

Environmental, Social, And Governance Evaluation

Banca Popolare dell'alto Adige SpA (Volksbank)

Summary

Banca Popolare dell'Alto Adige SpA (Volksbank) is a commercial bank headquartered in Bolzano, Italy. The bank had 159 branches in the provinces of Bolzano, Belluno, Padua, Pordenone, Trento, Treviso, Venice, and Vicenza at year-end 2021, and generated revenue of €321 million. Like other regional banks focusing on retail customers and small and midsize enterprises (SMEs), Volksbank derives a large portion of its recurring revenue from net interest income (close to 55% in 2021) and commissions from banking services (close to 20%), and to lesser extent from offering wealth management products.

S&P Global Ratings' environmental, social, and governance (ESG) Evaluation of 66 reflects Volksbank's specificities as a regional bank. The bank's defining local anchorage translates into a specific governance structure with community leaders at the board, strong and long-lasting relationships with the communities in which it operates, and lower exposure to environmental and social risks relative to the wider banking industry, given the local nature of its loan and investment book. Our assessment factors in the early stage of the bank's integration of ESG into its lending and investment activities. Volksbank has recently started factoring ESG into its lending practices and across its supply chain, including several environmental factors, such as waste and water usage, as well as social and governance aspects like equal pay, safety management, and ESG reporting. Although there is a clear plan and quantified objectives, it has yet to be implemented.

Volksbank's recent efforts to embed ESG deeper into its everyday operations and strategy formulation demonstrate its leadership's adequate preparedness to identify and adapt to the banking industry's long-term risks and opportunities.

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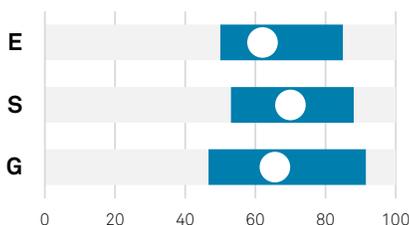
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ESG Profile Score

66 / 100

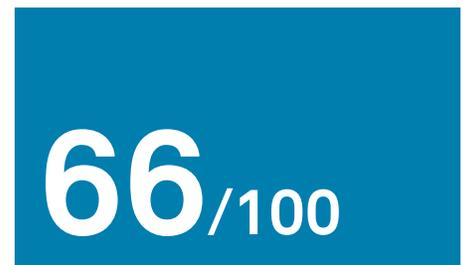


Company-specific attainable and actual scores

Preparedness Opinion (Scoring Impact)

Adequate (No Impact)

ESG Evaluation



A higher score indicates better sustainability

Component Scores

Environmental Profile			Social Profile			Governance Profile		
Sector/Region Score		35/50	Sector/Region Score		38/50	Sector/Region Score		27/35
	Greenhouse gas emissions	Good		Workforce and diversity	Good		Structure and oversight	Good
	Waste and pollution	Good		Safety management	Good		Code and values	Good
	Water use	Good		Customer engagement	Good		Transparency and reporting	Good
	Land use and biodiversity	Good		Communities	Strong		Financial and operational risks	Neutral
	General factors (optional)	-3		General factors (optional)	None		General factors (optional)	None
Entity-Specific Score		27/50	Entity-Specific Score		32/50	Entity-Specific Score		39/65
E-Profile (30%)		62/100	S-Profile (30%)		70/100	G-Profile (40%)		66/100
ESG Profile (including any adjustments)						66/100		

Preparedness Summary

Volksbank is adequately prepared to execute the strategy included in its business plan Sustainable 2023, and to adapt to the long-term risks and opportunities it faces as a regional bank linked to customer growth, digitalization, and ESG integration. We believe the bank's business plan effectively addresses its strengths and incorporates new strategic directions. However, in our view, the bank has yet to embed ESG considerations more deeply into its strategy and requires further developments in its action plans, including those related to digitalization. In addition, we view the bank's brand identity and close link with local communities as core to its culture.

