S&P Global
Ratings

Environmental, Social, And Governance Evaluation

Societe Generale S.A.

Summary

Societe Generale S.A. (SG) is a global systematically important bank and one of the 10 largest European banks with close to €1.5 trillion in assets and 67% of its risk exposure in France and Western Europe in 2021. Headquartered in Paris, the bank is geographically diversified, with a presence in 66 countries and serving 25 million clients globally. In the first nine months of 2022, SG generated close to €21.2 billion in net banking income, balanced between its three core businesses: French retail banking (30% of income in 2021); international retail banking and financial services to corporates (31%); and global banking and investors solutions (37%).

Our ESG Evaluation score of 79 reflects the bank's meaningful efforts to integrate ESG considerations into its lending and financing activities. SG has been strengthening its climate commitments, including in renewable energy financing and aims to align its financing portfolios to a 1.5-degree Celsius pathway by 2050. Its action plan includes phasing out coal, excluding hydrocarbons such as shale oil and oil sands, and reducing exposure to the most material carbon-intensive sectors. While implementation of the ESG integration framework is not yet systematic, the bank is actively strengthening its process for a comprehensive coverage of all large corporates. On that, we view favorably the ESG-by-design project to develop processes and tools to monitor SG's sustainability engagements. We highlight the bank's strong performance on customer engagement, capitalizing on the digitization trend with Boursorama. We consider France's protectionary framework regarding debt overburden risks for customers, notably with the usury rate and fixed rates.

SG exhibits strong preparedness to navigate and adapt to disruptive trends. The board has demonstrated its excellent awareness of long-term risks and opportunities that go beyond sustainability. Furthermore, we credit the board's ability to embed emerging trends into strategic decision-making. The board's decision-making has shown itself to be guided by long-term thinking through its early activity to support renewable financing and to expand its vehicle leasing business.

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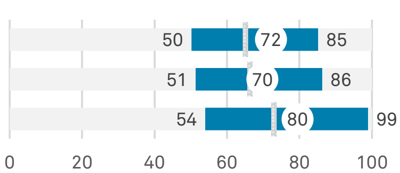
ESG Profile Components (figures subject to rounding)

Entity-specific assessment			Sector/region analysis			Achieved and attainable scores
E (30%)	37	+	E (30%)	35	=	E
S (30%)	34	+	S (30%)	36	=	S
G (40%)	46	+	G (40%)	34	=	G

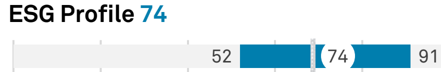


Entity within its primary sector/region

Entity's sectors/ regions versus all sectors/ regions

Min and max scores possible given sectors/regions. The gray line represents performance in line with industry standards.

ESG Profile 74



Preparedness +5

Low	Emerging	Adequate	Strong	Best in class

ESG Evaluation

79

A higher score indicates better sustainability. Figures subject to rounding.

Component Scores

Environmental Profile	
Sector/Region Score	**35/50**
Greenhouse gas emissions	**Strong**
Waste and pollution	**Good**
Water use	**Good**
Land use and biodiversity	**Good**
General factors (optional)	**3**
Entity-Specific Score	**37/50**
E-Profile (30%)	**72/100**

Social Profile	
Sector/Region Score	**36/50**
Workforce and diversity	**Good**
Safety management	**Good**
Customer engagement	**Strong**
Communities	**Good**
General factors (optional)	**None**
Entity-Specific Score	**34/50**
S-Profile (30%)	**70/100**

Governance Profile	
Sector/Region Score	**34/35**
Structure and oversight	**Strong**
Code and values	**Good**
Transparency and reporting	**Good**
Financial and operational risks	**Neutral**
General factors (optional)	**None**
Entity-Specific Score	**46/65**
G-Profile (40%)	**80/100**

ESG Profile (including any adjustments) **74/100**

Preparedness Summary

Our preparedness opinion reflects SG's opportunity-oriented approach to navigate long-term risks and opportunities within its sector. In line with its corporate purpose, we believe the bank is committed to developing innovative solutions to help clients transition toward the low carbon economy, bearing in mind that clients in emerging markets may be slower to adapt to the energy transition. Furthermore, we recognize SG's foresight to anticipate emerging trends, including digital banking, renewable financing, and (unique to the bank) its vehicle leasing business anticipating changes in vehicle usage behaviours. In line with the rest of the sector, SG keeps upgrading its climate risk management tools. We credit the bank's responsiveness to the Ukrainian conflict in its exit from Russia, via the sale of its local subsidiary Rosbank, in May 2022.

