (BICRA: 2)**	**Semder, Harm**

We see ESG credit factors for Commerzbank to be broadly in line with those of industry peers and other German peers. The bank's governance standards, risk management, and risk appetite have steadily improved in recent years as part of its ongoing multiyear restructuring measures and its largely finalized significant reduction of nonstrategic and high-risk portfolios. Commerzbank has yet to demonstrate its capacity to improve profitability closer to European peers' average. We believe substantial restructuring progress has potentially been key for the bank not being at the top line of the observed numerous large-scale examples of conduct weaknesses among the major banks in recent years. Social and environmental factors are for Commerzbank are in line with those of peers. Contrary to the U.K, we have not observed so far in Germany large-scale retail misselling cases. The most important social factors are the changing customer preferences and increased regulatory focus on banks' business conduct (whether consumer, market, or financial crime). The digital era presents opportunity for banks to adjust their cost bases, but they must also respond to rapidly changing customer preferences and offer robust operational resilience, notably with respect to data privacy. We take into account that Commerzbank's identified digitalization some years back as one of its crucial success factors, and we note its announced newly "Commerzbank 5.0" strategy including €750 million additional IT investments in third-quarter 2019 to spur digitization. Like peers with substantial corporate exposures, the bank could be gradually exposed to the related deterioration in the quality of its loan exposures or securities investments. It will have to adjust its exposures to the energy transition, notably its energy, auto, and shipping portfolio, but we do not believe that Commerzbank is overexposed to those risks.

Coöperatieve Rabobank U.A. (A+/Stable/A-1)	**Netherlands (BICRA: 3)**	**Hardy, Nicolas**

We see ESG credit factors as broadly in line with those of peers, notably its two direct Dutch competitors, ABN AMRO and ING. Environmental factors, including climate change but also evolving regulations and norms, are relevant for our credit analysis of Rabobank because it has a meaningful exposure to the food and agriculture sector, domestically and internationally (€38 billion and €68 billion, respectively, at mid-year 2019). The food and agriculture business is well diversified by type and geography but it represents about one-third of the bank's defaulted credit exposures, among the highest defaulted loans ratio. We believe climate change might pose an equal challenge, and opportunity, for a bank actively involved in this sector. Therefore, the balance between risks and opportunities causes us to assess as neutral the impact of environmental factors on Rabobank's credit quality. Social and governance factors are also credit-relevant as they both could affect the bank's reputation, particularly given its cooperative status and deep local entrenchment in the retail and small and midsize enterprise sectors. The bank suffered from various misconduct cases in the past decade resulting in litigation costs, but none of these was material in isolation, compared with Rabobank's size and earnings. In February 2018, Rabobank announced that its California-based subsidiary RNA entered agreements with U.S. authorities, concluding previously reported investigations involving the Bank Secrecy Act, anti-money-laundering compliance program deficiencies, and related conduct by certain former employees before 2014. Rabobank has taken steps to strengthen its compliance, risk management, and controls. Rabobank sold RNA in August 2019. We consider, like for peers, that any recurrence of these issues could become credit-relevant, bringing into question the robustness of the risk and control framework.

Credit Agricole S.A. (A+/Stable/A-1)	**France (BICRA: 3)**	**Malaterre, Nicolas**

We believe ESG credit factors are influencing Groupe Credit Agricole's (GCA) credit quality similarly to industry or domestic peers. Environmental, social, and societal issues have been integrated into its new 2022 group strategic project. Social factors are important due to changing customer preferences and increased regulatory focus on banks' business conduct, including how they treat customers. In our view, know-your-customer checks, anti-money-laundering controls, product design, and sales processes are particularly relevant given GCA's large franchise in asset-gathering, consumer finance and insurance, and cross-selling efforts. But we believe the group's processes and controls framework are robust on the credit and operational side. Optimizing the size of a large physical branch network, while adapting to digital transition, entails social factors for banks with a large workforce like GCA. The group's existing cost efficiency supports a smooth transformation over time. Governance factors are an important credit factor and remain a priority for the management team, given the group's decentralized nature. The group's local cooperative banks are credit institutions whose equity capital is held by members who are also customers. This entrenched local roots supports the group's focus on sustainability and its leading position within retail and small and midsize clients. GCA's corporate banking business is by nature exposed to sectors that conceal some environmental risks, especially those related to energy transition, although less than the larger corporate and investment houses. The group has a leading position in placing green, social, and sustainability bonds. Its financing choices integrate restrictive policies on sectors with the greatest negative potential. One of the challenges relates to the carbon footprint of its housing loans portfolio and its capacity to increase the amount of properties with efficient isolation features, giving its prominent lender position in France.

Credit Suisse AG* (A+/Stable/A-1)	**Switzerland (BICRA: 2)**	**Ackermann, Bernd**

Overall, we see ESG credit factors for Credit Suisse as broadly in line with industry and country peers. Social factors are important due to changing customer expectations and increased regulatory focus on banks' business conduct. In our view, conduct and compliance risks are particularly relevant for Credit Suisse given its large international asset-gathering and investment bank businesses. Know-your-customer checks, anti-money-laundering controls, product design, and sales processes are important safeguards. Failings in these areas can lead to material adverse financial and reputational consequences. Credit Suisse has invested materially into the strengthening of its compliance function since the end of 2015. We think the bank is now well advanced in its compliance tools and policies, particularly concerning data intelligence. Separately, Credit Suisse is subject to a wide range of pending litigation matters, mainly related to transactions from before the financial crisis. None of them represents a material financial or franchise risk, however. We believe that management has demonstrated a sound ability to execute on its operational plans of enhancing earnings sustainably while reducing its risk profile, since changes to the executive board in late 2015. That said, structural governance risk remains in large and complex organizations and could cause reputational damage. The recent departures of executive board members, including the group's CEO, relating to observation allegations, and tensions between some shareholders and the group's chairman, are certainly not positive for the group. We believe Credit Suisse's franchise is solid enough to likely withstand those developments, although we also believe there is a rising risk that credit quality could be more sensitive to this governance risk. Nevertheless, internal and external investigations (with the help of a corporate law firm) did not find any indication that members of the executive board (except the former COO) or board of directors had any knowledge of the surveillance activity. We see environmental risks as less likely to affect the bank's credit quality. Credit Suisse's wealth management clients might increasingly consider such factors in their investment decisions. The main risk for the bank is transition risk in its lending portfolio, as like any large corporate and investment bank, it is exposed to sectors or industries, which will have to adjust to the transition to low carbon economy. It incorporates climate change and environmental factors in its risk management practices and has tightened its respective policies on some sensitive industries in recent years.