Capabilities

Awareness	Good
Assessment	Good
Action plan	Developing

Embeddedness

Culture	Good
Decision-making	Good

Preparedness Opinion (Scoring Impact)

Adequate (No Impact)

ESG Evaluation

66_{/100}

Note: Figures are subject to rounding.

Environmental Profile

62/100

Sector/Region Score (35/50)

Environmental risks for the banking and investment industry are moderate compared with those for industrial sectors, balancing lower direct exposure with material indirect exposure through financial services. Initiatives to introduce or deepen ESG integration into lending and investment activities are increasing. Overall, physical climate risks in Italy have been relatively limited.

Entity-Specific Score (27/50)

Note: Figures are subject to rounding.



Volksbank's performance appears broadly in line with the industry average. On the one hand, the bank's exposure to environmental risk through loans to regional operators in the transportation, tourism, agriculture, energy, and construction sectors is lower compared to larger banks, which typically face more acute transition and physical risks through financing to oil and gas, chemicals, or metal and mining companies, for instance. On the other hand, these larger banks have started earlier, and have more resources to allocate to their ESG journey.

Volksbank is progressing well on developing products and tools to manage its environmental exposure, however, its ESG strategy implementation is at a nascent stage. To evaluate loans in its corporate lending portfolio exceeding €0.5 million (45% of total book), the bank has developed an ESG tool, which it deployed in December 2021. The tool aims to assess the companies and projects for which funding is requested in line with the EU Taxonomy's requirements. The tool covers greenhouse gas (GHG) emissions, waste, water, and biodiversity issues. Its implementation, if successful, will enable Volksbank to deepen ESG integration in its lending processes and have a sharper understanding of its current and future exposures. The bank has published an ESG credit framework, outlining guidelines for sustainable credit and the related activities to be incentivized. The framework covers several activities relating to sectors such as agriculture, construction, tourism, metals, and energy. The bank has already tested its ESG tool to assess the sustainability credentials of its top suppliers before its rollout to customers. Volksbank's proximity to its customers and the overall direction of Trentino Alto Adige toward the promotion of sustainable development are likely to support the bank's strategy implementation and help it achieve its ESG funding objectives.

One objective of the Sustainable 2023 business plan is to reach €2 billion in ESG loans, including green home mortgages and loans to businesses. This target is ambitious given the size of the bank, since it would represent a significant portion of the loan book (approximately 25%). Starting in 2022, the bank plans to offer green mortgages in the form of a product package to cover several factors in addition to energy efficiency--for example, materials used and air quality. For investment products, the bank has adopted a general framework and will use third-party ESG data to screen funds for ESG factors (with rating floors), a practice in line with the industry.

Social Profile

70/100

Sector/Region Score (38/50)

The most important social challenges for the banking and investment sectors are the fair treatment of employees and customers, as well as effective management of the consequences of digitalization for the workforce and customers. Volksbank benefits from the strong social standards and wealth in Northern Italy.

Entity-Specific Score (32/50)

Note: Figures are subject to rounding.



Volksbank's prominent role in its region supports good relations with key stakeholders, including employees, customers, and communities, as well as across the rest of its value chain. As the bank transitions to an omnichannel (digital and in-person) service offering, it will continue to meet the needs of its less-digitally-inclined customers through maintaining its dense network of 159 branches. Its retail offering is in line with smaller peers, covering mortgages, energy-efficiency projects, wealth management, insurance, and pensions. Trends in customer satisfaction rates are in line with peers, seeing consistent improvement over time. Equally, the rate of response to complaints received is also in line with the sector average, showing solid levels of customer engagement. As the bank transitions to an increasingly digital service offering, the threat of cyber risks will likely increase, but the bank's regular security system assessments should help contain this increasing risk.