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

Preparedness Opinion (Scoring Impact) **Strong (+5)**

ESG Evaluation **79**

Note: Figures are subject to rounding.

Environmental Profile

72/100

Sector/Region Score (35/50)

The banking sector faces low direct exposure to environmental risks balanced by material indirect exposure from financing activities. As awareness raises on banks' role in promoting a low-carbon economy, we see a growing number of initiatives to deepen ESG integration. We view SG as having moderate exposure to physical climate risk overall, with 10% of the bank's assets in regions with elevated risk (Asia-Pacific and Africa).

Entity-Specific Score (37/50)

Note: Figures are subject to rounding.

Greenhouse gas emissions	Waste and pollution	Water use	Land use and biodiversity	General factors
Strong	**Good**	**Good**	**Good**	**3**

SG's most material environmental risks stem from its financing activities, including exposure to carbon-intensive sectors such as oil and gas (5.4% of SG's corporate portfolio), transport (6.5%), metals and minerals (2.8%), and food and agriculture (3.7%). We view SG's environmental exposures as comparable with that of other large global banks, balanced by ambitious climate-related targets, backed by the groupwide environmental and social risk management (ESRM) framework and sector policies. Full ESG integration is progressing as SG works to apply environmental and social (E&S) reviews across business units and clients. Building on its equity investment and partnership with Impak, the bank aims to have performed E&S assessments on 100% of its largest corporate clients by year-end 2023 (about 1,250 entities) as part of its annual credit reviews, which we view as above average industry practices. These assessments aim to implement sector policies' criteria, monitor reputational risks, and guide engagement with customers to support their climate transition.

SG has set ambitious Paris-aligned emissions reduction targets for its financing activities, including a carbon-neutral portfolio by 2050 and reinforced ambitions on most carbon-intensive sectors. In line with this, the bank has adopted interim targets to reducing upstream oil and gas lending commitments 20% by 2025, and scope 3 emissions from investments in that sector by 30% by 2030. Along with other industry players, SG will phase out coal financing by 2030 in the EU and 2040 in the OECD. Assessment tools developed internally include the Industry and Sovereign Climate Vulnerability Indexes, which assess exposure to climate physical and transition risks in various industries and across 114 countries. Beyond greenhouse gases (GHG), factors including waste, water, and biodiversity are included in environmental assessments and sector policies. Overall, efforts to mitigate the exposure is less advanced than for GHG in terms of targets and criteria definition. Still, SG shows growing awareness and management of biodiversity risks, through updated exclusion criteria, active engagement in industry commitments, and stronger accountability on value chain impacts and traceability.

Furthermore, we credit the group's green investments and products in support of the energy transition in line with those of more advanced peers. This includes SG's target to facilitate €300 billion to sustainable finance through bonds, loans and advisory by 2025. The bank's issuance of green and positive-impact bonds also increased, totalling €2.5 billion in 2021. In line with advanced asset owners, SG Assurance aims to reduce its portfolios carbon footprint by 30% (2018 to 2025). Furthermore, vehicle leasing business ALD maintained its 2030 target of 50% electric vehicles in new deliveries, and we will monitor the LeasePlan acquisition's impact.

Social Profile

70/100

Sector/Region Score (36/50)

The most important social challenges for the banking and investment sectors are the fair treatment of employees and customers, and effective management of the consequences of digitalization for the workforce and customers. SG's employee base is in France (48%), Eastern Europe--mainly Romania, and Czech Republic (15%), Africa (11%) and India (9%).