Danske Bank A/S (A/Stable/A-1) | **Denmark (BICRA: 3)** | **Hellsing Pierre-Brice**

Governance factors are currently weighing more negatively on Danske Bank's credit quality than for Danish peers. Social and environmental credit factors are in line with those of industry peers. When analysing the bank's risk profile, we account for historical failures in Danske Bank's risk management and controls that were highlighted by its alleged money laundering case in Estonia. These shortcomings could have an elevated financial and reputational impact on the bank. Danske Bank is working actively to address the identified shortcomings, for instance by quadrupling the number of employees working to combat financial crime since 2015, but it remains too early to assess the effectiveness of its actions. Our rating factors the uncertainties around the outcome, and the difficulty to estimate the final cost, as regulatory investigations are pending in several jurisdictions. Social factors are essential for Danske Bank as the largest Danish lender and an increasingly pan-Nordic institution. The bank was recently in the spotlight after it announced having overcharged customers having invested in its Flexinvest Fri product. This led to the departure of the bank's former interim CEO and the institution provided prompt compensation to the impacted customers. While we consider that the alleged money laundering case, and to a lesser extent the Flexinvest case, have negatively affected the bank’s image in society, impact on business flows have been relatively limited. We expect that the bank will maintain its flagship name in Denmark and its overall strong business position in the Nordics. Environmental factors are neutral to our ratings on the bank. Like many other commercial banks, Danske Bank needs to focus on transition risks emanating from its loan portfolio, essentially corporate, as it is exposed to some sectors like shipping or transportation, which are sensitive to environmental risks and vulnerable to evolving norms and legislations. Danske Bank has committed to set by 2023 at the latest a climate target for its corporate loan portfolio in line with the climate goals of the Paris Agreement, and we expect the bank to continue integrating ESG aspects in its underwriting and investment processes. Over the period, the bank also aims to more than double its sustainable financing activities to over DKK100 billion, including ESG-linked lending, or the arrangement of customers’ ESG-linked bond issuances, while reaching DKK100 billion of investments in sustainable assets.

Deutsche Bank AG (BBB+/Stable/A-2) | **Germany (BICRA: 2)** | **Edwards, Giles**

We believe ESG credit factors, notably governance, weigh on our assessment of Deutsche Bank's credit quality more than for its peers. Global banks have to deliver for all their stakeholders, chief among them their regulators, investors, clients, and staff. We see these parties' expectations as having risen, and banks such as Deutsche Bank have to react accordingly if they are to maintain their reputation, franchise, and competitiveness. Governance has periodically come under scrutiny at Deutsche Bank, even if it also happened to many other major global banking groups. It suffered significant turnover of senior executives over the past decade, repeated strategic changes, and costly rounds of restructuring, which it has still not finished today. As a result, governance factors are more credit-relevant for Deutsche Bank than for most peers. That said, management has been more stable and cohesive under the leadership of CEO Christian Sewing, and we see notable efforts and investments to shore up risks controls and culture that are now being acknowledged by regulators. On conduct, we observed numerous examples of weaknesses among the major banks as a fallout of the financial crisis, and Deutsche Bank was among the most affected. While they might relate to what are now historical episodes, Deutsche Bank's was also linked to some high-profile financial crime cases, including the Russian mirror trades, and the Danske Bank scandal in Estonia. Rightly or wrongly, the bank is still perceived as having a track record of being accident-prone, with controls that have only now moved into line with peers. Social and environmental factors are not materially different for Deutsche Bank as for peers. The most important social factors are changing customer preferences and increased regulatory focus on banks' business conduct. From an environmental standpoint, large corporate and investment banks are vulnerable to transition risks in their loan and securities portfolio. Deutsche Bank has a strong record on credit risk management but, like peers, will have to be forward-looking as it adjust its exposures in the face of energy transition.

DNB Bank ASA (AA-/Stable/A-1+) | **Norway (BICRA: 2)** | **Yalovskaya, Natalia**

We see ESG credit factors for DNB as broadly in line with those of the industry and domestic peers. Norway being an oil-producing country, DNB--as the flagship bank in the country--has to manage transition risks in its lending and securities portfolio. Even if the direct exposure to carbon-intensive industries, which include shipping, transportation, and oil and gas, is moderate, the indirect one is much larger as DNB provides financing to large number of small and medium size companies which are part of the oil and gas supply chain. The bank takes this issue seriously and has demonstrated commitment to managing environmental risks according to the best industry standards by actively pursuing improvement and diversification of its lending and other business guidelines and practices, and accompanying its clients in the energy transition. Governance and social risks also plays an important role in our analysis, but we do not consider they are distinctive factors for DNB compared with industry and Norwegian peers.

