Triodos Bank

Annual Report 2020

Appendix IV– Global Alliance for Banking on Values scorecard – quantitative evidence of our impact

The Global Alliance for Banking on Values (GABV) scorecard provides qualitative and quantitative evidence of the sustainable impact of banks. You can find Triodos Bank's full scorecard here - www.gabv.org/the-impact/the-scorecard. Here, we report the quantitative impact of Triodos Bank, as a strong indicator of Triodos Bank's values-based agenda, not least because these measures are linked to Principles of Values Based Banking, established by the GABV and its members (available on the same page above).

These factors provide insights into the three key elements of a bank's activity, which are fundamental to understanding its focus on values-based banking:
- Focus on a triple bottom line of people, planet and prosperity
- Focus on the real economy, and
- Financial viability.

Triodos Bank's performance in relation to these factors, follows below. Figures for the years 2014-2016 have not been reviewed by the auditor. The 2018 year figures have been adjusted due changes in the accounting principles. For further explanation see the general accounting principles on page 80.

Assets Committed to the Triple Bottom Line to Total Assets

Quantitative factors[1]	2020	2019	2018	2017	2016
Assets Committed to the Triple Bottom Line to Total Assets[2]	73.9%	74.5%	76.3%	75.3%	77.0%

1 IFRS - EU was adopted as of 1 January 2018, and therefore the figures for 2020, 2019 and 2018 are reported under / adjusted to IFRS. Figures for 2017 and 2016 are reported under Dutch Gaap.
2 The assets and revenues committed to the Real Economy and to the Triple Bottom Line for the year 2016 have not been reviewed.

This figure provides the best indication of a bank's commitment to sustainability. Triple Bottom line assets don't just mean assets in the real economy. They specifically refer to assets focused on positive social, environmental and economic benefits.

Not all assets will be committed, however, because some liquidity needs to be available for the bank to support its clients in case of disruptions in the market such as repaying savings deposited with it, for example. This figure relates to assets on the balance sheet only.

Assets Committed to the Real Economy to Total Assets

Quantitative factors[1]	2020	2019	2018	2017	2016
Assets Committed to the Real Economy to Total Assets[2]	75.4%	75.7%	77.4%	80.2%	80.6%

1 IFRS - EU was adopted as of 1 January 2018, and therefore the figures for 2020, 2019 and 2018 are reported under / adjusted to IFRS. Figures for 2017 and 2016 are reported under Dutch Gaap.
2 The assets and revenues committed to the Real Economy and to the Triple Bottom Line for the year 2016 have not been reviewed.

Values-based banks are strongly and directly connected to financing the real economy because that's where they can have a positive impact on people's lives and safeguard the environment. Triodos Bank lends and invests in the real economy for this reason.

Real economy assets in a values-based bank should, therefore, be relatively high. By the same token financial economy assets should be relatively low because their impact on people's lives is, at best, indirect.

Triodos Bank targets a ratio of loans (all of which are in the real economy) to deposits of 75 to 85% to make sure it always has enough money available (or liquidity) to support its clients in case of disruptions in the market. Where it is possible to do so, and to have access to the banking services we need, this liquidity is invested in line with Triodos Bank's minimum standards. In 2020 most investments were in 'neutral' organisations like municipalities and sovereign debt.

Revenues from the Real Economy to Total Income

Quantitative factors[1]	2020	2019	2018	2017	2016
Revenues from the Real Economy to Total Income[2]	97.6%	96.6%	92.3%	90.4%	86.9%

1 IFRS - EU was adopted as of 1 January 2018, and therefore the figures for 2020, 2019 and 2018 are reported under / adjusted to IFRS. Figures for 2017 and 2016 are reported under Dutch Gaap.
2 The assets and revenues committed to the Real Economy and to the Triple Bottom Line for the year 2016 have not been reviewed.

If a bank is earning more of its revenues from the real economy, it is both making more of a difference to people's lives and is a more resilient institution.

Revenues from the financial economy tend to be more volatile, are more removed from most people's lives, are highly unlikely to be sustainable and mean a bank is less resilient over the long term.

Bank Resiliency through Earnings – 3 year Average Return on Assets

Quantitative factors[1]	2020	2019	2018	2017	2016
Bank Resiliency through Earnings - 3 year Average Return on Assets	0.28%	0.32%	0.31%	0.37%	0.45%

1 IFRS - EU was adopted as of 1 January 2018, and therefore the figures for 2020, 2019 and 2018 are reported under / adjusted to IFRS. Figures for 2017 and 2016 are reported under Dutch Gaap.