Entity-Specific Score (34/50)

Note: Figures are subject to rounding.

Workforce and diversity	Safety management	Customer engagement	Communities	General factors
Good	**Good**	**Strong**	**Good**	**None**

SG's exposure to social risks is moderate overall and adequately managed across its value chain. The bank faces direct social exposure from having 117,000 employees serving more than 25 million customers. Indirect exposure comes from its supply chain and health, safety, and community risks associated with lending in high-risk sectors (metals and minerals; 2.8% and food and agriculture; 3.7%). SG considers social factors within its sector policies and combined environmental and social assessment of clients. Its social integration remains less advanced than environmental and equally limited in scope across business units. However, it is ahead of some peers when it comes to products addressing social issues. For instance, in 2021, €5.9 billion was dedicated to social sustainable positive impact finance. Furthermore, to mitigate supply chain risk, the bank includes corporate social responsibility (CSR) criteria in its purchasing tenders and performs third-party supplier evaluations.

SG's responsible workforce management is reflected in its effort to mitigate emerging social risks under its Vision 2025 strategy describing the merger of SG and Credit du Nord's retail networks. The bank expects the merger to yield 3,700 employment cuts in 2023-2025 but committed to no forced redundancies through voluntary departure plans and natural attrition, an area that we will keep monitoring. SG supported employees after Lyxor and Rosbank's sale to ensure a smooth transition and business continuity. The bank's employee engagement metrics are on a positive trend; however, its voluntary turnover remains above that of other banks explained by external factors such as SG's operations in India, where the labor market had a particularly high attrition rate in 2021. In addition, the bank has more women in management than peers and reports lower gender pay gaps. Its targets to increase female representation in management to 30% across all business units by 2023 are ahead of the French requirements' timeline.

SG maintains a strong customer base partly because of its digital branch growth in France, especially after ING's customers joined SG. Through its online banking platform, Boursorama, SG has become a digital banking leader in France after tripling its customer base from 2016-2021 and has already outperformed its 2023 target of 4 million customers. The bank monitors customer engagement closely, factoring the net promoter score into the Management Committee's variable remuneration. SG has implemented protection measures for vulnerable customers such as fee capping systems. In line with peers with similar exposure to the African market, the bank makes efforts to support local SME financing, and microfinance projects.

Governance Profile

80/100

Sector/Region Score (34/35)

SG is headquartered and operates mostly (47% of exposure at default) in France, which has strong corporate governance standards. Other regions of exposure include the U.S. (14%), other European countries (28%), and countries with weaker governance standards including various countries in Africa and the Middle East (4%).

Entity-Specific Score (46/65)

Note: Figures are subject to rounding.

Structure and oversight	Code and values	Transparency and reporting	Financial and operational risks	General factors
Strong	**Good**	**Good**	**Neutral**	**None**

SG's board structure and oversight is aligned with international best practices. The board has had separate CEO and chairman roles since 2015 and consists of 15 voting directors. Board independence (92% as per SG, excluding three elected staff; 60% as per S&P Global Ratings) is above the recommendation of the AFEP-MEDEF Code (French code for publicly listed companies) that requires at least half of directors to be independent. Although some directors have long tenures of 10-12 years, above the nine-year threshold for independence as per our methodology, the average tenure of the board is six years, which is in line with French listed companies. The board has deep industry experience and is composed at 40% of women (42% as per SG, excluding three elected staff), in line with the French Financials Market Authority threshold. While a majority of board members are French, it also includes nine nationalities, reflecting the group's international footprint. In 2022, the 14-year-long CEO, Frederic Oudea, announced he would step down from his role in May 2023. We view the nomination process as relatively smooth, and Slawomir Krupa, the current head of SG's investment banking division, was elected by the board in September 2022. This leaves time for a progressive transition until the next general meeting in May 2023 where shareholders will vote on his board membership.