Erste Group Bank AG (A/Positive/A-1) | **Austria** | **Semder, Harm**

	(BICRA: 2)	
We see ESG credit factors for Erste to be broadly in line with industry and local peers. We believe that Erste's risk management is comprehensive and efficient, which is crucial given the bank's wide geographic reach in Austria and several core strategic countries in Central and Eastern Europe (CEE) markets. We believe Erste has no particularly complex businesses or products, and the bank's governance does not present unusual risk. CEE units operate as stand-alone banks, applying the bank's strategy locally and using groupwide risk tools, risk management standards, and frameworks. The same prudent rules also apply to Erste Bank Oesterreich and the savings banks in Austria, including exercising control over the members of the cross-guarantee system through its majority ownership of the system's management company. The management company has the power to implement and monitor risk policies, as well as intervene if a savings bank were to breach the network's policies. All this, we believe, has potentially been key for Erste not being at the top line of the observed numerous large-scale examples of conduct weaknesses among the major banks in recent years. However, we expect that the regulatory expectation and cost of financial crime compliance is likely to increase for the banking industries. Social and environmental factors are for Erste in line with peers. The most important social factors are the changing customer preferences and increased regulatory focus on banks' business conduct (whether consumer, market, or financial crime). The digital era presents opportunity for banks to adjust their cost bases but they must also respond to rapidly changing customer preferences and offer robust operational resilience.		
First Abu Dhabi Bank (FAB) (AA-/Stable/A-1+)	**United Arab Emirates (BICRA: 5)**	**Young, Benjamin**
We believe that ESG credit factors for FAB are broadly in line with the bank's industry and domestic peers. The government of Abu Dhabi has a strong influence on FAB's strategy and the bank has a privileged relationship with the government and maintains key account relationships with many Abu Dhabi government departments. In this context, the bank maintains a high-quality management team with a solid track record, stability in senior roles, and strong disclosure practices compared with local and regional companies, which we view positively. It sets out its criteria for board member independence in its governance disclosures. Even if the UAE's political institutions are still developing and decision-making processes (including with regard to GREs) remain centralized, with some weaknesses in transparency, we believe these have not been detrimental to the bank's strategic choices or sound business development. Carbon-intensive industries constitute a significant portion of the UAE's economy and the majority of Abu Dhabi's. We estimate FAB's direct lending to sectors exposed to energy transition risk to be about 17% of the bank's total lending at year-end 2018, but the indirect exposure (via the overall dependence of the UAE economy on hydrocarbons) is higher. Environmental legislation and norms are understandably less stringent in the oil-rich UAE than in European or North American economies. This means corporates with a large carbon footprint will probably have more time to adjust to the changing global energy demand and, by implication, local banks may have longer to reduce their exposure to fossil fuel related industries. The transition will likely be more gradual than in other regions. We believe that bank regulation in the UAE is probably less focused on consumer protection than in Europe or the U.S., meaning more limited exposure to misselling penalties or other retail conduct risks.		
FirstRand Bank Ltd. (BB/Negative/B)	**South Africa (BICRA: 5)**	**Barsdorf, Trevor**
We consider FirstRand's governance standards high in the context of the broader private sector in South Africa, and this has a positive influence on its credit quality. Large South African banks have generally experienced smooth changes across executive positions, thus ensuring strategic continuity. FirstRand Ltd. went through a smooth transition in 2015 when Johan Burger, the former deputy CEO, took over from the previous CEO. Its well-developed governance, the depth of its board, and quality of the prudential regulation somewhat protects FirstRand against the risks of the South African economy but also against the governance shortcomings observed in the public sphere or state-owned enterprises. While South Africa's economy is diversified, it remains a commodity producer. Banks are moderately exposed to environmental risks via their lending and securities portfolios. Legislation and environmental norms are likely to be less stringent than in Europe or the U.S., however. FirstRand has established clear goals in terms of divesting from coal financing. The bank considers thermal coal financing as nonstrategic and new capacity financing the most sensitive and high risk. It will therefore limit new coal financing to below 0.5% of total group loans and advances. In addition, over the next five years the total coal portfolio, which includes new coal financing, will be limited to below 2% of total group loans. Despite significant progress on poverty alleviation since the end of apartheid, South Africa remains one of the most unequal societies in the world. Meanwhile, heavy unionization in key sectors could affect the creditworthiness of some companies in case of severe strikes, which in turn would ultimately affect banks.		
Gazprombank JSC (BB+/Stable/B)	**Russia (BICRA: 8)**	**Yalovskaya, Natalia**
ESG credit factors influence GBP's credit quality in a broadly similar way to industry or Russian peers. We consider governance and transparency in the Russian banking sector overall rather weak in a global context, although disclosure has improved in the past decade. As a government-related entity, Gazprombank is exposed to the Russian government's influence--the government could hamper the bank's ability to manage its strategy in a purely business-oriented manner. We believe the bank has a professional senior management team and consistent strategy. At the same time, the state might in certain instances influence some decisions, due to Gazprombank's ownership structure. We have not seen tangible evidence of substantial negative impact so far, however, which is why we do not view governance as a negative rating factor. Gazprombank remains subject to U.S. and EU sectoral sanctions. While being itself under sectoral sanctions, the bank has developed relevant business procedures to ensure adherence to all respective restrictions with regards to sectoral sanctions imposed by the U.S. OFAC and the European Council on some Russian banks and		

corporations, and sanctions against officials and businessmen. With regards to environmental risk, Gazprombank has material direct and indirect exposure to the oil and gas and metals and mining sectors. This mirrors the structure of the Russian economy. Russian banks, and Gazprombank specifically, will not escape global trends in terms of energy transition and might need to consider at some point reducing exposure to carbon-intensive industries to mitigate transition risks, in our opinion. We expect limited change in the medium term, however.

JSC Halyk Savings Bank of Kazakhstan (BB/Stable/B)	**Kazakhstan (BICRA: 9)**	**Marushkevich, Ekaterina**

Halyk features some positive ESG credit factors (notably governance and social ones) that differentiate it from most of its local peers. We generally consider governance and transparency in Kazakhstan's banking industry weak, although gradually improving. In our view, some banks do not properly disclose their beneficiary ownership structures and we believe banking regulators could be subject to some political interference, in certain instances. In terms of corporate governance, Halyk Bank's practices do indeed compare favorably with local peers'. It benefits from an experienced management team, which delivered stable asset quality and financial performance over the economic cycles. The presence of independent members with international expertise in the board of directors strengthens the bank's system of checks and balances, in our view, compared with those of other Kazakh players. Halyk Bank's social role as the largest operator of the state pension and social payments supports its business position and overall creditworthiness. The bank has a vast network throughout the whole Kazakh territory, including offices in remote areas where no other bank is physically present. As the main financial institution that has been disbursing social payments in Kazakhstan since 1996, Halyk Bank serves around 2.5 million pensioners and recipients of social payments. Kazakhstan's economy remains dependent on oil and other commodities. Although the bank's direct exposure to the oil and gas and metals and mining sectors is modest, the indirect one via small and midsize companies operating in, or retail clients working in, the commodities supply chain is material. Environment legislation and norms are less developed in Kazakhstan than in Europe or the U.S., however, which means transition risks for banks, although real, are more long-term.

HSBC Holdings PLC* (AA-/Negative/A-1+)	**United Kingdom (BICRA: 3)**	**Greenwood, Nigel**

We view ESG credit factors for HSBC as broadly in line with those of the industry and country peers. Its reputation was affected by compliance/controls issues, in particular, by its acknowledgement of the failure to implement appropriate anti-money-laundering and sanctions controls, which in turn led to a material payment to U.S. authorities and the retention of an independent monitor from 2012. HSBC successfully exited this period of monitorship in 2017. The bank also faced a litany of litigation issues in the past decade, reflecting some shortcomings in controls/governance frameworks, even if none of these were, in isolation, substantial from a financial point of view. Still, a re-emergence of anti-money-laundering or other nonfinancial risks could have rating implications given our relatively favorable view of HSBC's business and risk position assessments. We have observed numerous examples of conduct weaknesses among the major U.K. banks, including HSBC, and an increased propensity by retail customers to file a complaint. The PPI case in the U.K. proved costly for the bank (around $7.5 billion in cumulative provisions). We believe this episode is over and 2019 to be the last year when PPI had a financial impact for banks. In HSBC's key Hong Kong market, and other Asian markets, we see less evidence of this social trend at this time than we do in the U.K. As a major corporate and investment bank, HSBC is exposed to sectors where we see greater environmental risks (for example oil and gas, metals and mining, and chemical sectors). But those transition risks are mitigated by an exceptional diversification of the bank's loan book, by sectors and geographies, and HSBC's evolving approach to lending, which, like peers, increases restrictions to the most carbon-intensive sectors.