Volksbank's workforce is adapting to meet the changing needs of its customers in its move toward digitalization. The bank continues to hire information technology professionals and to invest in enhancements to maintain adequate in-house technological capabilities. Total turnover rates are largely in line with the sector average at 7% over 2018-2020, and are a function of the bank's robust levels of employee engagement. The bank's priority to develop talent translates into an above average per-capita number of training hours (50 in 2020). Equally, the bank's strong ties to local universities further cement the key role it plays in its northern Italian community. Although the bank has no clear targets to improve gender diversity rates and pay disparities, it has demonstrated good performance for its size, with top management's total remuneration ratio between female and male employees in line with peers.

The bank's strong ties to the community form a core part of its mission, and, in our view, place it among stronger performing peers. Its policy to procure from local suppliers, as well as its philanthropic donations to local activities, such as sports and cultural associations, further strengthen its position in the community. We also see its commitment to maintain its number of branches as a further example of Volksbank's strong ties to the communities where it operates.

Safety management is in line with industry practices, where this risk is primarily found downstream (in agricultural lending for Volksbank). The bank is planning to screen downstream safety exposure via its ESG tool, which we see as a key mitigant to this notable safety management risk. We also note that its direct safety management metrics, such as absenteeism rates (3%), are in line with peers.

Governance Profile

66/100

Sector/Region Score (27/35)

Volksbank is headquartered in Italy, with its operations concentrated in the Trentino-Alto Adige and Veneto regions. Governance standards in Italy are well-established in comparison to global practices but are somewhat weaker than those of most western European countries.

Entity-Specific Score (39/65)

Note: Figures are subject to rounding.



Structure and oversight

Good



Code and values

Good



Transparency and reporting

Good



Financial and operational risks

Neutral



General factors

None

Volksbank's board composition largely reflects its role as a traditional, regional institution.

The bank's governance aligns with traditional Italian board structures, with one board of directors and a separate board of statutory auditors in charge of auditing the accounts. All board members are Italian with eight from the Bolzano province, Trentino-Alto Adige region, three from the Veneto region, and one from Milan, Lombardy region, which reflects the bank's status as a Trentino-Alto Adige regional bank. Women hold 17% of board positions, which is half that of local peers (33%), and the bank does not aim to improve board diversity beyond the at least 33% female participation rate required by banking regulation from 2022. Most members have expertise in finance, auditing, legal, and strategic planning with several from local enterprises. However, the board has limited ESG and banking expertise due to the regional context in which Volksbank operates. Volksbank's board was reappointed in 2020, so it has a balanced average tenure of four years. It has 12 members, half of them independent. This is in line with the Italian Code of Corporate Governance for large Italian companies, however many local peers have higher independence rates. The board is active and engaged with an average of 23 meetings per year. This high number may explain why the attendance rate is slightly lower than peers, at 92% versus 97% over the past three years.

Volksbank has a comprehensive policy framework under its Charter of Values, Code of Ethics, and Organizational Model, a document that forms part of the supervisory infrastructure. The board pays close attention to the effectiveness and implementation of anti-corruption measures. The bank conducts anti-corruption training for employees. It also has a whistle-blower mechanism, operated by an internal provider, which employees can use to communicate any noncompliant behaviour. The executive's variable compensation is relatively standard in the industry with the individual objectives for variable compensation linked to the implementation of Sustainable 2023. Though its ESG tool, the bank will screen borrowers using several governance indicators such as independence rates or ESG reporting, which we view as in line with more advanced peers.

Volksbank's sustainability disclosures for its direct operations meet industry practices. The bank has a publicly available ESG credit framework and a separate nonfinancial report that follows the Global Reporting Initiative's core option. We will monitor its disclosure of ESG-related topics in its lending and investment portfolio once the ESG integration process is complete. Volksbank's financial reporting is consistent with peers.

Preparedness Opinion

Adequate
(No Impact)

Preparedness

Low

Emerging

Adequate

Strong

Best in class

Volksbank is adequately prepared to execute its strategy and adapt to the long-term risks and opportunities it faces as a regional bank.