Return on Assets figures tell you how profitable a bank is and are a good measure of a bank's operating performance. This is important because sustainable banks need to be resilient financially, in order to deliver long term, positive impact.

It's also reasonable to assume that if a bank's profits are excessively high they may be taking inappropriate risks and may be enjoying unreasonable profits at the expense of their customers.

The decline compared to last year is mainly related to the COVID-19 impact on our impairments and net profit, while the balance sheet total grew by 15% in 2020.

Bank Resiliency through Capital – Equity to Total Assets

Quantitative factors[1]	2020	2019	2018	2017	2016
Bank Resiliency through Capital - Equity to Total Assets	8.7%	9.9%	10.2%	10.2%	10.0%

1 IFRS - EU was adopted as of 1 January 2018, and therefore the figures for 2020, 2019 and 2018 are reported under / adjusted to IFRS. Figures for 2017 and 2016 are reported under Dutch Gaap.

The Equity to Total Assets ratio tells you how strong a bank is. It includes the total balance sheet, which means it provides a transparent and conservative measure of a bank's resiliency. This is important for values-based banks which are focused on lasting benefits to society, and want to develop strong capital positions that make them stronger over the long- term.

Other measures, such as risk weighted assets, are used for the same purpose but they are both more complex and less transparent, so the scorecard has chosen to use Equity to Total Assets instead.

As a guide, a benchmark figure of 8% is significantly higher than regulatory requirements. Triodos Bank's equity to total assets figure has consistently been well above this level. In 2020 Triodos Bank increased its equity by 1%, or EUR 7 million, from EUR 1.201 million to EUR 1.208 million. This increase includes net new capital by DR growth and retained net profit. Triodos Bank's balance sheet total grew by 15% to EUR 13.9 billion (2019: 12.1 billion) caused by a significant growth of funds entrusted and lending during the year in all banking entities.

Bank Resiliency through Asset Quality – Low-quality Assets to Total Assets

Quantitative factors[1]	2020	2019	2018	2017	2016
Bank Resiliency through Asset Quality - Low-quality Assets to Total Assets	1.5%	1.1%	1.3%	1.9%	2.5%

1 IFRS - EU was adopted as of 1 January 2018, and therefore the figures for 2020, 2019 and 2018 are reported under / adjusted to IFRS. Figures for 2017 and 2016 are reported under Dutch Gaap.

Low quality assets (such as loans to enterprises that struggle to repay them), at levels significantly above the market average, are generally a bad thing for banks because they represent the risk of financial losses in the future.

Values-based banks should have strong customer relationships, and have a deep understanding of their activities and the sectors they work in. Together this will limit the chances of loans and investments going wrong in the first place and should make working through challenges with clients easier when problems do occur. Meaningful relationships with customers and precisely this expertise, is at the core of Triodos Bank's approach to banking.

Triodos Bank's low-quality assets to total assets ratio is below the market average in all the countries where it operates. In 2020, the volume defaulted exposures was materially impacted by the effects of COVID-19, resulting in a higher Low-quality Assets to Total Assets ratio.

Bank Resiliency through Client Based Liquidity – Client Deposits to Total Assets

Quantitative factors[1]	2020	2019	2018	2017	2016
Bank Resiliency through Client Based Liquidity - Client Deposits to Total Assets	84.6%	88.5%	88.0%	88.1%	88.4%

1 IFRS - EU was adopted as of 1 January 2018, and therefore the figures for 2020, 2019 and 2018 are reported under / adjusted to IFRS. Figures for 2017 and 2016 are reported under Dutch Gaap.

Banks finance their assets (such as loans, investments and their wider activities) with money that's either:
- deposited with them by customers,
- and/or borrowed from others (mostly other banks) and then lent on to clients,
- or sourced from investors.

A large amount of borrowing from the markets to finance a bank's activity is, by definition, riskier because markets are more volatile. Banks are both stronger and more values-based when more of the money they use to finance their activity comes from customers.

High levels of funding from customers' deposits suggests a strong connection with clients and the real economy – both important elements of a values- based bank.

Triodos Bank funds all its lending from customers' deposits.