SG's comprehensive code of conduct and corporate purpose support the global energy transition through sustainable finance activity with impact-investing, green bonds, and renewable energy financing solutions. The group's code of conduct is publicly available in 18 languages and is applied across the value chain, which is a fairly common practice in the industry. The code of conduct is overseen by the board and reviewed annually, with all employees subject to annual training. In line with other banks, SG has been exposed to controversies that it has undertaken quick measures to address, including the implementation of a whistleblowing mechanism in 2019. Sustainability is embedded within the variable remuneration of the top 60 management positions, through the achievement of KPIs including customer satisfaction and CSR goals.

SG's financial and nonfinancial disclosures are comprehensive, in line with other large French banks. The group has publicly available sustainability disclosures that are integrated into SG's universal registration document. It publishes these disclosures annually and follows some best practices, including verification by an independent third party, as per the French transposition of the European Non-Financial Reporting Directive. However, we recognise some ESG KPIs are absent, including public reporting of the net promoter score and that no indicator received reasonable assurance. In addition, financial disclosures follow international best practice including the country breakdown of tax in the group's tax contribution report.

Preparedness Opinion

Strong
(+5)

Preparedness	Low	Emerging	Adequate	Strong	Best in class

SG is well positioned to navigate potential disruptions associated with the complexities of climate change, evolving social preferences and increasing digitization of services. In line with the bank's corporate purpose to build a sustainable future, SG's strategy is opportunity-oriented, committing to engaging and supporting clients as they navigate the energy transition at different speeds. As one of the leading banks in France with a large international footprint, including sustainable development in Africa, we view the bank's diversified business profile as a key strength for SG to navigate climate risks and market fluctuations across regions. We also believe the bank's digital banking and vehicle leasing show its ability to capitalize on emerging trends.

The board has defined sustainability and digitalization as the key pillars supporting its long-term strategy. This reinforces its long-standing awareness of these risks, including the pandemic-induced acceleration of these trends. The board has developed keen insight into the pace at which the energy transition may play out within its international business in emerging markets, compared with its European clients who are more advanced in climate action. Beyond this, we believe the board has identified other material disruptive risks, including cyber threats, geopolitical tensions, and emerging cryptocurrency and biodiversity trends.

SG exhibits excellent decision-making and early innovation with its leading online bank Boursorama and renewable financing activity. The bank continues to enhance its digital solutions and capabilities through its digital bond for the European Investment Bank (EIB) issued on a public blockchain in April 2021. We also credit the board's keen foresight into the evolving habits on vehicle ownership and usage, reinforcing the strategic importance of its ALD through its ongoing acquisition of LeasePlan. In line with industry climate trends, the bank has financed renewable energy for the past 15 years. We also recognize the bank's long-term goal to align its lending and investment portfolios with net zero emissions by 2050, as a founding signatory of the Net Zero Banking Alliance (NZBA). The board is aware that the road to achieving this ambition is filled with challenges, including setting clear objectives for each business and assess clients' willingness to act in line with SG's strategy.

We believe the board is committed to maintaining a culture of innovation. The board values entrepreneurship and encourages internal innovation to support strategic objectives. Employees can present ideas to senior management through the internal start-up program. To ensure its values are well understood, SG encourages internal mobility to spread common values and has developed a common framework on culture that the CEO supervises. SG's staff is also encouraged to take part in trainings related to climate, social responsibility, and biodiversity.

The board's strategic decisions are well-informed by risk assessments, leveraging tools to assess financial and nonfinancial impacts. This includes analyses of world trends and potential impacts on its portfolios biannually, using economic scenarios prepared by the risk teams and engineers. Strategic decisions are subject to stress tests. For nonfinancial risks, the bank is using internally developed tools such as a web application to identify drought, coastal flooding, and wildfire risks in the French retail home loan portfolio. But SG faces climate-related risks data availability issues for mapping corporates' exposure to physical risks, which is a sector-wide problem. Climate scenario planning has adopted the IEA scenarios since 2016 and SG participated in climate stress tests in the last few years, including its participation in the regulatory one of the European Central Bank in 2022. We credit SG for co-developing the Paris Agreement Capital Transition Assessment methodology for banks to support the low-carbon transition.