The bank is aiming to pursue its long-term objectives such as customer growth, digitalization, and ESG integration, as already reflected in Sustainable 2023, announced in December 2020. We believe the plan effectively addresses the strengths of the bank and incorporates new strategic directions. However, in our view, the bank has yet to embed ESG considerations more deeply into its strategy and requires further development of its action plans, including those related to digitalization.

Volksbank benefits from its well-established position in the Trentino Alto Adige region.

It is one of the three main banks represented in the region, with a market share of about 25% in the Alto-Adige area. Due to the high barriers to enter the local market and its long-standing connection with the region, we believe the bank will retain its strong position in Trentino Alto Adige. However, being a regional bank constrains its capacity for geographical diversification. In the past two decades, the bank has continuously developed its territorial presence by pushing toward the northeast of Italy. In 2015 it merged with the Banca Popolare di Marostica Group, gaining exposure to the neighboring Veneto region. The Veneto region has many major banks so we do not anticipate Volksbank will gain a big market share there.

Brand identity and close community ties are at the center of Volksbank's culture.

Strong relationships with local SMEs and its client base reduce the bank's exposure to disruptive risks because it is well aware of its clients' needs and can quickly react to customers' changing preferences. Volksbank makes an important contribution to local economic growth, which helps foster customer loyalty.

Volksbank recognizes digitalization as one of the main sector disruptions, but its related action plans are at a relatively nascent stage in comparison to the wider industry.

Management sees its customer base as somewhat conservative, and, therefore, it does not anticipate the pace of digitalization will be as fast as in other regions or countries. That said, one of the main pillars of Sustainable 2023 is directly linked to providing customers with a multi-channel banking experience including access to digital channels. Volksbank has a customer-centered approach, so it is keeping its physical presence in the region and using branches as advisory points while developing a gradual extension of its service offering based on digital technologies. We believe this approach can be relevant for the near term, but in the longer term the bank would benefit from accelerating the rollout of its digital offering.

Volksbank's board and management demonstrate adequate awareness of ESG risks in the bank's lending book.

We view positively that the bank is planning to evaluate the sustainability credentials of its corporate clients by applying a variety of ESG indicators as well as assessing projects by considering their contribution to the EU Taxonomy. In addition, the bank has created teams responsible for ESG integration and close collaboration among different departments on sustainability-related projects. However, we recognize the challenges the bank is likely to face in scaling up its ESG integration. This is because the majority of its corporate clients are local SMEs. They are often less aware of the importance of sustainability issues and have fewer disclosure obligations, which can be problematic for the assessment of their ESG credentials.

Sector And Region Risk

Primary sector(s)	Banks
Primary operating region(s)	Italy

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

Italy

Italian institutions' effectiveness somewhat lags similarly developed European countries. The perception of corruption is also higher than the European average. The country ranks 52 out of 180 on Transparency International's 2020 Corruption Perceptions Index. The Italian Code of Corporate Governance is the reference document for best practices and follows a comply-or-explain principle. The new version of the Code issued in January 2020 focuses on four key areas: shareholder engagement, proportionality, simplification, and long-term sustainability. The code became effective in January 2021. Companies of over 500 employees are implementing the EU Non-Financial Reporting Directive's recommendations, which mandates disclosing ESG (including diversity) risks. Ownership is concentrated because many Italian companies continue to be tightly controlled through cross-holdings and pyramidal ownership, often to the detriment of minority shareholder rights. The government also maintains sizeable shareholdings in large publicly listed companies. Italy fares well in female participation on boards thanks to a reform establishing legislated quotas to ensure gender balance on corporate boards. However, boards often lack international expertise.

Related Research

- “The ESG Risk Atlas: Sector And Regional Rationales And Scores,” published July 22, 2020
- “Our Updated ESG Risk Atlas And Key Sustainability Factors: A Companion Guide,” published July 22, 2020
- “Environmental, Social, And Governance Evaluation: Analytical Approach,” published December 15, 2020
- “How We Apply Our ESG Evaluation Analytical Approach: Part 2,” published June 17, 2020

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