ING Groep N.V* (A+/Stable/A-1)	**Netherlands (BICRA: 3)**	**Dalmaz, Sylvie**

ESG credits factors for ING are broadly in line with those of the industry and country peers. Our view on ING's governance is supported by code and values in line with industry best standards, as well as a two-tier board structure, which enables it to maintain adequate independence of the supervisory board from top management. However, over the past few years, the bank suffered a series of incidents that revealed shortcomings in the control framework, which is currently still enhanced. Late 2018, the Dutch Prosecution Service found deficiencies in the execution of customer due diligence policies to prevent financial crime in the Netherlands. Some months later, so did the Italian regulator. Those cases have neither damaged the financial performance, nor the reputation, of the bank. But any recurrence of such incidents could lead us to have a more negative view of its governance, and ultimately its credit quality. Social factors are important due to changing customer expectations and increased focus on banks' business conduct. ING has been an innovator and first mover in digital banking, understanding evolving customer preferences before most peers. We believe that ING's pioneer digital approach to banking business and strong focus on sustainability make it an attractive employer. While the bank's commitment to customer satisfaction is strong, it faced, like Dutch peers, some complaints and litigation due to alleged failure to provide enough information on certain products and services. This neither affected customers' confidence nor loyalty, as evidenced by recent trends in Net Promoters' Scores. Sustainability has been one of the main pillars of ING's strategy for a while. As demonstrated by its Terra initiative, the bank has a goal to progressively decarbonize its loan portfolio in line with the Paris Agreement. ING's capabilities in sustainable finance are strong. They are supported by a broad environmental risk framework, which is well embedded into its decision-making process. Still, ING's businesses are exposed to transition risk, notably via its exposures to oil and gas, transportation, and shipping. We believe that ING is well equipped to assess these risks, thereby containing unplanned changes or abrupt disruption in businesses it finances. The bank committed to zero exposure to thermal coal by 2025 and its carbon-intensive sectors policies are increasingly restrictive.

Intesa Sanpaolo SpA (BBB/Negative/A-2) | **Italy (BICRA: 5)** | **Sacchi, Francesca**

ESG credit factors for Intesa are broadly in line with those of the industry and Italian peers. Although we consider Intesa's corporate governance as stronger than that of many smaller domestic banks in Italy, we believe it is generally aligned to that of leading Italian entities. The bank enjoys a well-balanced board composition and a separation between management and control functions. As evidence, Intesa has historically had a low acquisition appetite relative to that of European peers and a much better asset quality than that of local peers. Social risks are gaining relevance considering the bank's long-established and rooted franchise in the Italian retail banking landscape and the increasing importance of the wealth management business. While we recognize that banking regulation in Italy is probably less focused on consumer protection compared with countries like the U.K, we note Intesa's good track-record in avoiding retail conduct and compliance issues. The bank is handling smoothly its staff reduction and branch closures, minimizing the risk of reputational damage. Intesa has a strong commitment to purse environmental sustainability. For instance, it was the first Italian bank to issue a green bond. More recently, it issued its first sustainability bond to finance circular economy. As one of the largest bank in Italy, Intesa is inevitably facing transition risks, because evolving environmental legislation and norms may affect the credit quality of its retail, small business, and corporate loan portfolios.

KBC Group N.V* (A+/Stable/A-1) | **Belgium (BICRA: 2)** | **Raposo, Philippe**

We see ESG credit factors for KBC as broadly in line with those of the industry and domestic peers. Corporate governance practices are typically of a high standard in a country like Belgium, and we have not seen the kind of major conduct or compliance issues, such as large-scale money laundering scandals, surfacing for KBC, although such scandals have affected many of its peers in neighboring countries. Since the financial crisis, KBC has been pursuing a prudent growth strategy and implementing an increasingly robust risk framework. KBC operates fully fledged banks in geographies where governance standards are weaker than in Belgium, notably in some Central and Eastern European countries. Our analysis of the risk profile includes the bank's capacity to implement group standards in all countries, maintain a strong client knowledge, a disciplined underwriting, and a tight control of nonfinancial risks that could surface locally, in its bank and insurance business. So far, the track record has been good. Social factors are important due to changing customer preferences in KBC's core markets and increased regulatory scrutiny on banks' conduct. This is particularly relevant in Ireland, where the local regulator is increasingly focused on consumer protection. In Ireland, the central bank is performing a "Tracker Mortgage Examination," to which KBC Ireland--like local peers--is exposed. KBC Ireland provisioned an additional €4 million in the first half of 2019 for this issue, a limited amount for the group. Like any diversified bank, KBC is typically exposed to sectors where we see gradually rising transition risks (for example, agriculture, fishing, metals, transportation, and chemicals). We observe that these exposures represent less than 10% of the bank loan book, and that KBC communicates on clear environment targets, including on financing of coal-related activities and share of renewables in financed energy projects. KBC aims to have over 50% of its energy credit portfolio comprised of renewable energy by 2030. The proportion was 43.8% at year-end 2018.

Lloyds Banking Group PLC* (A+/Stable/A-1) | **United Kingdom (BICRA: 3)** | **Greenwood, Nigel**

We see ESG credit factors for Lloyds as broadly in line with those of the industry and U.K. peers. U.K. behavior has strengthened in response to cases of poor customer treatment, and is a prominent consideration for Lloyds' management and strategy. The U.K. industrywide PPI misselling episode illustrates the significant financial and reputational damage that can arise when banks fail to treat customers fairly. As the largest U.K. retail bank, Lloyds has been most affected by PPI provisions in absolute terms, setting aside £21.9 billion from 2011 to Sept. 30, 2019. We see ongoing customer remediation charges as largely unavoidable in U.K. financial services, particularly for a large retail player such as Lloyds, which has about 26 million customers. However, any sums should be significantly smaller than for PPI. We believe that U.K banks, including Lloyds, have substantially strengthened their compliance and conduct frameworks, and 2019 was the last year when banks had to create provisions for PPI claims. This is why we consider that this episode, generated by commercial practices in place about a decade ago, is largely over and do not affect our forward-looking view of the bank's credit quality. We see Lloyds' governance standards as consistent with domestic norms. The ring-fenced bank, non-ring-fenced bank, and insurance subgroups each have stronger governance arrangements than typically found in subsidiaries, including independent board members. Lloyds is also increasing its attention on environmental sustainability. This includes supporting customers in transitioning to low-carbon solutions and increasing resilience to climate change. It is also working to reduce its own carbon footprint and manage the effect of environmental risks on its asset quality.