Sector And Region Risk

Primary sector(s)	Banks
Primary operating region(s)	France United States United Kingdom Czech Republic Germany

Sector Risk Summary

Environmental exposure

Environmental risks for the banking sector balance the low use of physical infrastructure and facilities needed to operate, against the large indirect exposure from lending and investment activities. In addition, the rising use of IT services in banking (digitization, cloud computing, and big data) is increasing CO2 emissions, even though banks' physical infrastructure is reducing. Regulators, investors, customers, and activists are increasingly looking at the banking sector's contribution and exposure to environmental risks. These medium- to long-term risks are significant and will be proportionate to the impact of climate change on the economy. While banks have good expertise in managing traditional risks, they currently lack standard measurement tools, data, and human resources to properly deal with the climate transition. Banks are also exposed, through their borrowers, to physical climate risks from increasing chronic hazards (such as increasing temperatures leading to a rise in sea levels or droughts) and acute perils (like floods or storms). On a positive note, we see the increasing integration of ESG criteria in banks' underwriting and investment policies, alongside a generally high level of diversification of their loan and securities portfolios, as important mitigating factors.

Social exposure

Human capital management in the banking sector's typically labor-intensive business, as well as customer relationship management, are of paramount importance and pose material social risks. Evolving customer preferences, greater use of digitization, automation, and AI bring new challenges and threats that require banks to adjust their business models. These include continuously training employees in new distribution channels, products, and regulations. Since banks are also outsourcing and offshoring an increasing number of tasks to trim costs and reduce the workforce and branch network, responsible management of their supply chains will become more important. Another challenge for banks is how to keep and attract talent, especially the younger generation, which tends to favor innovative and agile companies. Positively, bank employees typically benefit from safe and healthy working conditions relative to many other sectors. Banks rely on customers' trust to maintain their franchises. Issues regarding conduct with retail customers, such as misselling; or fraudulent activities like money laundering or tax evasion, can cause serious financial and reputational damage. IT issues that disrupt customers' access to banking services, risks of data leaks, and concerns over the treatment or privacy of data are important franchise risks, since open banking in many parts of the world makes it easier for customers to switch banks. Nevertheless, the industry benefits from significant regulation and supervision, which in recent years have been increasingly focusing on ESG risks to support stability and enhance customer confidence.

Regional Risk Summary

Appendix

France

France has strong institutions and rule of law, with free flows of information throughout society and open debate on policy decisions. Checks and balances between institutions are generally effective. Overall, corporate governance is in line with advanced economies' standards. In addition to the EU Non-Financial Reporting Directive's recommendations requiring the disclosure of ESG data, French companies must also disclose the social and environmental consequences of their activities under domestic law (Grenelle Act), the financial risks they face from climate change, and their remediation strategies (Energy Transition Law). Under the 2019 law Pacte, companies must consider environmental and social issues when developing their strategy. The strong regulatory framework is complemented by the Afep-Medef Code, the corporate governance recommendations from AFG (French Asset Management Association), and recommendations from the Financial Markets Authority. All three provide non-binding guidance for best practice on governance and pay. Despite waves of privatization, the state remains an important player in the French capital markets as a shareholder of several large, listed companies. On diversity, the Cope-Zimmermann Law has required listed companies to reach at least 40% female board membership since 2017. France ranks 22 of 180 on Transparency International's 2021 Corruption Perceptions Index.