Mediobanca S.p.A (BBB/Negative/A-2) | **Italy (BICRA: 5)** | **Argenio, Regina**

We see ESG credit factors for Mediobanca as broadly in line with those of the industry and Italian peers. We consider positively management's strategy aimed at preserving the bank' strong corporate and investment banking franchise, while expanding in more stable businesses like retail banking and asset management. At the same time, we believe Mediobanca's ownership structure and its large stake in Assicurazioni Generali (12.9%) add complexity to its governance. We are monitoring how the latest changes in the bank's shareholder structure (after the disposal by UniCredit of its 8.8% stake and the increased stake of Mr. Del Vecchio, now the largest shareholder, with 9.9%) will affect Mediobanca's governance and strategy. We do not anticipate any meaningful change in the bank's strategy because we expect Mediobanca to be committed to implementing the recently announced business plan 2019-2023. Social factors are increasingly relevant for Mediobanca, but not different from other commercial banks. In particular, we think that wealth management and consumer finance business carry high exposure to know-your-customer practices and to reputational or financial risk linked to misselling to clients. Environmental risk factors do not affect credit quality differently from industry peers. The bank's exposure is mostly indirect, primarily through its financing and investing operations.

Nationwide Building Society (A/Positive/A-1)	**United Kingdom (BICRA: 3)**	**Wright, John**
We believe ESG credit factors are influencing Nationwide's credit quality similarly to industry peers. U.K. consumer regulation has strengthened in response to industrywide cases of poor customer treatment, and is a prominent consideration for the society's management and strategy. As a large retail-focused institution, Nationwide's conduct and compliance risks require careful management to ensure they keep pace with regulators' and customers' demanding expectations. Due to its smaller presence in the unsecured personal loan market, it was much less affected by the PPI misselling episode than the large U.K. banks. Its domestic retail focus also ensured a very limited exposure to regulatory and litigation issues in wholesale banking. Corporate governance is an established theme and regulated companies' standards have received greater scrutiny since the financial crisis. We see Nationwide's corporate governance standards as consistent with those of large stock market-listed companies. For example, the board appears to exert appropriate oversight of the society's executive leadership. Nationwide's focus on residential mortgage lending limits environmental risks to some degree, in our view, but it must still manage the growing threat of extreme climate events (particularly flooding) and the market's growing preference for energy-efficient housing.		
Nordea Bank Abp (AA-/Stable/A-1+)	**Finland (BICRA: 2)**	**von Steinaecker, Salla**
We believe ESG credit factors are influencing Nordea's credit quality similarly to industry and local peers. Social factors are important due to changing customer preferences and increased regulatory focus on banks' business conduct. In our view, know-your-customer (KYC) checks, anti-financial-crime controls, product design, and sales processes are particularly relevant given Nordea's banking and asset gathering businesses across the Nordic region. The findings from the Swedish authority related to weaknesses in anti-money-laundering procedures in 2015 led the bank to strengthen its compliance and operation risk functions. As of today, more than 1,500 full-time employees undertake compliance and KYC functions. With the de-risking of its loan portfolio in 2017-2018, in particular in Russia, and the divestment of Luminor in the Baltics in 2019, the bank has substantially reduced its exposure to geographies where money laundering issues of some other Nordic banks are stemming. While Nordea recently changed its senior management team we believe the bank remains committed to its strong focus on customer centricity and risk awareness, and will exhibit disciplined execution. Nordea is exposed to transition risks, notably in some sectors like transportation, shipping or energy, and climate change and other environmental factors are incorporated in the bank's risk management practices. The bank holds a green bond asset portfolio of €2.6 billion, mainly related to mitigating climate change, and has so far issued €1.25 billion of green bonds. Furthermore, the bank launched green mortgages in Sweden and Finland and aims to expand the offering across rest of Nordics.		
Nykredit Realkredit A/S (A+/Stable/A-1)	**Denmark (BICRA: 3)**	**Kylberg, Marcus**
We believe ESG credit factors are influencing Nykredit's credit quality similarly to its industry and Danish peers. Social factors are gaining importance for the bank, considering it is the largest lender in Denmark to homeowners and one of the largest to small and medium-sized businesses and the agricultural sector. In July 2017, Nykredit introduced a profit-sharing model--KundeKroner--where the bank shares profits with customers in the form of discounts financed by the majority owner of the bank--Forenet Kredit--who returns part of the dividends received from Nykredit. Business customers now receive a similar discount (ErhvervsKroner). We view this feature as supporting the bank's brand, business stability and competitive position overall. Maintaining an appropriate governance remains a key priority for Nykredit's shareholders and management team, in particular on the back of the negative attention related to local peer Danske Bank. We believe the bank has a stable senior management team and consistent strategy and the majority of the board is composed of independent directors. Considering significant focus of the Danish regulator following the Danske case on anti-money-laundering issues, Nykredit beefed up its anti-money-laundering function. Except agriculture, the bank has limited exposure to potentially vulnerable industry sectors due to its modest commercial banking footprint. We see the main environmental risks facing Nykredit as managing the potential impact of climate change on its borrowers, such as mortgage customers vulnerable to increasing flood or other climate risks. The bank is also reducing its own carbon footprint and supporting customers to do likewise, for example, by launching green loans and covered bonds for energy-efficient buildings.		
OP Corporate Bank PLC (AA-/Stable/A-1+)	**Finland (BICRA: 2)**	**Rizzo, Antonio**
ESG credit factors for OP Financial group are broadly in line with industry and Finnish peers. Social factors are gaining importance, considering that the cooperative is the largest lender in the country and the largest taxpayer, with the 147 independent member banks paying their taxes locally in their operating region. OP Financial group is owned by 2.0 million owner-customers, mainly individuals. Aside from their business role, the cooperative banks play a significant social role in Finland. Like the rest of the financial sector, OP Financial group's most notable risks are related to financial crime and abuses, preventing misselling to the retail clientele and eliminating anti-competitive practices. The group is committed to providing financial access in low-populated or economically disadvantaged areas through its vast branch network, which solidifies its business position. OP Financial group's governance supports the strong assessment of its business position, but we do not consider it a positive distinctive factor compared with local peers. Although the group changed its group CEO last year, we consider its strategy clear and consistent, with a strong social and local		

community role. The majority of the group's board comprises independent directors. OP Financial group's environmental framework is advanced and it aims to be carbon-positive on its direct operations by 2025. In addition, the group published its own Green Bond Framework in November 2018, and issued its first senior unsecured green bond last year. The bank is exposed to transition risks in its retail and corporate portfolio, as environment legislation and norms evolve. But we consider the bank is relatively well positioned for the greening of its portfolio.

Qatar National Bank (Q.P.S.C.) (A/Stable/A-1) — **Qatar (BICRA: 5)** — **Damak, Mohamed**

We see ESG credit factors for QNB to be broadly in line with industry and country peers. The Qatari government, through Qatar Investment Authority, controls 50% of the bank and QNB maintains key account relationships with many Qatari government departments and public enterprises. The bank benefits from strong governance and disclosures practices compared with local and regional companies. Even if Qatar's political institutions are still developing, we believe it has not been detrimental to the bank's strategic choices or sound business development. QNB has not experienced any incident related to noncompliance with laws and regulations and has not been subject to any legal or regulatory fines or settlements. The bank has been expanding rapidly in countries with weaker governance standards than in Qatar, which necessitates a strong framework to control a variety of risks. Despite being the flagship bank of a major gas exporting country, we estimate the direct lending of QNB to sectors exposed to energy transition risk at about 14% of the bank's total lending at year-end 2018--the indirect exposure (via the overall dependence of the Qatari economy on hydrocarbons) is higher. That said, most corporate clients are generally less exposed to stringent environmental regulations and norms than in Europe or the U.S. Therefore, the emergence of credit risks from the carbon-intensive part of the portfolio is likely to be manageable in the medium term. Moreover, it started to build a green lending portfolio for QAR7.0 billion at year-end 2018. We view bank regulation in Qatar as probably less focused on consumer protection than in Europe or the U.S., meaning more limited exposure to misselling penalties and other retail conduct risks. The impact of the boycott on Qatar's economy by Bahrain, Egypt, Saudi Arabia, and the UAE, has not affected QNB's risk profile or performance so far, but is something we closely monitor. As an example, we monitor how the geopolitical tensions in the Middle East affect Qatar, and QNB's capacity to attract and retain foreign talent.

The Royal Bank of Scotland Group plc (RBSG)* (A/Stable/A-1) — **United Kingdom (BICRA: 3)** — **Barnes, Richard**

We see ESG credit factors for RBSG as broadly in line with those of the industry peers and the bank's corporate governance as consistent with industry norms. We view RBSG's transformation into a simpler group focused on retail and commercial banking as a positive development for its ESG risk profile. Like other internationally active banks, RBSG incurred material financial and reputational damage from legacy business activities and it has significantly rationalized and de-risked its corporate and investment banking businesses. Its core businesses are still exposed to inherent conduct and compliance risks, and it must keep pace with regulators' and customers' demanding expectations. Operational resilience, cybersecurity, and financial crime are also priorities as digital channels grow. The PPI misselling episode illustrates the significant financial and reputational damage that can arise when banks fail to treat customer fairly. Up to Sept. 30, 2019, RBSG provided £6.2 billion to compensate affected PPI customers. It also set aside smaller amounts for other customer redress cases, including misselling packaged current accounts and mishandling arrears cases. 2019 should be the last year of material PPI financial damage for banks, but we see ongoing customer remediation charges as largely unavoidable in U.K. financial services, particularly for a large player such as RBSG, which has about 19 million customers across the U.K. and Ireland. As a large corporate bank, RBSG has a loan portfolio that includes exposures to carbon-intensive sectors, including oil and gas, chemicals, and automobiles. However, managing those transition risks ranks high on management's agenda as the bank pays increasing attention to environmental sustainability. This includes £10 billion of financing allocated to sustainable energy by 2020, and a decision to cease project-specific finance to high carbon and high climate risk sectors.

Samba Financial Group (SFG) (BBB+/Stable/A-2) — **Saudi Arabia (BICRA: 4)** — **Rybalkin, Roman**

ESG credit factors influences SFG's credit quality similarly to its industry and Saudi peers. The bank has developed a robust governance system with majority of directors being independent and with vast experience in banking industry and regulation. SFG has not been subject to material fines by regulators or subject to any legal settlements. We estimate the direct lending of Samba to sectors exposed to energy transition risk at about 19% of the bank's total lending at year-end 2018. Indirect exposure is much higher, given the overall dependence of the Saudi economy on oil. Even if environmental legislation and norms are probably less advanced than in Europe and the U.S., Saudi banks will have to adjust to global trends on energy transition and reduce its financing to carbon-intensive sectors. On the social side, the bank follows the Saudization requirements of the Ministry of Labor; about 95% of the bank's workforce are Saudi nationals, generally on par with domestic peers. We view SFG, like other Saudi banks, as having limited exposure to misselling penalties and other retail conduct risks.

Skandinaviska Enskilda Banken AB (SEB) (A+/Stable/A-1) — **Sweden (BICRA: 2)** — **Hellsing, Pierre-Brice**

We see ESG credit factors for SEB as broadly in line with those of the industry and country peers. SEB was the most recent Nordic bank to be accused (in a Swedish TV show in November 2019) of channelling illicit funds from the former Soviet Union. In response, the bank published the results of its recent internal analysis of historical activities in the Baltics. Based on the data, the magnitude of the problem appears more contained than for regional peers, namely Swedbank and Danske Bank, affected by similar issues. SEB seems to have worked proactively to address deficiencies, as shown by its know-your-customer procedures, implemented from 2006. That said, SEB is currently under review by the Swedish and Baltic authorities, including a targeted review of the management and control of money laundering risks in the Baltics. The outcome of those reviews will be made public in 2020. If they reveal material shortcomings, we could take a more negative view on SEB's creditworthiness. We note that social factors are essential for the bank as one of the leading banks in the Nordics, due to changing customer preferences and increased regulatory focus on banks' business conduct. We see the maintenance of a sound corporate governance as critical for SEB, and it is a priority for shareholders and the management team. The bank has overall a stable senior management team and business strategy, and exhibits disciplined execution and operational control. A majority of its board is composed of independent directors. Like peers, SEB is exposed to energy transition risks in its retail and corporate portfolio and is working to reduce its direct and indirect environmental footprint. It has been a green bond issuer since 2017, had a SEK16 billion green loan portfolio at year-end 2018, and has been a local pioneer on green mortgages.

Société Générale (SocGen) (A/Positive/A-1) | **France (BICRA: 3)** | **Hardy, Nicolas**