United States

With robust institutions and rule-of-law standards, the U.S. demonstrates many strong characteristics but lags several other countries with respect to ESG regulations. Governance is characterized by a very stable political system, a strong rule of law, a powerful judiciary, and effective checks and balances. Conditions of doing business are generally very good. The U.S. follows a rules-based approach to corporate governance focused on mandatory compliance with requirements from the major exchanges (NYSE and NASDAQ) as well as legislation. State corporate law is also a key source of corporate governance, particularly Delaware where over half over all U.S. listed companies and close to 70% of Fortune 500 companies are incorporated. Exchanges mandate high standards of corporate governance. The NYSE requires companies listing on its exchange to have boards made up of a majority of independent directors, with separate remuneration and nomination committees. However, formal requirements on ESG reporting are not as established as they are in European countries. While a growing number of companies have an independent chair, the combination of CEO and chair roles is still popular. Remuneration continues to be a contentious point because U.S. executive pay dwarves global pay levels. The U.S. ranks 27 of 180 on Transparency International's 2021 Corruption Perception Index.

United Kingdom

The U.K. benefits from strong corporate governance practices. Brexit-related policy uncertainties still linger, including disagreements with the European Union on the implementation of the Northern Ireland Protocol which may lead to frictions. Still, in our view, UK benefits from robust and independent institutions and high rule-of-law standards, as well as very low actual and perceived levels of corruption. Governance guidelines are primarily based on the U.K. Code of Corporate Governance published by the Financial Reporting Council (FRC) and updated in 2018. The revised and strengthened code provides a broad set of recommendations including executive remuneration and board composition, follows a comply-or-explain model, and is widely regarded as best practice internationally. The recent version strengthened provisions on the role of the audit and nomination committees, chair tenure, and stakeholder engagement. An updated version of the U.K. Stewardship Code published by the FRC also came into effect on Jan. 1, 2020. It sets out principles for investors. Overall levels of corporate disclosure on ESG are strong and the country benefits from a very active institutional investor base, which has been fuelling the demand for better disclosure and corporate engagement. Legislation that took effect in 2019 will also require pension funds to disclose the financial risks they face arising from ESG factors. The U.K. ranks 11 of 180 on Transparency International's 2021 Corruption Perceptions Index.

Appendix

Czech Republic

The country's key political and economic institutions have a good track record of independence and effectiveness despite the greater instability of Czech governments, historically. Based on OECD principles, the 2018 Czech corporate governance code is the reference document for best practices. It operates on a comply-or-explain basis, but companies are required to publish an annual statement on their alignment with it. Companies can choose between one- or two-tiered governance structures where a supervisory board oversees the executive board. At companies with over 500 employees, employees can elect one-third of the supervisory board. While the stock exchange doesn't have specific ESG requirements in its listing rules, larger companies are implementing the EU Non-Financial Reporting Directive's recommendations, which mandate disclosing ESG risks. The Czech Republic's perceived corruption levels are higher than other developed EU countries and it ranks 49 of 180 on Transparency International's 2021 Corruption Perceptions Index.

Germany

Germany has strong institutional and governance effectiveness. Rule of law is strong, the judiciary is independent, and corruption is viewed as a minor issue. Germany ranks 10 of 180 on Transparency International's 2021 Corruption Perceptions Index. The German Corporate Governance Code (Kodex) is the reference document for best practices and works on a comply-or-explain basis. Its last iteration came into effect in 2020 when the EU Shareholder Rights Directive II was transposed into German law. Notable improvements include recommendations on board independence and board oversight of related-party transactions and executive pay, with a shareholder vote on the remuneration report becoming mandatory in 2022. While the recommendations are less specific than most European codes, companies exhibit strong governance practices. Companies are typically governed by a two-tier board system: a management board overseen by a supervisory board comprising non-executives including shareholder and employee representatives. The 2021 Act on Strengthening Financial Market Integrity (FISG) is an important milestone aimed at strengthening financial oversight at German companies. Besides requiring a minimum number of financial experts on boards, since January 2022 all listed companies must also form an audit committee.

Related Research

- “Environmental, Social, And Governance Evaluation: Analytical Approach,” Sept. 20, 2022
- “The ESG Risk Atlas: Sector And Regional Rationales And Scores,” July 22, 2020
- “Our Updated ESG Risk Atlas And Key Sustainability Factors: A Companion Guide,” July 22, 2020
- “How We Apply Our ESG Evaluation Analytical Approach: Part 2,” June 17, 2020

This report does not constitute a rating action.