We see ESG credit factors for SocGen to be broadly in line with that of the industry and country peers. We think that the group's diversified and international business profile leaves it exposed to a wide range of nonfinancial risks, notably reputational, compliances or operational ones. We believe most of these risks lie in the markets and asset-gathering operations. SocGen, like many large European and U.S. banks, has not been immune in the past decade from large-scale litigations. They stemmed mainly from shortcomings in control/monitoring but also from a high risk appetite in certain investment banking activities. We note the decisive steps in 2018 leading to the settlement of the most recent large litigation cases, eliminating this material risk, which used to be a rating constraint. Therefore, our view is that those compliance and conduct issues are less likely to happen, and we factor this into our assessment of the bank's risk profile. We also note SocGen's exposure to some emerging markets, notably Russia, where governance practices are in general weaker than in France. It can expose the bank more to know-your-customer or compliance risks. So far, SocGen has managed those risks well, but this remains an area of focus for our credit analysis. One of SocGen's main social challenges is the management of its large branch network, which is likely to continue to reduce over time. Similarly, SocGen is downsizing its investment banking activities to preserve their profitability. We monitor how the bank, like some of its global peers, manages the adaptation of its workforce while preserving its business model. We have not observed any material conduct or misselling cases with the retail clientele in France, as opposed to countries like the U.K., but we are closely monitoring how it maintains high underwriting standards, including for consumer loans, to avoid any emerging social risks. Given the still-low level of harmonized public disclosures on how climate change will affect the banking industry, we view positively the detailed articulation of SocGen's strategy in this area including in its Task Force on Climate-related Financial Disclosures (TCFD) Report, a G20 initiative focusing on the identification of risks and opportunities for the group. As with any global bank with a large corporate book, SocGen lends to and invests in carbon-intensive industries and as such will have to manage transition risks emanating from climate change in its portfolio. Even though SocGen has well-advanced policies to reduce, or restrict, its financing to sectors with elevated greenhouse gas emissions, the magnitude of changes needed over time to rebalance the portfolios and adjust lending criteria (and pricing), both in retail and corporate sectors, are significant. Another activity sensitive to evolving environmental norms and customer preferences is SocGen's leading position in car fleet management, through its majority owned subsidiary ALD SA. Residual value risk, i.e. the modeling risk of secondhand car values at end of leasing contracts, has been so far adequately managed but remains an area of attention given the size of ALD's diesel fleet.

Standard Chartered PLC * (A/Stable/A-1) | **United Kingdom (BICRA: 3)** | **Wang, Fern**

Overall, we see ESG credit factors for Standard Chartered as broadly in line with industry and local peers. Like other globally diverse globally systemic important banks, Standard Chartered operates in a complex environment and under increased regulatory scrutiny. This makes ESG factors increasingly important, because failing in areas such as anti-money-laundering, product designs, and sales process can lead to adverse financial and reputational consequences. Similar to U.K. peers, the group has had governance issues in the past. In particular, it had some issues relating to sanctions compliance and financial crime controls. In the past few years, it has made good progress in encouraging better conduct and compliance agenda including stepping up its anti-money-laundering and anti-bribery training. The bank has resolved investigations by the U.K. Financial Conduct Authority (FCA) and various U.S. regulators into its compliance with historical sanctions and its control over financial crime in April 2019 with a US$1.1 billion settlement. The FCA and U.S. agencies had also commented favorably on the group's remediation efforts and improved culture of compliance. Standard Chartered is exposed to some sectors that could pose environmental and social risks. In addition to country, sector, and single-loan concentration limit, it has tightened its financing criteria towards certain industries that can have a negative environmental and social impact. It has put forth a list of prohibited activities that it will not finance, including restrictions on child and forced labor, trade in endangered wildlife, and Arctic and tar sands exploration and production. Standard Chartered also stopped funding new coal-fired power plants.

Svenska Handelsbanken AB (AA-/Stable/A-1+) | **Sweden (BICRA: 2)** | **Von Steinaecker, Salla**

We see ESG credit factors for Handelsbanken as broadly in line with those of the industry and country peers. The bank is committed to delivering strong customer service, in which it has been ahead of the other major Swedish banks for many years. We observe an outstanding track record in terms of customer satisfaction, in Handelsbanken's operations in the Nordics and in the U.K. In addition to a deep local entrenchment in the Swedish economy, the bank has not experienced any large-scale misselling case with retail clients. It has strengthened its controls in terms of know-your-customer checks, anti-financial crime controls, and compliance processes following a 2015 finding from the Swedish regulator. Similarly, comments from the U.K. regulator for Handelsbanken's then branch in

U.K. in 2017 led to increased investment in compliance and financial crime control processes to ensure the bank upholds the strong reputation that underpins its brand value. Handelsbanken's foreign operations outside its home region have been less important than some of its Nordic peers, so we view the bank as less exposed to money laundering or know-your-customer issues. In terms of environmental factors, Handelsbanken issued an inaugural green bond in 2018, which led to offering green loans to its customers and introduced green retail mortgages in Sweden in late 2019. At this nascent stage, this is still a very small share of the lending portfolio. The bank has developed sustainable asset management strategies within its fund offerings. Handelsbanken is mainly exposed to environmental risk through its lending and securities portfolios. The bias toward retail lending limits these transition risks to some extent, but considering large exposure to real estate mortgages, extreme events, and the market's preference for energy-efficient housing could cause declining asset values, hurting credit quality.

Swedbank AB (AA-/Negative/A-1+)	**Sweden (BICRA: 2)**	**Rizzo, Antonio**

We believe Swedbank's credit quality could be vulnerable to governance risks. Social and environmental credit factors are, on the other hand, in line with industry peers. Corporate governance is under scrutiny because the bank is embroiled in an anti-money-laundering scandal, which raises questions on the effectiveness of its governance. The allegations focus on potential misconduct in the Baltic subsidiaries and lack of adequate controls at local and group levels. The Swedish and Baltics authorities are investigating, as are the U.S. authorities. At the same time, the allegations refer to incidents from before 2016, when Swedbank overhauled its governance and strengthened compliance policies. More recently, the bank replaced its CEO, changed several senior managers, and reshuffled the group's board of directors. Although the reputational and financial impacts are difficult to assess, this episode could be credit-relevant. Social factors are gaining importance considering that Swedbank is one of the largest lenders in Sweden and the largest banking group in the Baltic countries. The bank's market reputation among clients, and society, is being tested by the recent money laundering allegations, but we believe the depth of its historical retail franchise will allow it to minimize the impact on clients' loyalty. The bank has not experienced any large-scale retail misselling case. Swedbank has reduced its direct GHG emissions over 60% from 2010-2018. In addition, Swedbank has purchased climate offsets for 6,500 tonnes of GHG emissions, which corresponds to the emissions from air travel to the bank's customers. All this indicate the group embeds climate change consideration in its strategy. However, the bank is similarly exposed as peers to environmental risk through its lending and securities portfolios. The bias toward retail lending limits these transition risks to some extent, but considering the large exposure to real estate mortgages, extreme events and the market's preference for energy-efficient housing could cause declining asset values, hurting credit quality.

The Commercial Bank (Q.S.C.) (CBQ) (BBB+/Stable/A-2)	**Qatar (BICRA: 5)**	**Nasreddine, Zeina**

We view ESG credit factors as influencing CBQ's credit quality similarly to industry and country peers. The government owns almost 17% of CBQ and the bank benefits from government support. CBQ owns Alternatifbank, a commercial bank in Turkey. This exposes it to a large economy with different governance rules and underwriting practices than in the Gulf, and a different set of risks, including political, know-your-customer, and currency-related. Governance from and the experience of the executive team has been robust enough to manage the risks from international operations well. We believe the focus on bank regulation in Qatar is probably more on prudential supervision and is less advanced on the consumer protection front than in Europe or the U.S., meaning we view CBQ as less exposed to misselling penalties or other retail conduct risks than European or U.S. counterparts. The impact of the boycott on Qatar's economy by Bahrain, Egypt, Saudi Arabia, and the UAE, has not affected CBQ's risk profile or performance so far, but is something we closely monitor. For example, we monitor how the geopolitical tensions in the Middle East affect Qatar, and CBQ's capacity to attract and retain foreign talent. We estimate that CBQ's direct total lending to sectors associated with energy transition risk stands at 13% of total loans, but the indirect exposure (via the overall dependence of the Qatari economy on hydrocarbons) is higher. We believe corporate clients, in Qatar, are generally less exposed to stringent environmental regulations and norms than in Europe or the U.S. This means more time to adjust and, for banks, a more gradual reduction in their exposures than in other regions.

UBI Banca SpA (UBI) (BBB-/Stable/A-3)	**Italy (BICRA: 5)**	**Argenio, Regina**

We believe that ESG credit factors have a similar influence on UBI's credit quality than for its industry and local peers. We consider the bank's corporate governance in line with those of large Italian companies. UBI has an effective risk control, benefiting from a balanced board composition. The bank's conservative approach enabled it to manage the recent economic downturn better than midsize Italian peers, preserving its financial profile. The group's organizational structure has become leaner over the past years, aiming at reducing UBI's complexity, improving operating efficiency, and centralizing the risk framework and oversight. Specifically, the bank gradually merged its network of regional banks into what is now UBI Banca and recently adopted a new governance set up, moving from a two-tier system of management and control to a one-tier model. UBI's exposure to social and environmental risks and opportunities is broadly in line with industry peers, and not particularly affecting the bank's creditworthiness. UBI showed a good track record in avoiding misselling practices. In addition, over its history of merging institutions, UBI has undertaken staff reductions and handled carefully these processes, by negotiating the terms with unions and minimizing the risk of reputational damage. In 2019, the bank issued its first green bond, amounting to €500 million, to refinance renewable energy projects. In addition, through the issuance of several mini-social bonds, it funded infrastructure projects, social inclusion initiatives and small and midsize enterprises in underdeveloped regions. Still, the bank is exposed to transition risk, like its peers, because evolving environmental legislation and norms might affect the credit quality of its retail, small business, and corporate loan portfolios.

UBS Group AG* (A+/Stable/A-1)	**Switzerland**	**Barnes, Richard**

We see ESG credit factors for UBS as broadly in line with those of the industry peers. Social factors are important due to increased regulatory focus on banks' business conduct. In our view, conduct and compliance risks are particularly relevant to UBS given its large international asset-gathering and investment bank businesses. Know-your-customer checks, anti-money-laundering controls, tax transparency, product design, and sales processes are important safeguards, and failings in these areas could lead to material financial and reputational consequences. Ongoing French and U.S. litigation cases relate to allegations over UBS' historical practices, but we believe any associated costs will be absorbable, given the strength of the franchise and solvency. UBS has also substantially strengthened its compliance and conduct frameworks, reducing the likelihood of future occurrences. We consider that the bank benefits from strong governance and controls, has a relatively stable senior management team, and exhibits disciplined strategic execution and operational control. In our view, environmental factors are less credit-relevant for UBS, although their importance is increasing. Like peers, the bank is exposed to transition risks in its lending and investment portfolios, and its investment bank's trading and advisory activities. Climate change and other environmental factors are incorporated in UBS' risk management practices and investment policies for client assets, and the bank seeks to reduce its own carbon footprint.	**(BICRA: 2)**	
UniCredit SpA (BBB/Stable/A-2) We believe ESG factors influence Unicredit's credit quality similarly to its industry and local peers. As a large commercial bank operating in multiple jurisdictions, Unicredit has robust control practices, unified risk culture, adequate underwriting, and know-your-customer practices in all those countries. Since the appointment of Jean-Pierre Mustier as CEO in 2016, management has focused on making the bank's structure simpler, less risky, better capitalized, and more transparent. We believe Unicredit follows a clearer strategy and vision among the different group entities. The bank's well-balanced board composition and diversity looks to all the stakeholders' interest. Nevertheless, like other large and diversified banks, Unicredit has been, and remains, exposed to a wide range of legal and non-financial risks, as evidenced by UniCredit S.p.a and its German and Austrian subsidiaries paying a $1.3 billion fine to U.S. authorities related to the violation of U.S. sanctions on Iran, for prohibited operations concluded from 2002-2011. We are not aware of any large-scale pending litigation or compliance-related issues, though. Environment and social factors do not affect credit quality differently from industry peers. The group is exposed to transition risks, in particular through its exposure to the car industry (in Italy and Germany). Regarding social risk, we note Unicredit has undertaken sizable staff reduction in recent years as part of its Transform business plan started in 2016. We believe the layoffs has been handled carefully in Unicredit's main countries of operations, primarily in agreement with local unions and predominantly through participation to voluntary early retirement schemes.	**Italy (BICRA: 5)**	**Argenio, Regina**
JSC VTB Bank (BBB-/Stable/A-3) We believe that ESG credit factors do not influence VTB's credit quality more than industry or Russian peers. We consider governance and transparency in the Russian banking sector rather weak in a global context, although the level of disclosure has improved in the past decade. VTB is majority state-owned, so is exposed to government influence, which could diminish its ability to manage its strategy in a purely business-oriented manner. That said, we do not expect that government influence to be such that it would result in a material deterioration of the bank's credit quality. We believe VTB has somewhat reshaped and strengthened its management and governance systems, shifting towards three-year strategic plans and so far sticking to this execution. The supervisory board, although dominated by non-independent directors, has become more balanced in our view. Social factors are important for a provider of financial services in Russia due to changing customer preferences and increased regulatory focus on banks' business conduct. Bank regulation focuses in Russia less on consumer protection, as it may in Europe and the U.S. Therefore, VTB is probably less exposed to regulatory risks arising from retail misselling or conduct risks than counterparts in other parts of the world. The bank remains subject to U.S. and EU sanctions. While being itself under sanctions, the bank has developed relevant business procedures to ensure adherence to all respective restrictions with regards to sectoral sanctions against some Russian banks, corporations, officials, and businessmen by the U.S. and EU. VTB has material exposure to the oil and gas and metals and mining sectors totaling about $30 billion. This mirrors the structure of the Russian economy. Eventually, Russian banks, and VTB, will not escape global trends in terms of energy transition and likely will have to reduce concentrations to carbon-intensive industries, although we do not expect this in the near-to-medium term.	**Russia (BICRA: 8)**	**Rybalkin, Roman**

*The legal entity referenced is the holding company, at the top of the group, but the ratings are those of the group's core operating entities.

This report does not constitute a rating action.

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